



CONTENTS

CONSOLIDATED INCOME STATEMENT	3
CONSOLIDATED BALANCE SHEET – ASSETS	5
CONSOLIDATED BALANCE SHEET –EQUITY AND LIABILITIES	6
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.....	7
CONSOLIDATED CASH FLOW STATEMENT.....	8
NOTE 1: ACCOUNTING PRINCIPLES.....	9
NOTE 2: SCOPE OF CONSOLIDATION	21
NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS	24
NOTE 4: REVENUES.....	25
NOTE 5: PURCHASES USED IN PRODUCTION	26
NOTE 6: HUMAN RESOURCES DATA	27
NOTE 7: DEVELOPMENT COSTS	28
NOTE 8: OTHER INCOME AND EXPENSES FROM OPERATIONS, NET.....	29
NOTE 9: DEPRECIATION, AMORTIZATION AND PROVISIONS.....	30
NOTE 10: OTHER OPERATING INCOME AND EXPENSE, NET	31
NOTE 11: FINANCIAL INCOME AND EXPENSE	32
NOTE 12: CORPORATE INCOME TAX.....	33
NOTE 13: PROFIT FROM DISCONTINUED OPERATIONS	36
NOTE 14: BASIC AND DILUTED EARNINGS PER SHARE	38
NOTE 15: NOTES TO THE CASH FLOW STATEMENT.....	39
NOTE 16: SEGMENT REPORTING	42
NOTE 17: GOODWILL	45
NOTE 18: INTANGIBLE ASSETS	48
NOTE 19: IMPAIRMENT TESTS ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES	50
NOTE 20: PROPERTY, PLANT AND EQUIPMENT	51
NOTE 21: OTHER FINANCIAL ASSETS.....	53
NOTE 22: INVENTORIES.....	55
NOTE 23: TRADE AND OTHER RECEIVABLES	56

NOTE 24: CASH AND CASH EQUIVALENTS.....	57
NOTE 25: ASSETS HELD FOR SALE.....	58
NOTE 26: EQUITY.....	59
NOTE 27: STOCK OPTION PLANS.....	61
NOTE 28: PROVISIONS.....	63
NOTE 29: FINANCIAL LIABILITIES	65
NOTE 30: TRADE AND OTHER PAYABLES	69
NOTE 31: LEASE COMMITMENTS.....	70
NOTE 32: RELATED-PARTY TRANSACTIONS.....	71
NOTE 33: FINANCIAL INSTRUMENTS.....	72
NOTE 34: FINANCIAL RISK MANAGEMENT	74
NOTE 35: OFF BALANCE SHEET COMMITMENTS AND CONTINGENCIES.....	78
NOTE 36: EVENTS AFTER THE BALANCE SHEET DATE	81
NOTE 37: LIST OF CONSOLIDATED COMPANIES AT DECEMBER 31, 2007	82
NOTE 38: LIST OF CONSOLIDATED COMPANIES AT DECEMBER 31, 2006	84
NOTE 39: CHANGES IN SCOPE OF CONSOLIDATION AND PERCENTAGE CONTROL IN 2007	86

CONSOLIDATED INCOME STATEMENT

(in € thousands)	Note	2007	2006
Revenues	4	1,212,375	950,261
Purchases used in production	5	(612,496)	(483,682)
Payroll costs	6	(47,479)	(39,585)
External charges		(68,385)	(64,804)
Taxes other than on income		(12,134)	(8,634)
Additions to provisions	9	(8,671)	(4,742)
Other income and expenses from operations, net	8	(19,592)	(15,414)
Earnings before interest, tax, depreciation and amortization (EBITDA)		443,618	333,400
Share-based payment expense	27	(3,167)	(1,815)
Depreciation, amortization and provisions for impairment of non-current assets	9	(226,652)	(146,391)
Profit from ordinary activities		213,799	185,194
Other operating income and expense, net	10	(2,000)	(3,000)
Operating profit		211,799	182,194
Income from cash and cash equivalents	11	10,157	5,343
Finance costs, gross	11	(15,228)	(10,026)
Finance costs, net	11	(5,071)	(4,683)
Other financial income and expense, net	11	1,591	741
Corporate income tax	12	(72,016)	(61,650)
Profit for the period before profit from discontinued operations		136,303	116,602
Profit for the period, net of taxes, from discontinued operations	13	13,923	7,269
PROFIT FOR THE PERIOD		150,226	123,871
<i>Attributable to:</i>			
▪ <i>Equity holders of the parent</i>		150,105	123,861
▪ <i>Minority interests</i>		121	10

CONSOLIDATED INCOME STATEMENT

. Basic earnings per share for profit from continuing operations (in €)	14	2.52	2.15
. Diluted earnings per share for profit from continuing operations (in €)	14	2.49	2.14
. Basic earnings per share for profit from discontinued operations (in €)	14	0.26	0.13
. Diluted earnings per share for profit from discontinued operations (in €)	14	0.24	0.13
. Basic earnings per share (in €)	14	2.78	2.29
. Diluted earnings per share (in €)	14	2.73	2.27

CONSOLIDATED BALANCE SHEET – ASSETS
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(in € thousands)		At December 31, 2007	At December 31, 2006
Goodwill	17	31,206	34,574
Intangible assets	18	56,546	56,411
Property, plant and equipment	20	676,600	533,204
Other long-term financial assets	21	1,983	4,136
Deferred income tax assets	12	4,870	3,728
TOTAL NON-CURRENT ASSETS		771,205	632,053
Inventories	22	505	2,936
Trade and other receivables	23	140,579	122,775
Other short-term financial assets	21	0	325
Cash and cash equivalents	24	234,780	279,540
TOTAL CURRENT ASSETS		375,864	405,576
ASSETS HELD FOR SALE	25	8,110	0
TOTAL ASSETS		1,155,179	1,037,629

CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES
--

(in € thousands)		At December 31, 2007	At December 31, 2006
Share capital	26	12,000	12,000
Additional paid-in capital		84,624	84,624
Retained earnings and other reserves	26	420,069	286,014
TOTAL EQUITY		516,693	382,638
<i>Attributable to:</i>			
<i>. Equity holders of the parent</i>		<i>516,563</i>	<i>382,629</i>
<i>. Minority interests</i>		<i>130</i>	<i>9</i>
Long-term provisions	28	1,416	1,015
Long-term financial liabilities	29	324,207	302,874
Deferred income tax liabilities	12	27,631	29,578
Other non-current liabilities	30	9,244	11,501
TOTAL NON-CURRENT LIABILITIES		362,498	344,968
Short-term provisions	28	1,152	1,467
Taxes payable		8,569	22,187
Trade and other payables	30	235,111	275,423
Short-term financial liabilities	29	31,156	10,946
TOTAL CURRENT LIABILITIES		275,988	310,023
TOTAL EQUITY AND LIABILITIES		1,155,179	1,037,629

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
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(in € thousands)	Share capital	Additional paid-in capital	Own shares held	Reserves	Retained earnings	Total equity
Total equity						
At January 1, 2006	12,000	86,722	(30)	1,542	148,341	248,575
<u>Movements in 2006</u>						
▪ Capital increase/decrease						
▪ Dividends paid by Iliad SA					(10,829)	(10,829)
▪ Dividends paid by subsidiaries					(83)	(83)
▪ Profit for the period					123,871	123,871
▪ Purchases/sales of own shares			(928)			(928)
▪ Impact of stock options				1,815		1,815
▪ Equity component of convertible bonds				22,310		22,310
▪ Impact of currency hedges				0		0
▪ Other		(2,098)			5	(2,093)
At December 31, 2006	12,000	84,624	(958)	25,667	261,305	382,638

Total equity						
At January 1, 2007	12,000	84,624	(958)	25,667	261,305	382,638
<u>Movements in 2007</u>						
▪ Capital increase/decrease						
▪ Dividends paid by Iliad SA					(14,607)	(14,607)
▪ Dividends paid by subsidiaries						
▪ Profit for the period					150,226	150,226
▪ Purchases/sales of own shares			(1,029)			(1,029)
▪ Impact of stock options				3,167		3,167
▪ Equity component of convertible bonds						
▪ Impact of currency hedges				(3,711)		(3,711)
▪ Other				9		9
At December 31, 2007	12,000	84,624	(1,987)	25,132	396,924	516,693

Note: Minority interests have not been analyzed as they represent a non-material amount.

CONSOLIDATED CASH FLOW STATEMENT

(in € thousands)	Note	2007	2006
Profit for the period (including minority interests)		150,226	123,871
+ / - Depreciation, amortization and provisions against non-current assets and net additions to provisions for contingencies and charges	9	226,607	147,974
- / + Unrealized gains and losses on changes in fair value	21	0	276
+ / - Income and expenses related to stock options and other share-based payments		3,167	1,815
- / + Other income and expenses, net		2,705	362
- / + Gains and losses on disposals of assets		(17,196)	(10,009)
- / + Dilution gains and losses		0	0
+ / - Share of profit of associates		0	0
- Dividends (investments in non-consolidated undertakings)		0	0
Cash flows from operations after finance costs, net, and income tax		365,509	264,289
+ Finance costs, net	11	5,071	4,683
+ / - Income tax expense (including deferred taxes)	12	72,167	61,650
Cash flows from operations before finance costs, net, and income tax (A)		442,747	330,622
- Income tax paid (B)		(86,959)	(64,880)
+ / - Change in operating working capital requirement (including employee benefit obligations) (C)	15	(38,662)	15,502
= NET CASH GENERATED FROM OPERATING ACTIVITIES (D) = (A + B + C)		317,126	281,244
- Acquisitions of property, plant and equipment and intangible assets	15	(372,628)	(289,422)
+ Disposals of property, plant and equipment and intangible assets		8,993	5,811
- Acquisitions of investments in non-consolidated undertakings		0	0
+ Disposals of investments in non-consolidated undertakings		0	0
+ / - Effect of changes in Group structure - acquisitions		(1,340)	(10,546)
+ / - Effect of changes in Group structure - disposals		19,053	7,822
+ Dividends received from associates and non-consolidated undertakings		0	0
+ / - Change in outstanding loans and advances		2,265	(139)
+ Investment grants received		0	0
+ / - Other		(8,110)	0
= NET CASH USED IN INVESTING ACTIVITIES (E)		(351,767)	(286,474)
+ Proceeds from capital increases:			
. Paid by shareholders of the parent company		0	0
. Paid by minority shareholders of consolidated companies		0	0
+ Proceeds received on the exercise of stock options		0	0
- / + Own-share transactions		(1,029)	(928)
- Dividends paid during the year:			
. Dividends paid to parent company shareholders		(14,607)	(10,829)
. Dividends paid to minority shareholders of consolidated companies		0	(84)
+ Proceeds from new borrowings	29	2	326,262
- Repayment of borrowings (including finance leases)	29	(7,265)	(84,139)
- Net interest paid (including on finance leases)		4,307	1,856
= NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES (F)		(18,592)	232,138
+ / - Effect of exchange-rate movements on cash and cash equivalents (G)		(2)	0
= NET CHANGE IN CASH AND CASH EQUIVALENTS (D + E + F + G)		(53,235)	226,908
Cash and cash equivalents at beginning of year	15	276,324	49,416
Cash and cash equivalents at year-end	15	223,089	276,324

NOTE 1: ACCOUNTING PRINCIPLES

1-1. GENERAL INFORMATION

Iliad SA is a *société anonyme* registered in France and listed on Eurolist by Euronext Paris under the symbol "ILD". The Company's registered office is located at 8, rue de la Ville l'Eveque, 75008 Paris, France.

The Iliad Group is a leading operator in the French internet access and telecommunications markets. Its businesses are conducted by Free (an alternative broadband operator), One Tel and Iliad Telecom (fixed telephony operators), and IFW (specialized in Wimax).

The Board of Directors approved the consolidated financial statements for the year ended December 31, 2007 on March 10, 2008 and authorized their publication on March 12, 2008. These financial statements will only be definitive after approval by the Company's shareholders at the Annual Shareholders' Meeting scheduled to be held on May 29, 2008.

1.2. APPLICABLE ACCOUNTING STANDARDS

The principal accounting policies adopted for the preparation of these consolidated financial statements are set out below. Unless otherwise specified, the same policies have been consistently applied for all of the periods presented.

Basis of preparation

The consolidated financial statements of the Iliad Group have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The historical cost convention has been applied, except for financial assets and liabilities (including derivatives) measured at fair value through profit or loss.

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

The following new standards, amendments to existing standards and interpretations are mandatory for annual periods beginning on and after January 1, 2007:

- IFRS 7, *Financial Instruments: Disclosures* and the complementary amendment to IAS I, *Presentation of Financial Statements – Capital Disclosures*. This standard and amendment introduce new disclosures relating to financial instruments to enable users to assess:
 - ✓ the significance of financial instruments for the entity’s financial position and performance;
 - ✓ the nature and extent of risks arising from financial instruments to which the entity is exposed; and
 - ✓ how the entity manages those risks.

The adoption of this standard and amendment only affects the format and scope of information presented in the consolidated financial statements.

- *IFRIC 8, Scope of IFRS 2* (effective from May 1, 2006). IFRIC 8 states that IFRS 2 applies to all transactions in which an entity receives goods or services as consideration for the issue of equity instruments of the entity as well as transactions in which an entity incurs liabilities, in respect of goods or services received, that are based on the price (or value) of the entity's shares or other equity instrument of the entity. This includes transactions in which the entity cannot identify specifically some or all of the goods or services received, in which case the unidentifiable goods or services must be measured at the grant date. The Iliad Group applies IFRIC 8.
- *IFRIC 10, Interim Financial Reporting and Impairment* (effective from November 1, 2006). IFRIC 10 prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost from being reversed at a subsequent balance sheet date. The Iliad Group applies IFRIC 10.

Interpretations to existing standards effective from January 1, 2007 but which are not relevant to the Iliad Group:

- *IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies* (effective from March 1, 2006). IFRIC 7 provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. The Iliad Group is not impacted by IFRIC 7 as none of its entities have a currency of a hyperinflationary economy as their functional currency.
- *IFRIC 9, Reassessment of Embedded Derivatives* (effective from June 1, 2006). IFRIC 9 provides guidance on the reassessment of embedded derivatives throughout the life of the host contract. The Iliad Group does not have any material contracts that contain embedded derivatives.

New standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group:

- *IFRS 8, Operating Segments* (effective from January 1, 2009). This new standard requires entities to disclose information to enable users of their financial statements to evaluate the nature and financial effects of the business activities in which they engage and the economic environments in which they operate.

IFRS 8 defines what an operating segment is and specifies the disclosures required. The Iliad Group will apply IFRS 8 from January 1, 2009 but it is not expected to have a material impact on the consolidated financial statements.

- *IFRIC 11, IFRS 2 – Group and Treasury Share Transactions* (effective from March 1, 2007). IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. Iliad's management team is currently assessing the impact of IFRIC 11 on the Group's operations.

1-3. CONSOLIDATION

Consolidation methods

Subsidiaries

Subsidiaries are entities that are controlled by the Group. Control is presumed to exist when the Group has the power to govern an entity's financial and operating policies, either directly or indirectly, so as to obtain benefits from its activities, generally accompanying a shareholding representing more than one half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and they are deconsolidated from the date that control ceases.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group does not have any investments in special-purpose entities, associates or joint ventures.

Eliminations on consolidation

All intragroup transactions and balances are eliminated on consolidation as well as gains and losses on transactions between subsidiaries.

Business combinations

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus all costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected, the combination is accounted for using those provisional values and any adjustments made as a result of completing the initial accounting are recognized within 12 months of the acquisition date.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition.

Goodwill arising on acquisitions of subsidiaries is recognized as an intangible asset. Goodwill on acquisitions of associates is included in investments in associates. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Impairment losses are recorded under net other operating income and expenses, within operating profit in the income statement.

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in thousands of euros, unless otherwise specified.

Foreign currency translation

Assets and liabilities of the Group that are denominated in foreign currencies are translated into euros at the year-end rate. Income and expense items are translated at average exchange rates for the year.

All resulting exchange differences are recognized directly in equity.

Fiscal year-end

All Group companies have a December 31 fiscal year-end.

1-4. PRESENTATION OF THE FINANCIAL STATEMENTS

As permitted under IAS 1, *Presentation of Financial Statements*, the Group's income statement is presented by nature.

Operating profit corresponds to profit for the period, before:

- Financial income and expense (as defined in Note 11);
- Current and deferred taxes; and
- Profit from discontinued operations.

Profit from ordinary activities corresponds to operating profit as defined above, before "Other operating income and expense, net". The latter includes income and expenses which are rare, unusual and infrequent, which represent particularly material amounts and whose presentation within other items relating to ordinary activities could be misleading for users of the financial statements in their understanding of the Group's performance.

The Iliad Group has presented EBITDA (earnings before interest, tax, depreciation and amortization) on a separate line. EBITDA is a key indicator of the Group's operating performance and corresponds to profit from ordinary activities as defined above, before:

- Depreciation, amortization and impairment recorded in relation to property, plant and equipment and intangible assets; and
- Share-based payment expense.

Prior to 2007, share-based payment expense was included in payroll costs in the consolidated financial statements. The income statement for the year ended December 31, 2006 has been adjusted to reflect this change.

1-5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The main accounting policies applied by the Group are as follows:

Revenues

Revenues from the Group's operations are recognized and presented as follows in accordance with IAS 18, *Revenue*:

- Revenues from usage of connection time are recognized in the period in which the usage took place.
- Revenues from subscriptions and fixed-rate packages are recognized over the period covered by the subscriptions or packages.
- Revenues from the sale or provision of content are presented as a gross amount when the Group is deemed to be the party in the transaction with primary responsibility in relation to the end-customer. These revenues are presented net of the amounts due to the content supplier when the latter is responsible for supplying the content to the end-customer and setting the retail price.
- Revenues from the sale of advertising banners are spread over the period during which the banners are displayed.
- Revenues from website hosting activities are recognized during the period in which the service is rendered.

Foreign currency transactions

The recognition and measurement rules for foreign currency transactions are set out in IAS 21, *The Effects of Changes in Foreign Exchange Rates*. In accordance with that standard, transactions denominated in foreign currencies are recorded at their value in euros at the date of the transaction. At each balance sheet date, foreign currency monetary items are translated at the applicable closing rate and any exchange differences are recognized in profit as follows:

- as operating items for commercial transactions.
- as financial income or expense for financial transactions.

Earnings per share

The Iliad Group presents basic and diluted earnings per share.

Basic earnings per share are obtained by dividing attributable profit for the period by the weighted average number of shares outstanding during the period.

Diluted earnings per share are calculated by adjusting the figures for attributable profit for the period and the weighted average number of shares outstanding, for the impact of all potential dilutive instruments.

Intangible assets

Intangible assets primarily include:

- Development costs capitalized in accordance with IAS 38, which are amortized over the period during which the Group is expected to consume the related future economic benefits. These costs are incurred in relation to designing new materials and are recognized as intangible assets when they relate to distinctly separate projects for which (i) the costs can be clearly identified; (ii) the technical feasibility of successfully completing the project can be demonstrated; and (iii) it is probable that future economic benefits will be generated. These conditions are deemed to be met when the six general criteria defined in IAS 38 are fulfilled.
- Intangible assets acquired in connection with a business combination. These assets are recognized separately from goodwill when (i) their fair value can be measured reliably; (ii) they are controlled by the Group; and (iii) they are identifiable, i.e. are separable or arise from contractual or other legal rights. Where these assets have a finite useful life they are amortized from the date they are made available for use in the same way as for intangible assets acquired separately, and an impairment loss is recorded if their carrying amount exceeds their recoverable amount. Intangible assets with indefinite useful lives are not amortized but are systematically tested for impairment at least once a year and more frequently when there is an indication that they may be impaired.

Licenses are amortized over the license period from the date when the related network is technically ready for the service to be marketed.

Impairment losses are recorded under net other operating income and expenses, within operating profit in the income statement.

- Software, which is amortized on a straight-line basis over a period of one to three years.

Property, plant and equipment

Property, plant and equipment are stated at the acquisition cost, including transaction expenses, or at production cost. Cost includes any expenses directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Group's management.

Depreciation is calculated by the straight-line method, based on the following expected useful lives:

- | | |
|--|----------------|
| ▪ Buildings | 20 to 30 years |
| ▪ Technical equipment | 3 to 14 years |
| ▪ General equipment | 10 years |
| ▪ Computer equipment | 3 to 5 years |
| ▪ Office furniture and equipment | 2 to 10 years |
| ▪ Access fees for co-location facilities used to conduct unbundling operations are depreciated over a ten-year period. | |

- Other service access fees, particularly those required for the development of broadband Internet operations, are depreciated over three years.
- Amounts paid as consideration for obtaining indefeasible rights of use (IRU) on dark optical fibers are depreciated over the term of use of the fiber concerned, which can be 11, 15, 25 or 27 years.

At each balance sheet date, the Group assesses whether the depreciation schedules reflect the useful lives of its assets, and makes amendments where necessary.

Borrowing costs

The Group has not elected to capitalize borrowing costs.

Finance leases

Material assets acquired under finance leases are capitalized in the consolidated financial statements.

In accordance with IAS 17, leases are considered to be finance leases when they have the effect of transferring to the lessee substantially all the risks and rewards inherent to ownership of the asset covered by the lease.

In such cases:

- At the commencement of the lease term, the assets acquired are recognized in the balance sheet based on the fair value of the leased property or, if lower, the present value of the minimum lease payments. They are subsequently depreciated over the shorter of the lease term and their useful life.
- The related obligation is recorded under debt, based on the lease terms.
- Lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

Impairment of assets

Assets that have an indefinite useful life, for example land, are not subject to depreciation or amortization and are tested annually for impairment. Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

In assessing whether there is any indication that an asset may be impaired the Group considers events or circumstances that suggest that significant unfavorable changes have taken place which may have a prolonged, adverse effect on the Group's economic or technological environment, or on the assumptions used on acquisition of the asset concerned.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Financial assets

Financial assets held for trading are classified as financial assets at fair value through profit or loss and are recognized as current assets. Gains and losses arising from changes in the fair value of these investments are presented in the income statement.

Financial assets that the Iliad Group has the positive intention and ability to hold to maturity are classified as held-to-maturity investments and measured at amortized cost. Gains and losses on these investments are recognized in the income statement.

Loans and receivables are also measured at amortized cost, with gains and losses recognized in the income statement.

The Group's other investments are classified as available-for-sale financial assets and are measured at fair value. Changes in the fair value of available-for-sale financial assets are recognized directly in equity. When a decline in the fair value of an available-for-sale financial asset has been recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity is removed from equity and recognized in the income statement.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method.

Receivables

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. The fair value of short-term receivables with no stated interest rate is measured at the original invoice amount if the effect of discounting is immaterial.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The likelihood of collection is estimated based on the best possible assessment of the risk of non-recovery of the receivable concerned.

Deferred taxes

Deferred taxes are recognized using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

However, deferred taxes are not accounted for if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit. Deferred taxes are determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred taxes are recognized on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, short-term investments with original maturities of three months or less and highly-liquid investments in money-market mutual funds. Short-term investments are marked-to-market at each balance sheet date.

Bank overdrafts are classified as current financial liabilities.

Own shares

Own shares held are recognized as a deduction from equity based on their acquisition cost. Gains and losses on the disposal of own shares held are also recorded in equity.

Provisions

In accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, when the Group's obligations to third parties known at the balance sheet date are certain or likely to cause an outflow of resources for the benefit of a third party, without at least equivalent consideration, a provision is recorded when the amount concerned can be estimated with sufficient reliability.

Borrowings

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date, in which case they are classified as non-current liabilities.

Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value, net of directly attributable transaction costs incurred. They are subsequently measured at amortized cost.

Convertible bonds

The fair value of the liability component of a convertible bond is determined based on prevailing market interest rates for similar bonds with no conversion rights. This amount is recognized as a liability based on amortized cost until the liability is settled when the bonds are converted or reach maturity. The balance of the bond issue proceeds is allocated to the conversion option and recognized in equity, net of tax.

Employee benefits

Other than share-based payments – which are described in a specific note – the only employee benefits within the Iliad Group correspond to pension benefits.

In accordance with IAS 19, *Employee Benefits*, actuarial valuations of post-employment benefit obligations under defined benefit plans are made using the projected unit credit method, with employee rights recorded on an accruals basis.

For each active participant, the benefit likely to be paid is estimated based on the rules defined in the applicable collective-bargaining agreement and/or company-level agreement, using personal data projected to the standard age for payment of the benefit. The Group's total obligations toward each participant (total actuarial value of future benefits) are then calculated by multiplying the estimated benefit by an actuarial factor, which takes into account the following:

- Assumptions concerning the employee's probability of either leaving the Group or dying before the age of payment of the benefit,
- The discounted value of the benefit at the valuation date.

These total benefits are then allocated over each of the past and future years for which the participant accrued rights under the program. The portion of the Group's obligation allocated to years prior to the measurement date (projected benefit obligation) corresponds to obligations for services rendered. The projected benefit obligation represents the Group's obligation existing at the balance sheet date.

The individual results of the valuation are then aggregated to obtain Group-level results.

The following economic assumptions were used to measure the Group's post-employment benefit obligation at December 31, 2006 and 2007:

- Discount rate: 4.25%
- Inflation rate: 2%
- Salary growth rate: 3%

Stock option plans

In accordance with IFRS 2, *Share-based Payment*, share purchase and subscription options, employee share issues, and share awards to Group employees are measured at fair value at the grant date.

Calculations of the fair value of stock options are performed based on criteria such as the exercise price of the options, the life of the options, the current price of the underlying shares, the volatility range of the share price, expected dividends on the shares and the risk-free interest rate over the life of the options.

The fair value of stock options is recognized under “Share-based payment expense” on a straight-line basis over the vesting period (i.e. the period between the grant date and the exercise date), with a corresponding adjustment to equity for equity-settled plans and to employee-related liabilities for cash-settled plans.

Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a highly probable forecast transaction (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and hedging strategy. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 33. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item exceeds 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

NOTE 2: SCOPE OF CONSOLIDATION

List of consolidated companies and consolidation methods

The scope of consolidation and consolidation methods used are described in Note 37 for the year ended December 31, 2007 and Note 38 for the year ended December 31, 2006.

2-1. CHANGES IN SCOPE OF CONSOLIDATION IN 2007

A table presenting changes in the scope of consolidation in 2007 is provided in Note 39.

The changes in 2007 correspond to:

- The purchase of minority interests in Assunet and Freebox.
- The incorporation of a wholly-owned subsidiary, Free Mobile, on July 24, 2007. The main corporate purpose of Free Mobile – which was fully consolidated in the 2007 financial statements – is to roll out and operate a mobile telephony network.
- The incorporation of a wholly-owned subsidiary, Immobilière Iliad on December 3, 2007. The main corporate purpose of Immobilière Iliad – which was fully consolidated in the 2007 financial statements – is to purchase and lease real estate assets to be used by the Broadband segment.
- The sale of Iliad's entire interest in Kertel on February 7, 2007 for €20,661,000, including €6 million in vendor finance repayable between June 29, 2007 and December 31, 2007. The first two repayments of €2 million were received in 2007 and the final installment was received in early 2008.

2-2. CHANGES IN SCOPE OF CONSOLIDATION IN 2006

The changes in 2006 correspond to:

- The purchase of minority interests in Free and Freebox.
- The incorporation of a wholly-owned subsidiary, IRE, on April 20, 2006. The main corporate purpose of IRE – which was fully consolidated in the 2006 financial statements – is to acquire assets and rights to be used by the Broadband segment.
- The takeover of PN, acquired for €40,000. Set up in 2006, PN is specialized in telecommunications – particularly developing and building optical fiber networks – and holds a license to lay an optical fiber network within Paris. PN was fully consolidated in the 2006 financial statements.
- The purchase of Citéfibre on October 19, 2006, which is now 99.78% owned by Iliad. Citéfibre was fully consolidated in the 2006 financial statements.

Citéfibre is an independent multimedia service provider and is listed on Euronext's "Free Market". It has created a fiber-to-the-home (FTTH) infrastructure for individuals and SMEs in Paris (mainly in the 15th *arrondissement*). This acquisition will enable the Iliad Group to gain a firmer foothold in the optical fiber sector.

The key figures relating to the acquisition are summarized in the table below:

(in € thousands)	Citéfibre
Acquisition price of shares (1)	2,935
% acquired (2)	99.78%
Net assets (3) *	(212)
Adjusted net assets (4) *	(911)
Equity in adjusted net assets (5) = (2) x (4)	(909)
Goodwill (6) = (1) - (5)	3,844

* Based on the company's financial statements for the year ended September 30, 2006.

The impact of the acquisition on the Group's cash position was as follows:

▪ Cash outflow on purchase of Citéfibre	(2,935)
▪ Cash outflow related to the Group taking over the financial advances granted to Citéfibre by its former shareholders	(1,991)
▪ Cash held by Citéfibre at acquisition date	325
	(4,601)

Net cash outflow

During the period ended December 31, 2006 (representing an exceptional three-month accounting period in order to align the company's reporting date with that of the Group's other companies), Citéfibre recorded revenues of €67,000 and an operating loss of €1,020,000.

During the previous period (i.e. the 12 months ended September 30, 2006), Citéfibre recorded revenues of €102,000 and an operating loss of €2,925,000.

- The disposal of the Group's stake in Société.com

On August 2, 2006 Iliad sold its entire interest in Société SA (Société.com).

The divestment of the company had no significant impact on the financial information provided in the 2006 report as it accounted for less than 0.25% of total consolidated revenues and operating profit for the period.

Out of the total €7,840,000 sale price, €6,840,000 was paid on completion of the sale, with the balance of €1,000,000 payable in two equal installments on December 15, 2006 and June 15, 2007.

NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group makes estimates and assumptions concerning the future. It continually evaluates these estimates and assumptions which are based both on past experience and on other factors deemed reasonable to be used for assessing the carrying amount of assets and liabilities. Actual amounts may differ significantly from these estimations should different assumptions or conditions apply.

The main accounting estimates and judgments used by the Group relate to the following:

- Useful lives and impairment of assets.
- Assessment of doubtful receivables and calculation of the corresponding provisions.
- Impairment tests.
- Share-based payment and other employee benefits.
- Provisions for contingencies and charges.

NOTE 4: REVENUES

An analysis of revenues by business segment is provided in Note 16.

As substantially all of the Group's operations are in France, presenting data by region would not be significant.

NOTE 5: PURCHASES USED IN PRODUCTION

Purchases in production include:

- Interconnect costs invoiced by other operators.
- Costs relating to unbundling operations.
- Acquisitions of goods and services for resale or for use in designing goods or services invoiced by the Group.

NOTE 6: HUMAN RESOURCES DATA

Payroll costs

Payroll costs break down as follows:

(in € thousands)	2007	2006
▪ Wages and salaries	34,360	28,708
▪ Payroll taxes	13,119	10,877
Total	47,479	39,585

As explained in Note 1-4 "Presentation of the financial statements", share-based payment expense is now recorded on a separate line of the income statement whereas it was previously included in payroll costs. In order to permit meaningful year-on-year comparisons, 2006 data have been adjusted to reflect this change.

Number of employees at year-end

Iliad Group employees can be analyzed as follows by category:

	At Dec. 31, 2007	At Dec. 31, 2006
▪ Management	171	177
▪ Other	2,241	1,600
Total	2,412	1,777

The increase in the number of employees is due to recruitments for Iliad's call centers.

Headcount by segment is presented in the "Segment reporting" table.

Post-employment benefits

The methods used for recognizing and measuring pension and other post-employment benefit obligations comply with IAS 19, *Employee Benefits*, as amended.

Post-employment benefit obligations totaled €539,000 at December 31, 2007, compared with €407,000 at December 31, 2006.

NOTE 7: DEVELOPMENT COSTS

Development costs – which are primarily incurred by Freebox – include the cost of developing new products, tailoring existing products to the Internet, and research and development of databases for new applications.

(in € thousands)	2007	2006
<ul style="list-style-type: none"> ▪ Amortization of capitalized development costs ▪ Development costs recognized directly in the income statement 	<p>1,223</p> <p>480</p>	<p>877</p> <p>602</p>
Total	1,703	1,479

NOTE 8: OTHER INCOME AND EXPENSES FROM OPERATIONS, NET

This item breaks down as follows:

(in € thousands)	2007	2006
▪ Other expenses:		
. Carrying amount of non-current assets sold	(6,066)	(3,511)
. Royalties and similar fees	(17,919)	(14,063)
. Bad debts	(5,231)	(5,197)
. Other	(246)	(395)
▪ Other income:		
. Proceeds from sales of non-current assets	9,021	5,884
. Other	849	1,868
Total	(19,592)	(15,414)

Comments on 2006 and 2007 data

"Royalties and similar fees" primarily comprise expenses payable by the Group within the scope of its operations, including royalties, payments to the Universal Service Fund and costs relating to the use of various licenses.

NOTE 9: DEPRECIATION, AMORTIZATION AND PROVISIONS
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The following table shows the breakdown between the various components of depreciation, amortization and provisions:

Depreciation, amortization and provisions for impairment in value of non-current assets

(in € thousands)	2007	2006
<ul style="list-style-type: none"> ▪ Depreciation and amortization expense: <ul style="list-style-type: none"> . Intangible assets . Property, plant and equipment ▪ Provisions for impairment in value of property, plant and equipment 	1,635 224,301 716	1,104 143,974 1,313
Total	226,652	146,391

Additions to other provisions

(in € thousands)	2007	2006
<ul style="list-style-type: none"> ▪ Provisions for contingencies and charges ▪ Provisions for impairment in value of inventories and trade receivables 	519 8,152	1,140 3,602
Total	8,671	4,742

Comments on 2006 and 2007 data

The high level of depreciation and amortization relating to non-current assets in both 2006 and 2007 reflects the major capital expenditure incurred by the Group over the past few years.

NOTE 10: OTHER OPERATING INCOME AND EXPENSE, NET

This item breaks down as follows:

(in € thousands)	2007	2006
▪ Contribution to the Free Foundation	0	3,000
▪ Fair value adjustments (see Note 17)	2,000	0
Total	2,000	3,000

Comments on 2006 and 2007 data

The Iliad Group has made a financial commitment to the Free Corporate Foundation, whose purpose is to implement measures aimed at promoting and developing the Internet and web-based services. In 2006 the Group undertook to pay €300,000 every six months for a period of five years spanning from 2007 to 2011, representing an aggregate amount of €3,000,000.

In accordance with IAS 32, this commitment has been recognized in full on the liabilities side of the balance sheet, and in view of its specific nature, the corresponding expense for the period has been recorded under "Other operating income and expense, net" in the income statement.

In 2007 the Group made two payments of €300,000 each to the Free Corporate Foundation in relation with this undertaking.

NOTE 11: FINANCIAL INCOME AND EXPENSE
--

Financial income and expense can be analyzed as follows:

(in € thousands)	2007	2006
<ul style="list-style-type: none"> ▪ Income from cash and cash equivalents ▪ Finance costs, gross 	10,157 (15,228)	5,343 (10,026)
Finance costs, net	(5,071)	(4,683)
<ul style="list-style-type: none"> ▪ Other financial income and expense <ul style="list-style-type: none"> . Translation adjustments . Other 	1,508 83	1,567 (826)
Financial income and expense, net	(3,480)	(3,942)

Income from cash and cash equivalents corresponds to income from short-term investments.

Finance costs, gross comprises interest on borrowings and finance leases.

The expense for the year relating to the Group's OCEANE bonds includes interest payable both on the bonds and on the bond premium.

NOTE 12: CORPORATE INCOME TAX

Analysis of the corporate income tax charge

The corporate income tax charge breaks down as follows:

(in € thousands)	2007	2006
▪ Current tax charge	73,185	64,714
▪ Deferred tax charge	(1,169)	(3,064)
Total tax charge	72,016	61,650

Tax group

The Iliad Group has set up a tax group, which in 2007 included all consolidated companies except Assunet, Total Call, Dedibox, Free Mobile and Immobilière Iliad.

Tax proof

The table below reconciles the Group's theoretical tax rate with the effective tax rate calculated on consolidated profit from continuing operations before tax.

	2007	2006
Profit for the period	150,226	123,871
▪ Corporate income tax	72,016	61,650
▪ Profit for the period, net of taxes, from discontinued operations	(13,923)	(7,269)
	<hr/>	<hr/>
Consolidated profit from continuing operations before tax	208,319	178,252
<i>Theoretical tax rate</i>	34.43%	34.43%
▪ Net impact of permanent differences	0.85%	0.27%
▪ Impact of unrecognized tax loss carryforwards	0.02%	0.31%
▪ Impact of the commitment to the Free Corporate Foundation	0%	- 0.43%
▪ Impact of different tax rates	- 0.45%	0%
▪ Other impacts	- 0.28%	0.01%
	<hr/>	<hr/>
<i>Effective tax rate</i>	34.57%	34.59%

Deferred taxes

Movements in deferred taxes in 2007 can be analyzed as follows:

Type of movement	Value of DT assets/ (liabilities) at Jan. 1, 2007	Credits	(Charges)	Changes in Group structure	Currency translation	Other	Value of DT assets/ (liabilities) at Dec. 31, 2007
Recognition of deferred tax assets arising from tax loss carryforwards	0	0	0	0	0	0	0
Consolidation entries	(9,820)	2,521	1,022	(9)	0	1,949	(6,381)
Temporary differences	2,654	864	1,194	(20)	0	0	2,304
Other	(18,684)	0	0	0	0	0	(18,684)
Total	(25,850)	3,385	2,216	(29)	0	1,949	(22,761)

DT assets at Jan. 1, 2007	3,728
DT liabilities at Jan. 1, 2007	29,578
Net DT liabilities at Jan. 1, 2007	(25,850)

DT assets at Dec. 31, 2007	4,780
DT liabilities at Dec. 31, 2007	27,631
Net DT liabilities at Dec. 31, 2007	(22,761)

Movements in deferred taxes in 2006 can be analyzed as follows:

Type of movement	Value of DT assets/ (liabilities) at Jan. 1, 2006	Credits	(Charges)	Changes in Group structure	Currency translation	Other (1)	Value of DT assets/ (liabilities) at Dec. 31, 2006
Recognition of deferred tax assets arising from tax loss carryforwards	0	0	0	0	0	0	0
Consolidation entries	799	1,832	735	0	0	(11,716)	(9,820)
Temporary differences	687	2,654	687	0	0	0	2,654
Other	(18,684)	0	0	0	0	0	(18,684)
Total	(17,198)	4,486	1,422	0	0	(11,716)	(25,850)

DT assets at Jan. 1, 2006	2,232
DT liabilities at Jan. 1, 2006	19,430
Net DT liabilities at Jan. 1, 2006	(17,198)

DT assets at Dec. 31, 2006	3,728
DT liabilities at Dec. 31, 2006	29,578
Net DT liabilities at Dec. 31, 2006	(25,850)

(1) Other movements correspond to the deferred tax impact of the equity component of the 2006 bond issue (see Note 29).

Unrecognized deferred tax assets

Unrecognized deferred tax assets concern:

- tax loss carryforwards of companies outside the Iliad tax group which have been in a loss-making position for several years and are not expected to return to profit in the near future;
- tax loss carryforwards that are not expected to be utilized based on the projected future earnings of the companies concerned at the balance sheet date, or when the companies concerned have been historically loss-making and their turnaround is in progress.

Unrecognized deferred taxes break down into the following broad categories:

(in € thousands)	At Dec. 31, 2007	At Dec. 31, 2006
<ul style="list-style-type: none"> ▪ Temporary differences ▪ Tax loss carryforwards ▪ Consolidation entries 	<p style="margin: 0;">0</p> <p style="margin: 0;">3,756</p> <p style="margin: 0;">14</p>	<p style="margin: 0;">1</p> <p style="margin: 0;">3,801</p> <p style="margin: 0;">11</p>
Total	3,770	3,813

NOTE 13: PROFIT FROM DISCONTINUED OPERATIONS

On February 7, 2007 Iliad sold its entire interest in Kertel SA, a company specialized in prepaid phone cards which was part of the Group's Traditional Telephony business segment.

Kertel was sold for €20,661,000, including €6 million in vendor finance repayable between June 29, 2007 and December 31, 2007. The first two repayments of €2 million were received in 2007 and the final installment was received in early 2008.

The sale agreement includes an earn-out clause based on Kertel's EBIDTA for 2007, as follows:

- €1 million for EBITDA between €4 million and €4.75 million.
- €1.5 million for EBITDA between €4.75 million and €5.55 million.
- €2 million for EBITDA above €5.55 million.

No provision has been recorded in the 2007 consolidated financial statements for any such additional purchase consideration.

Profit for the period, net of taxes, from discontinued operations can be analyzed as follows:

▪ Net earnings of discontinued operations	165
▪ Net disposal proceeds	13,758
Profit for the period, net of taxes, from discontinued operations	13,923

The net disposal proceeds break down as follows:

▪ Pre-tax disposal proceeds	13,909
▪ Disposal-related tax	(151)
Net disposal proceeds	13,758

Net earnings of discontinued operations represents the profit generated by Kertel between January 1, 2007 and January 31, 2007, which breaks down as follows:

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(in € thousands)	January 2007
	Data reported by Kertel (fully attributable to the Iliad Group)
Revenues	2,950
EBITDA	248
Profit from ordinary activities	233
Operating profit	233

NOTE 14: BASIC AND DILUTED EARNINGS PER SHARE
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Basic earnings per share

Number of shares used for the calculation	2007	2006
▪ Number of shares at the year-end	54,151,550	54,151,550
▪ Weighted average number of shares	54,151,550	54,139,975

Diluted earnings per share

Number of shares used for the calculation	2007	2006
▪ Weighted average number of shares outstanding (see above)	54,151,550	54,139,975
▪ Number of share equivalents:		
. Stock options	412,906	327,566
. OCEANE bonds	3,754,968	0
Maximum weighted average number of shares after dilution	58,319,424	54,467,541

The OCEANE bonds issued on June 29, 2006 had no dilutive impact at December 31, 2006.

NOTE 15: NOTES TO THE CASH FLOW STATEMENT
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Cash flows from operating activities

Net cash generated from operating activities is determined by the indirect method, which consists of adding back to or deducting from profit for the period (i) all non-cash transactions, (ii) deferrals or adjustments concerning past or future cash inflows or outflows related to operations, and (iii) all cash flows relating to investing or financing activities.

Changes in operating working capital requirement

Changes in working capital requirement during 2007 and 2006 can be analyzed as follows:

2007	Note	Balance at Jan. 1, 2007	Net debits	Net credits	Changes in Group structure	Other	Balance at Dec. 31, 2007
▪ Net inventories	22	2,936		1,858	(573)		505
▪ Net trade receivables	23	67,355	19,866		(6,079)		81,142
▪ Net other receivables	23	55,420	3,633		384		59,437
▪ Supplier payables	30	136,713	7,788		(2,554)		126,371
▪ Other liabilities		63,143	9,233		(2,344)	2,141	53,707
Total		(74,145)	40,520	1,858	(1,370)	(2,141)	(38,994)
Change in operating working capital requirement in 2007			38,662				

2006	Note	Balance at Jan. 1, 2006	Net debits	Net credits	Changes in Group structure	Other	Balance at Dec. 31, 2006
▪ Net inventories	22	5,965		3,029			2,936
▪ Net trade receivables	23	61,853	5,682		(180)		67,355
▪ Net other receivables	23	38,602	16,232		586		55,420
▪ Supplier payables	30	108,833		27,520	360		136,713
▪ Other liabilities		55,635		6,867	641		63,143
Total		(58,048)	21,914	37,416	(595)		(74,145)
Change in operating working capital requirement in 2006			15,502				

Other liabilities

This item can be analyzed as follows:

	Note	2007	2006
Total trade and other payables	30	244,355	286,924
▪ Suppliers of goods and services (incl. VAT)	30	(126,371)	(136,713)
▪ Suppliers of non-current assets (excl. VAT)		(64,277)	(84,921)
▪ Other items with no impact on working capital requirements			(2,147)
Recognized in cash flow statement		53,707	63,143

Acquisitions of non-current assets

Acquisitions of non-current assets can be analyzed as follows:

	Note	2007	2006
▪ Intangible assets	18	1,857	1,617
▪ Property, plant and equipment	20	350,127	315,540
▪ Suppliers of non-current assets (excl. VAT)			
. at beginning of year		84,921	56,660
. impact of changes in Group structure		0	526
. at year-end		(64,277)	(84,921)
Recognized in cash flow statement		372,628	289,422

Cash and cash equivalents

	Note	Cash and cash equivalents at Dec. 31, 2007	Cash and cash equivalents at Dec. 31, 2006
Cash	24	80,112	275,270
Marketable securities	24	154,668	4,270
Sub-total		234,780	279,540
Bank borrowing facilities	29	(11,691)	(3,216)
Total		223,089	276,324

Non-monetary flows relating to investing and financing activities

The following table presents transactions carried out by the Iliad Group that did not have an impact on cash flows, and which are therefore not included in the cash flow statement.

(in € thousands)	2007	2006
▪ Acquisitions of assets under finance leases	24,551	7,745
▪ Acquisition of a company through a share issue	0	0
▪ Conversion of debt into equity	0	0

NOTE 16: SEGMENT REPORTING

Segment reporting format

The Iliad Group's primary segment reporting format is business segments.

As almost all of its operations are in France, the Group only has one geographic segment.

Identifying business segments

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 optical fiber operations (carried out by IRE, Immobilière Iliad, Free Infrastructure 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).

This segment reporting format complies with the criteria set out in IAS 14.

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

Analysis of the consolidated income statement by business segment

2007	Broadband	Traditional Telephony	Inter- segment	Total
Revenues				
External revenues	1,178,422	33,953		1,212,375
Inter-segment revenues	10,557	19,009	(29,566)	0
Total revenues	1,188,979	52,962	(29,566)	1,212,375
Earnings				
EBITDA	435,013	8,605	0	443,618
Share-based payment	2,417	750	0	3,167
Depreciation, amortization and provisions for impairment of non-current assets	226,379	273	0	226,652
Profit from ordinary activities	206,217	7,582	0	213,799

2006	Broadband	Traditional Telephony	Inter- segment	Total
Revenues				
External revenues	842,222	108,039		950,261
Inter-segment revenues	39,358	43,205	(82,563)	0
Total revenues	881,580	151,244	(82,563)	950,261
Earnings				
EBITDA	309,183	24,217	0	333,400
Share-based payment	1,265	550	0	1,815
Depreciation, amortization and provisions for impairment of non-current assets	144,961	1,430	0	146,391
Profit from ordinary activities	162,957	22,237	0	185,194

Capital expenditure by business segment

2007	Broadband	Traditional Telephony	Inter- segment	Total
Intangible assets	1,857	0	0	1,857
Property, plant and equipment	370,725	46	0	370,771
2006				
Intangible assets	1,614	2	0	1,616
Property, plant and equipment	295,267	454	0	295,721

Employee numbers by business segment

2007	Broadband	Traditional Telephony	Inter- segment	Total
Number of employees at year-end	2,360	52	0	2,412

2006	Broadband	Traditional Telephony	Inter- segment	Total
Number of employees at year-end	1,709	68	0	1,777

Analysis of consolidated assets by business segment

At December 31, 2007	Broadband	Traditional Telephony	Total
Non-current assets (excl. deferred taxes)	764,616	1,719	766,335
Current assets (excl. cash and cash equivalents)	124,067	17,017	141,084
Inventories	505	0	505
Trade and other receivables	123,562	17,017	140,579
Other short-term financial assets	0	0	0
Assets held for sale	8,110	0	8,110
Cash and cash equivalents			234,780

At December 31, 2006	Broadband	Traditional Telephony	Total
Non-current assets (excl. deferred taxes)	623,046	5,279	628,325
Current assets (excl. cash and cash equivalents)	101,540	24,496	126,036
Inventories	2,364	572	2,936
Trade and other receivables	98,851	23,924	122,775
Other long-term financial assets	325	0	325
Assets held for sale	0	0	0
Cash and cash equivalents			279,540

Analysis of consolidated equity and liabilities by business segment (excluding OCEANE convertible bonds)

At December 31, 2007	Broadband	Traditional Telephony	Total
Non-current liabilities (excl. deferred taxes)	31,559	1,381	32,940
Long-term provisions	923	493	1,416
Long-term financial liabilities	22,236	44	22,280
Other non-current liabilities	8,400	844	9,244
Current liabilities (excl. tax liabilities)	244,184	15,961	260,145
Short-term provisions	1,087	65	1,152
Trade and other payables	219,276	15,835	235,111
Short-term financial liabilities	23,821	61	23,882

At December 31, 2006	Broadband	Traditional Telephony	Total
Non-current liabilities (excl. deferred taxes)	19,794	2,008	21,802
Long-term provisions	498	517	1,015
Long-term financial liabilities	9,259	27	9,286
Other non-current liabilities	10,037	1,464	11,501
Current liabilities (excl. tax liabilities)	250,182	32,119	282,301
Short-term provisions	1,337	130	1,467
Trade and other payables	244,046	31,377	275,423
Short-term financial liabilities	4,799	612	5,411

NOTE 17: GOODWILL

Goodwill breaks down as follows:

(in € thousands)	At Dec. 31, 2007	At Dec. 31, 2006
Free	7,757	7,757
Kertel	0	2,721
Freebox	2,121	1,568
IFW	19,484	18,684
Citéfibre (1)	1,844	3,844
Total	31,206	34,574

(1) The goodwill recorded for Citéfibre at December 31, 2006 was a provisional figure as the initial accounting for the acquisition had not been finalized.

The main movements in goodwill in 2007 and 2006 were as follows:

(in € thousands)	2007	2006
Net amount at Jan. 1	34,574	24,922
Increase following acquisitions:		
▪ Free	0	5,081
▪ Freebox	553	727
▪ IFW	800	0
▪ Citéfibre	0	3,844
Decrease following disposals:		
▪ Kertel	(2,721)	0
Decrease following analysis:		
▪ Citéfibre	(2,000)	0
Net amount at Dec. 31	31,206	34,574

➤ **FREEBOX**

The Group purchased several minority interests in Freebox in 2006 and 2007, recording €727,000 and €553,000 respectively in related goodwill.

➤ **IFW**

When Iliad acquired IFW in November 2005 the related purchase agreement provided for the payment of additional consideration by Iliad representing up to a maximum of €1 million if certain rights are exercised by the seller between January 1, 2007 and December 31, 2010.

In 2007 the seller partially exercised its rights under the agreement and Iliad paid €800,000 in additional purchase consideration which was allocated to IFW's goodwill.

At the date these financial statements were prepared, Iliad did not have any further information about whether the seller intended to request the payment of the remaining €200,000 in additional purchase consideration.

➤ **CITEFIBRE**

In 2007 Iliad completed its initial accounting for Citéfibre based on the assets and liabilities recognized in the company's balance sheet at October 30, 2006. This process also involved reviewing whether Citéfibre had any unrecognized intangible assets but no such assets were identified.

In view of the forward-looking information available concerning Citéfibre and the conditions related to rolling out the Group's optical fiber network, Iliad reduced the value of Citéfibre's goodwill from €3.8 million to €1.8 million in 2007.

Comments on 2006 data

➤ **FREE**

In 2006, Free, a wholly-owned Iliad subsidiary, issued shares further to the exercise of founders' share subscription warrants (BSPCE) granted in prior years to certain employees. As Iliad wished to retain full ownership of Free, the Company purchased these newly-issued shares from the beneficiaries of the exercised warrants.

Total goodwill of €5,081,000 was recorded in relation to these share purchases in the 2006 consolidated balance sheet.

NOTE 18: INTANGIBLE ASSETS

Intangible assets break down as follows:

(in € thousands)	At December 31, 2007			At December 31, 2006		
	Gross	Amortization	Net	Gross	Amortization	Net
Acquisitions:						
▪ Development costs	154	28	126	231	52	179
▪ Wimax license (1)	54,266	0	54,266	54,266	0	54,266
▪ Other	1,283	782	501	1,406	735	671
Internally-generated intangible assets						
▪ Development costs	2,820	1,167	1,653	2,137	842	1,295
▪ Other	0	0	0	0	0	0
Total	58,523	1,977	56,546	58,040	1,629	56,411

(1) The Wimax license owned by the Group is currently classified as an intangible asset in progress and will be amortized over the license period from the date when the related network is technically ready for the service to be marketed. The tests that need to be conducted prior to implementing Wimax-related technology began in 2007 and will continue in 2008.

There are no restrictions on the legal title of the Group's intangible assets, and none of these assets have been pledged as security for borrowings.

Changes in net intangible assets can be analyzed as follows:

(in € thousands)	2007	2006
Net amount at Jan. 1	56,411	55,592
. Acquisitions	275	379
. Internally-generated intangible assets	1,582	1,238
Disposals	0	0
Impact of changes in Group structure	(87)	306
Amortization	(1,635)	(1,104)
Net amount at Dec. 31	56,546	56,411

Impairment of intangible assets

There was no indication at the balance sheet date that any intangible assets were impaired, either at the level of the Iliad Group, or at the level of each cash-generating unit. Consequently no impairment tests were performed.

At the end of 2006 the Group tested its Wimax license for impairment by comparing its carrying amount with its fair value, determined based on the cost of obtaining regional licenses. Another impairment test was performed in 2007, which also factored in recent data relating to obtaining similar licenses in Europe.

Based on all of these data, Management did not consider it necessary to recognize an impairment loss for this license in 2007.

NOTE 19: IMPAIRMENT TESTS ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

Allocating goodwill to cash-generating unit (CGUs)

The CGUs identified by the Iliad Group correspond to the Group's business segments.

For the purpose of impairment testing, the total €31,206,000 in goodwill recognized by the Group at December 31, 2007 was allocated to the Broadband CGU.

Allocation of intangible assets with indefinite useful lives

The Iliad Group does not have any intangible assets with indefinite useful lives.

Impairment tests

The recoverable amounts of the Group's CGUs were determined based on fair value less costs to sell. No impairment losses were recorded, as the carrying amounts of the CGUs did not exceed their recoverable amounts.

As over 95% of the Group's operations correspond to the Broadband CGU, the fair value less costs to sell of this CGU was determined by reference to the Group's market value.

NOTE 20: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment can be analyzed as follows:

(in € thousands)	At December 31, 2007			At December 31, 2006		
	Gross	Depreciation	Net	Gross	Depreciation	Net
▪ Land and buildings (1)	19,015	362	18,653	963	331	632
▪ Network usage rights	133,190	16,508	116,682	118,956	10,853	108,103
▪ Service access fees	281,058	141,025	140,033	203,681	84,032	119,649
▪ Network equipment (2)	636,839	256,777	380,062	419,188	128,981	290,207
▪ Other	32,862	11,692	21,170	22,175	7,562	14,613
Total	1,102,964	426,364	676,600	764,963	231,759	533,204
(1) of which finance leases	12,988	0	12,988	0	0	0
(2) of which finance leases	31,151	14,720	16,431	19,588	10,382	9,206

There are no restrictions on the legal title of the Group's property, plant and equipment, and none of these assets have been pledged as security for borrowings.

Changes in net property, plant and equipment can be analyzed as follows:

(in € thousands)	2007	2006
Net amount at Jan. 1	533,204	357,244
Acquisitions (*)	374,678	323,285
Disposals	(6,026)	(3,487)
Impact of changes in Group structure	(239)	1,449
Depreciation	(225,017)	(145,287)
Net amount at Dec. 31	676,600	533,204
(*) excluding assets acquired under finance leases	350,127	315,540

Comments on 2007 data

In 2007 the Group continued to invest in expanding its operations and managing the ADSL subscriber base (including investments in Freebox modems and service access fees). It also pursued its capital expenditure programs relating to its ADSL operator business by extending the coverage of its optical fiber network (including through IRUs) and by further improving and renewing network equipment.

At the same time, the Group actively pursued the work launched in 2006 to roll out its FTTH network by acquiring premises to house the necessary equipment – either through real estate finance leases or outright acquisitions – and by continuing to lay optical fiber cable, particularly in Paris.

Comments on 2006 data

In 2006, the Iliad Group continued to invest heavily in building up its network in order to enable its customers to benefit from the latest technological developments. As part of this strategy, Iliad pursued its capital outlay program for optical fiber, which is either installed directly by the Group or used in accordance with Indefeasible Rights of Use (IRU) contracts. It also rolled out and renewed network equipment and in April 2006 launched the new Freebox HD modem designed by the Group's research teams, which is equipped with numerous state-of-the-art features.

Also during the year, the Group began work on rolling out its FTTH network with a view to providing each home in the areas concerned with optical fiber dedicated to multi-media use.

Impairment of property, plant and equipment

There was no indication at the balance sheet date that any item of property, plant and equipment was impaired, either at the level of the Iliad Group, or at the level of each cash-generating unit. Consequently no impairment tests were performed.

Assets under construction

The carrying amount of assets under construction is included in the carrying amounts of each item of property, plant and equipment, as follows:

(in € thousands)	At December 31, 2007	At December 31, 2006
▪ Land and buildings	18,052	0
▪ Network usage rights	7,635	3,682
▪ Network equipment	64,166	36,563
Total	89,853	40,245

NOTE 21: OTHER FINANCIAL ASSETS
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Other financial assets break down as follows:

(in € thousands)	At December 31, 2007 Net	At December 31, 2006 Net
Other long-term financial assets		
▪ Loans	0	2,318
▪ Other investment securities	44	322
▪ Guarantee deposits	1,939	1,496
Total other long-term financial assets	1,983	4,136
Other short-term financial assets		
▪ Loans	0	325
▪ Other	0	0
Total other short-term financial assets	1,983	325
Total other financial assets	1,983	4,461

Other short-term and long-term financial assets correspond to the portion of receivables due within one year and beyond one year respectively.

Other financial assets break down as follows by function:

(in € thousands)	At December 31, 2007 Net	At December 31, 2006 Net
▪ Financial assets at fair value through profit or loss	44	322
▪ Held-for-trading investments	0	0
▪ Held-to-maturity investments	0	0
▪ Loans and receivables issued by the Group	1,939	4,139
▪ Available-for-sale financial assets	0	0
Total other financial assets	1,983	4,461

Changes in net other financial assets can be analyzed as follows:

(in € thousands)	2007	2006
Net amount at Jan. 1	4,461	4,968
Acquisitions	584	609
Redemptions	(2,849)	(470)
Impact of changes in Group structure	(396)	79
Changes in provisions	183	(725)
Net amount at Dec. 31	1,983	4,461

In 2004 the Group granted a ten-year seller's loan in connection with the sale of a building. In 2007 the purchaser of the building repaid this loan in full in advance of term.

NOTE 22: INVENTORIES

Inventories break down as follows:

(in € thousands)	At December 31, 2007	At December 31, 2006
Raw materials	298	207
Work-in-progress	0	0
Finished products	762	3,145
Inventories – gross	1,060	3,352
Provisions:		
. raw materials .	(197)	(207)
. finished products	(358)	(209)
Total provisions	(555)	(416)
Inventories – net	505	2,936

Comments on 2006 and 2007 data

Finished products inventories correspond primarily to WiFi cards, as well as cell phones and accessories marketed by the Iliad Group since the launch of the new Freebox HD modem.

NOTE 23: TRADE AND OTHER RECEIVABLES

Trade and other receivables break down as follows:

(in € thousands)	At December 31, 2007	At December 31, 2006
Trade and other receivables		
Trade receivables	96,490	76,706
Advances and prepayments	932	593
Tax receivables (VAT)	35,405	37,642
Other receivables	16,382	9,593
Prepaid expenses	7,946	8,811
Total – gross	157,155	133,345
Provisions for trade receivables	(15,348)	(9,351)
Provisions for other receivables	(1,228)	(1,219)
Net trade and other receivables	140,579	122,775
Net trade receivables	81,142	67,355
Net other receivables	59,437	55,420

NOTE 24: CASH AND CASH EQUIVALENTS

Cash and cash equivalents can be analyzed as follows:

(in € thousands)	At December 31, 2007		At December 31, 2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Certificates of deposit Net value	150,974	150,974	0	0
Money-market mutual funds Net value	3,694	3,694	4,270	4,270
Cash	80,112	80,112	275,270	275,270
Total, net	234,780	234,780	279,540	279,540

The Group's certificates of deposit have terms of less than three months from their issue date.

The Group's portfolio of money-market mutual funds consists of units that can be sold at immediate notice and which fall within the "euro monetary" and "international monetary" classifications of the French securities regulator (AMF).

NOTE 25: ASSETS HELD FOR SALE

Assets held for sale break down as follows:

(in € thousands)	At December 31, 2007	At December 31, 2006
Buildings held for sale	8,110	0
Other assets held for sale	0	0
Total	8,110	0

In line with its strategy of acquiring the premises necessary for rolling out its FTTH network – particularly in Paris – the Group has purchased certain buildings of which it intends to only keep part for its future operations. The remaining portion of these buildings will therefore be sold.

The portions of the buildings acquired that the Group intends to subsequently sell have been classified under “Assets held for sale”. In 2007, a specialist subsidiary was set up by the Group to manage these transactions and the corresponding sales are expected to complete in 2008.

Assets held for sale had no related liabilities at December 31, 2007 and they did not give rise to the recognition of any gains or losses in the 2007 income statement.

An analysis of assets held for sale is provided by business segment in Note 16.

NOTE 26: EQUITY

Share capital

There were no changes in Iliad's share capital during 2006 or 2007 and at December 31, 2007 the Group held 32,541 treasury shares.

At December 31, 2007, Iliad's ownership structure was as follows:

Shareholder	Number of shares	%
Executive Management	39,116,276	72.23
Public	15,035,274	27.77
Total	54,151,550	100.00

Dividends paid and dividends recommended to shareholders at the Annual General Meeting

Dividends paid in 2007 for 2006 totaled €14,607,000. No interim dividend was paid during the year.

At the next Annual General Meeting, shareholders will be invited to approve a dividend payment of €0.31 per share.

Reserves

(in € thousands)	At December 31, 2007	At December 31, 2006
▪ Legal reserve	1,200	1,200
▪ Long-term capital gains reserve	0	0
▪ Other reserves	159,224	110,793
▪ Retained earnings	113,130	50,150
▪ Reserves relating to:		
. Revaluation of property, plant and equipment	0	0
. Revaluation of intangible assets	0	0
. Revaluation of available-for-sale financial assets	0	0
. Cash flow hedges	(3,711)	0
. Translation adjustments	0	0
. Current and deferred tax on items recorded directly in, or transferred from equity	0	0
. Equity-settled share-based payments	0	0
▪ Profit for the period	150,226	123,871
Total	420,069	286,014

Cash flow hedge reserve

In the second half of 2007 the Group set up a strategy to actively hedge its exposure to fluctuations in the EUR/USD exchange rate as a result of its increasing number of purchases denominated in US dollars.

The Group's derivative instruments are described in Note 34.

At December 31, 2007, the cash flow hedge reserve had a negative balance of €3,711,000.

NOTE 27: STOCK OPTION PLANS

The following tables summarize the main features of the various stock option plans approved in 2007 and prior years and outstanding at the year-end.

At December 31, 2007

Date of Shareholders' Meeting	Date of plan launch	Number of options exercisable	Number of beneficiaries	Exercise price (in €)	Number of options exercised in 2007	Options outstanding at Dec. 31, 2007
December 12, 2003	January 20, 2004	409,434	19	16.30	0	409,434
December 12, 2003	December 20, 2005	439,203	70	48.44	0	439,203
May 29, 2006	June 14, 2007	162,455	1	74.62	0	162,455
May 29, 2006	August 30, 2007	703,960	96	68.17	0	703,960*
Total						1,715,052

*Split in 2 plans: 162,455 stock options granted to one beneficiary and 541,505 stock options granted to 95 beneficiaries.

At December 31, 2006

Date of Shareholders' Meeting	Date of plan launch	Number of options exercisable	Number of beneficiaries	Exercise price (in €)	Number of options exercised in 2006	Options outstanding at Dec. 31, 2006
December 12, 2003	January 20, 2004	409,434	19	16.30	0	409,434
December 12, 2003	December 20, 2005	536,931	81	48.44	0	536,931
Total						946,365

Exercise date of the options

The exercise terms and conditions applicable to the outstanding stock options are as follows:

Date of plan launch	Exercise terms and conditions
January 20, 2004	Options exercisable on January 20, 2008
December 20, 2005	Half of the options under this plan are exercisable on December 20, 2009 and half on December 20, 2010.
June 14, 2007	Options exercisable on June 13, 2012
August 30, 2007	Options exercisable on August 30, 2012

Fair value of options granted

The fair value of the options granted was calculated using the Black & Scholes option pricing model.

The main assumptions applied under this model were as follows:

	01/20/2004	12/19/2005	12/19/2005	06/14/2007	08/30/2007
Quantity	487,769	270,758	270,757	162,455	703,960
Exercise price	€16.30	€48.44	€48.44	€74.62	€68.17
Underlying volatility	15%	30.40%	30.40%	38.40%	38.85%
Life of the options	4 years	4 years	5 years	5 years	5 years
Annual cost (in € thousands)	275	865	675	700	2,800

The expense recorded in relation to these plans totaled €3,167,000 in 2007 and €1,815,000 in 2006.

NOTE 28: PROVISIONS

Provisions break down as follows:

(in € thousands)	At December 31, 2007	At December 31, 2006
Long-term provisions		
Provisions for charges	1,416	1,015
Total long-term provisions	1,416	1,015
Short-term provisions		
Provisions for contingencies	1,152	1,205
Provisions for charges	0	262
Total short-term provisions	1,152	1,467
Total provisions	2,568	2,482

Provisions are considered to be “long-term” when the Iliad Group does not expect to use them within 12 months after the balance sheet date. In all other cases they are deemed to be “short-term”.

Provisions for contingencies and charges break down as follows:

(in € thousands)	At December 31, 2007	At December 31, 2006
Provisions for charges	1,416	1,277
Provisions for contingencies	1,152	1,205
Total provisions for contingencies and charges	2,568	2,482

Movements in provisions for contingencies and charges were as follows in 2007:

(in € thousands)	At Dec. 31, 2006	Increases in 2007	Decreases in 2007 (utilizations)	Decreases in 2007 (surplus provisions)	Changes in Group structure	Changes in foreign exchange rates	At Dec. 31, 2007
Provisions for claims and litigation and general contingencies	1,205	713	108	633	(25)	0	1,152
Provisions for charges	1,277	439	1	272	(27)	0	1,416
Total	2,482	1,152	109	905	(52)	0	2,568

See Note 6, “Human Resources Data” for further information concerning the amount set aside during the year for employee benefits.

Movements in provisions for contingencies and charges were as follows in 2006:

(in € thousands)	At Dec. 31, 2005	Increase in 2006	Decreases in 2006 (utilizations)	Decreases in 2006 (surplus provisions)	Changes in Group structure	Changes in foreign exchange rates	At Dec. 31, 2006
Provisions for claims and litigation and general contingencies	707	950	235	217	0	0	1,205
Provisions for restructuring costs	30	0	30	0	0	0	0
Provisions for charges	596	679	1	12	15	0	1,277
Total	1,333	1,629	266	229	15	0	2,482

The impact (net of charges incurred) of movements in provisions on operating profit and net financial expense was as follows:

(in € thousands)	2007	2006
Operating profit	(519)	(1,140)
Net financial expense	272	(260)
Total	(247)	(1,400)

NOTE 29: FINANCIAL LIABILITIES

Financial liabilities can be analyzed as follows:

(in € thousands)	At December 31, 2007	At December 31, 2006
Bank borrowings	0	1,766
Bonds	301,927	295,416
Borrowings related to finance leases	21,404	5,650
Cash flow hedges	802	0
Other	74	42
Total long-term financial liabilities	324,207	302,874
Bank borrowings	750	941
Bonds	7,274	3,707
Borrowings related to finance leases	6,556	3,066
Other bank borrowing facilities	11,691	3,216
Cash flow hedges	4,858	0
Other	27	16
Total short-term financial liabilities	31,156	10,946
Total	355,363	313,820

Short- and long-term financial liabilities correspond to the portion of payables due within one year and beyond one year respectively.

All Group borrowings are in euros.

The table below summarizes movements in borrowings in 2007 and 2006:

(in € thousands)	2007	2006
Borrowings at Jan. 1	313,820	89,600
New borrowings (*)	24,552	333,998
Bonds (reallocation of equity component)	0	(34,026)
Repayments of borrowings	(7,265)	(84,139)
Change in other bank borrowing facilities	8,475	1,386
Impact of changes in Group structure	33	183
Interest on OCEANE bonds and bond premium	10,078	6,893
Impact of cash flow hedges	5,660	0
Other	10	(75)
Total borrowings at Dec. 31	355,363	313,820
(*) excluding borrowings related to finance leases	1	326,262

Bonds

On June 21, 2006, Iliad issued 3,265,190 OCEANE bonds convertible into new shares and/or exchangeable for existing shares, with a total face value of €287.5 million and paying interest at a rate of 2.20%. After the full exercise of the greenshoe option to the financial institutions which underwrote the issue, the number of OCEANE bonds outstanding at June 29, 2006 totaled 3,754,968, representing a total value of €330.6 million.

The bonds mature on January 1, 2012 and are redeemable at face value, i.e. €88.05 per bond.

The liability component of the OCEANE bond issue was analyzed as follows at June 29, 2006:

(in € thousands)	At June 29, 2006
Face value of the bonds issued on June 29, 2006	330,625
Issuance costs	(4,371)
Net impact on 2006 cash flow	326,254
Equity component (gross value)	(34,026)
Liability component at June 29, 2006	292,228

The impact of the bond issue on the Group's equity was as follows:

(in € thousands)	At June 29, 2006
Equity component (gross value)	34,026
Deferred tax impact	(11,716)
Net impact on equity	22,310

Guarantees given

The Iliad Group has not given any specific guarantees in return for its existing borrowing facilities with banks.

Description of the Group's main bank borrowing facilities outstanding at December 31, 2007

The Group did not have any significant outstanding bank borrowings at December 31, 2007.

Breakdown of borrowings by type of rate

Gross borrowings at the year-end can be analyzed as follows by type of rate:

(in € thousands)	At December 31, 2007	At December 31, 2006
Fixed-rate borrowings	337,235	307,880
Variable-rate borrowings	18,128	5,940
Total borrowings	355,363	313,820

Breakdown of borrowings by nature and maturity

The following table presents borrowings by nature and maturity at December 31, 2007:

(in € thousands)	Due within 1 year	Due in 1 to 2 years	Due in 2 to 3 years	Due in 3 to 4 years	Due in 4 to 5 years	Due beyond 5 years	Total
Bonds	7,274	0	0	0	301,927	0	309,201
Bank borrowings	750	0	0	0	0	0	750
Borrowings related to finance leases	6,556	5,093	3,447	2,705	2,323	7,836	27,960
Other bank borrowing facilities	11,691	0	0	0	0	0	11,691
Other	4,885	801	0	0	0	75	5,761
Total	31,156	5,894	3,447	2,705	304,250	7,911	355,363

The following table presents borrowings by nature and maturity at December 31, 2006:

(in € thousands)	Due within 1 year	Due in 1 to 2 years	Due in 2 to 3 years	Due in 3 to 4 years	Due in 4 to 5 years	Due beyond 5 years	Total
Bonds	3,707	0	0	0	0	295,416	299,123
Bank borrowings	941	940	191	191	190	254	2,707
Borrowings related to finance leases	3,066	2,823	1,570	464	318	475	8,716
Other bank borrowing facilities	3,216	0	0	0	0	0	3,216
Other	16	0	0	0	0	42	58
Total	10,946	3,763	1,761	655	508	296,187	313,820

Description of the Group's main finance leases outstanding at December 31, 2007

Real estate finance leases

The Group purchases premises to house the technical equipment required for rolling out its FTTH network. As part of this process, in January 2007 Iliad entered into a master agreement with Genefim to finance the purchase of such premises through a real-estate finance lease with a 12-year term following which the related assets may be acquired for a token amount of €1. The agreement does not contain any contingent lease payment or renewal options, and does not impose specific restrictions, for example concerning dividends, additional debt or further leasing.

Equipment finance leases

As part of its operations, the Group holds several items of equipment (mainly switching equipment) under finance leases with terms of between three and seven years. None of the lease arrangements contain contingent lease payment or renewal options, nor do they impose specific restrictions, for example concerning dividends, additional debt or further leasing. All of the contracts include bargain purchase options at the end of the lease term.

Present value of future minimum lease payments due under finance leases

The following table presents a reconciliation between total future minimum lease payments due under finance leases at December 31, 2007 and their present value.

(in € thousands)	Due within 1 year	Due between 1 and 5 years	Due beyond 5 years	Total
Future minimum lease payments	6,556	13,568	7,836	27,960
Present value	6,556	12,274	5,590	24,420

Present value is determined by applying a 4.80% discount rate.

NOTE 30: TRADE AND OTHER PAYABLES
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These items break down as follows:

(in € thousands)	At December 31, 2007	At December 31, 2006
Trade and other payables recorded under non-current liabilities		
Trade payables	1,021	2,373
Other payables	8,223	9,128
Sub-total	9,244	11,501
Trade and other payables recorded under current liabilities		
Trade payables	197,109	232,110
Advances and prepayments	0	0
Accrued taxes and payroll costs	35,085	30,843
Other payables	1,587	5,251
Deferred income	1,330	7,219
Sub-total	235,111	275,423
Total	244,355	286,924

Total trade payables can be analyzed as follows

(in € thousands)	At December 31, 2007	At December 31, 2006
Suppliers of goods and services	126,371	136,713
Suppliers of non-current assets	71,759	96,734
Total	198,130	233,447

NOTE 31: LEASE COMMITMENTS

Lease expenses recognized in the income statement break down as follows:

(in € thousands)	At Dec. 31, 2007	At Dec. 31, 2006
▪ Minimum lease payments	5,999	4,393
▪ Contingent lease payments	11	92
▪ Sub-leases	3,963	3,711
Total	9,973	8,196

The table below analyzes the Group's lease commitments at December 31, 2007 by type of asset and maturity.

(in € thousands) Type of leased asset	Due within 1 year	Due in 1 to 2 years	Due in 2 to 3 years	Due in 3 to 4 years	Due in 4 to 5 years	Due beyond 5 years	Total
Real estate	5,825	3,474	726	673	673	156	11,527
Vehicles	855	500	15	0	0	0	1,370
Equipment and network infrastructure	2,186	1,049	515	328	302	1,415	5,795
Total	8,866	5,023	1,256	1,001	975	1,571	18,692

None of the Group's lease arrangements contain material contingent lease payments or renewal options, nor do they impose specific restrictions, for example concerning dividends, additional debt or further leasing.

NOTE 32: RELATED-PARTY TRANSACTIONS
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Related-party transactions solely correspond to transactions with key management personnel.

Transactions with key management personnel

- Persons concerned:

Under IAS 24, key management personnel are those persons who have authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly. For the Iliad Group, these persons correspond to members of the Board of Directors of Iliad SA and members of the Management Committee.

- Compensation paid to key management personnel in 2007 and 2006 breaks down as follows:

(in € thousands)	2007	2006
▪ Total compensation	1,632	1,074
▪ Short-term benefits	0	0
▪ Post-employment benefits	0	0
▪ Other long-term benefits	0	0
▪ Termination benefits	0	0
▪ Share-based payments	2,714	1,040
Total	4,346	2,114

In addition, in 2007 the Iliad Group purchased 18 Freebox shares from Rani Assaf for €120,000.

No liabilities have been recognized in the balance sheet in relation to compensation payable to key management personnel.

NOTE 33: FINANCIAL INSTRUMENTS

Reconciliation by class of instrument and accounting category

(in € millions)	Assets carried at fair value through profit or loss	Hedging instruments carried at fair value with changes recognized in equity	Loans and receivables	Liabilities carried at amortized cost	Carrying amount	Fair value
At December 31, 2007						
Cash	80,112				80,112	80,112
Marketable securities	154,668				154,668	154,668
Trade receivables			81,142		81,142	81,142
Other receivables			59,437		59,437	59,437
Other long-term financial assets	44		1,939		1,983	1,983
Long-term financial liabilities (excl. OCEANE bonds)		(802)		(21,478)	(22,280)	(22,280)
Short-term financial liabilities (excl. OCEANE bonds)		(4,858)		(19,024)	(23,882)	(23,882)
OCEANE bonds				(309,201)	(309,201)	*
Other non-current liabilities				(9,244)	(9,244)	(9,244)
Other current liabilities				(235,111)	(235,111)	(235,111)
Total carrying amount	234,824	(5,660)	142,518	(594,058)	(222,376)	N/A
At December 31, 2006						
Cash	275,270				275,270	275,270
Marketable securities	4,270				4,270	4,270
Trade receivables			67,355		67,355	67,355
Other receivables			55,420		55,420	55,420
Other long-term financial assets	322		3,814		4,136	4,136
Other short-term financial assets			325		325	325
Long-term financial liabilities (excl. OCEANE bonds)				(7,458)	(7,458)	(7,458)
Short-term financial liabilities (excl. OCEANE bonds)				(7,239)	(7,239)	(7,239)
OCEANE bonds				(299,123)	(299,123)	*
Other non-current liabilities				(11,501)	(11,501)	(11,501)
Other current liabilities				(275,423)	(275,423)	(275,423)
Total carrying amount	279,862		126,914	(600,744)	(193,968)	N/A

* The Group was unable to determine the fair value of these bonds at the balance sheet date as they are not listed on a regulated market and have a low trading volume.

The main components of each financial instrument category and the applicable measurement methods are as follows:

- Assets carried at fair value through profit or loss primarily correspond to cash and cash equivalents. They are measured by reference to a quoted market price in an active market where such a market exists.
- Loans and receivables primarily comprise trade and other receivables.
- Liabilities carried at amortized cost – calculated using the effective interest method – essentially correspond to borrowings, trade payables and other current and non-current liabilities.

- Derivative instruments are carried at fair value with changes in fair value recognized either directly in the income statement or in equity when hedge accounting is applied.

The fair value of financial assets and liabilities is primarily determined as follows:

- The fair value of (i) trade receivables and payables; and (ii) other short-term receivables and payables, corresponds to their carrying amount in view of their very short maturities.
- The fair value of bonds is estimated at each balance sheet date.
- The fair value of liabilities related to finance leases corresponds to their carrying amount in view of their differing forms and maturities.

NOTE 34: FINANCIAL RISK MANAGEMENT

Market risks

Foreign exchange risk

Exposure to foreign exchange risk

The Iliad Group's functional currency is the euro. However, it purchases certain goods and services outside France and is therefore exposed to foreign exchange risks arising from various currency exposures, mainly with respect to the US dollar.

In 2007 the Group decided to set up a hedging strategy in relation to highly probable commercial transactions denominated in US dollars expected to take place over the coming 18 months. The instruments used for this purpose are zero-premium collars.

Detailed forecasts of the Group's future purchases denominated in US dollars are drawn up as part of the budget process. These transactions are hedged over a maximum period of one and a half years. Consequently, the Group's residual exposure after hedging foreign exchange risk on US dollar-denominated transactions was not material in 2007.

At December 31, 2007 all of these currency hedges qualified as cash flow hedges under IAS 39.

The table below sets out the Group's foreign exchange risks and related sensitivity.

Foreign exchange risk

(in € thousands)	USD
Assets	11,158
Liabilities	28,054
Net position before hedging	16,896
Off-balance sheet position	0
Net position after hedging	16,896
Closing rate	1.47185

Foreign exchange risk sensitivity

	USD
Net position after hedging	16,896
Net position after hedging based on the assumption that exchange rates change unfavorably for the Group by €0.01	17,011
Sensitivity	115

Interest rate risk

Exposure to interest rate risk

The Group is not exposed to any significant interest rate risk. In 2007, Group companies had access to a confirmed syndicated line of credit representing a maximum amount of €220 million, available until June 2011. No drawdowns had been made under this facility at the year-end.

Obligations under finance leases and equipment leasing arrangements amounted to €28 million at December 31, 2007 compared with €8.7 million at December 31, 2006. The majority of the financing arrangements entered into by Iliad in 2007 related to the roll-out of the Group's FTTH network. At December 31, 2007, the Group had €12.6 million in obligations under real estate finance leases entered into with Genefim (a subsidiary of Société Générale) to acquire Optical Nodes (ONs), corresponding to the Free premises where all optical fiber connections are made for a given geographic area. At the same date, the Group's obligations under FTTH equipment leasing contracts entered into with Cisco Capital represented over €7.1 million.

The Group's cash investments are at variable rates. At December 31, 2007, the Group did not have any interest rate hedges. In addition, the Group has no significant financial assets (such as bonds, treasury bills, other money market securities, loans or advances) and no off-balance sheet commitments (such as repos or forward rate agreements) that expose it to interest rate risk.

The tables below show the Group's net interest rate exposure (at December 31, 2007) and an analysis of sensitivity to interest rate fluctuations.

(in € thousands)	Within 1 year	Between 1 and 5 years	Beyond 5 years
Financial liabilities	26,271	315,420	7,985
Financial assets	0	0	1,939
Net position before hedging	26,271	315,420	6,046
Off-balance sheet items	0	0	0
Net position after hedging	26,271	315,420	6,046

Net position to be rolled over within one year (in € thousands)	26,271
Change in interest rate	1%
Average remaining life (in months)	12
Sensitivity (in € thousands)	263

Equity risk

The Group does not hold any equities in its investment portfolio apart from a non-material stake in Mandrake Soft. It does, however, own treasury shares but in view of the very low number held any change in the Iliad share price would have only a minimal impact on the Group's earnings and equity.

Liquidity risk

The Group has historically financed its growth principally with internal resources, with limited recourse to borrowing to finance specific projects.

On June 29, 2006, the Company issued €330.6 million worth of OCEANE convertible/exchangeable bonds.

At December 31, 2007, the Group's net cash position stood at €223.1 million, compared with €276.3 million at December 31, 2006.

In view of the ratios set out below, the Group is not subject to any liquidity risk as a result of acceleration clauses in loans entered into by Group companies or as a result of the breach of any financial covenants.

Certain of the Group's credit agreements contain covenants corresponding to financial ratios, particularly the confirmed syndicated line of credit representing a maximum of €220 million. As of December 31, 2007, the Group had never breached any of these covenants.

	Applicable financial ratio	Consequence of breach	Actual ratios at December 31, 2007
€220 million credit line (Borrower – Iliad)	Leverage ratio < 2.5 Interest cover ratio > 5.1	Default	Leverage ratio: 0.258 Interest cover ratio: 126.743

Credit and counterparty risk

The Group's financial assets primarily comprise cash and cash equivalents – particularly investments – as well as trade and other receivables (see Note 33 “Financial instruments”).

The financial assets which could expose the Group to credit or counterparty risk chiefly correspond to the following:

- Trade receivables: at December 31, 2007 trade receivables represented a gross amount of €96 million and a net amount of €81 million (see Note 23 “Trade and other receivables”). The Group's exposure to customer credit risk is not material and is monitored daily through cash collection and debt recovery processes.
- Investments: the Group's policy is to invest in (i) money market securities such as certificates of deposit and commercial paper; and (ii) other monetary instruments with short-term maturities, generally not exceeding one month. It also takes care to diversify its investments and ensure that the securities in its portfolio are issued by leading companies and financial institutions in order to minimize counterparty risk.

At December 31, 2007, the Group's short-term investments – which amounted to €155 million (see Note 24 “Cash and cash equivalents”) – mainly comprised money market securities (certificates of deposit and commercial paper) with maximum maturities of three months and issued by companies or financial institutions with a good credit rating (a minimum of A2/P2 or equivalent). Consequently, these investments do not expose the Group to a significant level of counterparty risk.

In addition, as part of its foreign exchange risk management strategy, the Group sets up hedges with leading financial institutions for which the counterparty risk is deemed as negligible.

Analysis of trade receivables

At December 31, 2007 trade receivables totaled €96 million and provisions for doubtful receivables amounted to €15 million.

At the balance-sheet date, substantially all past-due receivables were classified as doubtful and provisions had been recorded based on statistical recovery rates. At December 31, 2006 and 2007 the amount of past-due trade receivables that had not been written down was not material.

NOTE 35: OFF BALANCE SHEET COMMITMENTS AND CONTINGENCIES

Commitments given

The following table itemizes the commitments given by Iliad to third parties:

Beneficiary	Amount (in € thousands)	Purpose
SITA (Suez Environnement)	1,700	Guarantee relating to the premises at Rue de la Ville l'Eveque
ARCEP	(1)	Investments to be made by IFW
France Telecom	(2)	Investments relating to dark optical fiber
BNP	3,000	Financial guarantee for commitments given by Free Infrastructure

(1) In a ruling handed down on December 9, 2003, the French Telecommunications Regulatory Authority (ARCEP) granted IFW the right to use across France a batch of frequencies included in the 3.5 GHz bandwidth of the wireless local loop. In connection with this ruling, IFW committed to guarantee a minimum population coverage rate and to undertake the requisite capital expenditure to do so. The minimum rate was set at 33.4% of the population in Normandy and the Greater Paris area for December 31, 2005. At the same date it was set at 5% of the population for other regions in mainland France, to be raised to 7% at December 31, 2008 and 9% at December 31, 2011.

(2) In April 2006, the Iliad Group signed an agreement subscribing to France Telecom's subscriber connection node service which involves leasing dark optical fibers specially dedicated to unbundling operators. Under this open-ended agreement, the Group can request France Telecom to provide it with one or more dark optical fiber links between (i) one of France Telecom's subscriber connection nodes where the Group is present and one of Free's Points of Presence (POPs); or (ii) between two France Telecom subscriber connection nodes where the Group is present. These services are provided subject to availability and in return for an annual fee.

The Group may decide whether to lease these optical fiber links either for a period of three or fifteen years. In May 2006, the Group issued its first batch of requests for dark optical fiber links for a period of fifteen years.

Commitments received

- At December 31, 2007, the Group had a confirmed credit line totaling a maximum of €220 million, expiring in more than one year. No drawdowns had been made under this credit line at the year-end.
- One of the Group's financial partners has granted a €3,000,000 financial guarantee to the Paris City Authorities in connection with the right to use public land granted by the said authorities to the Iliad Group in 2006.
- In 2006, the Group announced plans to begin rolling out an FTTH optical fiber network to provide home subscribers in eligible areas with optical fiber dedicated to multi-media use.

In January 2007, Iliad entered into a master finance lease with Genefim to finance the purchase of premises to house equipment required to develop the FTTH network. Under the terms of the master lease, Genefim will finance all property acquisitions made in the period to June 30, 2008, up to an aggregate maximum of €50 million, through 12-year finance leases. At December 31, 2007, the Group had used €12,988,000 of this budget.

Collateralized debt

None of the assets belonging to the Iliad Group have been used as collateral for any debt.

Accrued discounted trade notes

The Iliad Group does not use this type of financing.

Statutory training entitlement

In accordance with French Act no. 2004-391 of May 4, 2004 relating to professional training, the Group's French companies grant their employees an entitlement to at least 20 hours' training per calendar year, which may be carried forward for up to six years. If all or part of the cumulative entitlement is not used within six years, it is capped at 120 hours.

In order for the Group to approve any training, an employee making a request must show that the training program concerned will assist with his or her career development within the Group. Consequently no related provisions have been recorded. At December 31, 2007 the Group's employees had accumulated a total of 32,300 unused training hours.

Dependence of the Iliad Group on patents and licenses

The Iliad Group holds a license to use the One.Tel brand in France, granted in 2001 by Centrica Telecommunications Ltd for a 10-year period in return for an annual fee based on revenues but capped at €250,000.

Claims and litigation

Group companies are involved in a certain number of disputes arising in the normal course of business. When the Group and its legal advisors estimate that charges are likely to result, provisions for contingencies and charges are recorded, in accordance with IAS 37.

The Group considers that the provisions set up to cover such contingencies, litigation or disputes known of or in progress at December 31, 2007 are sufficient to ensure that there would be no material impact on the Group's consolidated financial position in the event of unfavorable outcomes.

NOTE 36: EVENTS AFTER THE BALANCE SHEET DATE

Between January 1, 2008 and the date on which the accounts were approved, no events occurred that would be likely to have a material impact on the financial statements for the year ended December 31, 2007.

NOTE 37: LIST OF CONSOLIDATED COMPANIES AT DECEMBER 31, 2007

	Registration number	Head office	Percentage control Dec. 31, 2007	Percentage control Dec. 31, 2006	Percentage ownership Dec. 31, 2007	Percentage ownership Dec. 31, 2006	Consolidation method in 2007
ILIAD 8 rue de la Ville l'Evêque 75008 Paris	342 376 332	Paris	100.00%	100.00%	100.00%	100.00%	Full
ASSUNET 8 rue de la Ville l'Evêque 75008 Paris	421 259 797	Paris	89.96%	89.92%	89.96%	89.92%	Full
CENTRAPEL 8 rue de la Ville l'Evêque 75008 Paris	434 130 860	Paris	99.98%	99.98%	99.98%	99.98%	Full
CITEFIBRE 8 rue de la Ville l'Evêque 75008 Paris	479 015 240	Paris	99.78%	99.78%	99.78%	99.78%	Full
DEDIBOX 8 rue de la Ville l'Evêque 75008 Paris	484 961 206	Paris	90.00%	90.00%	90.00%	90.00%	Full
FREE 8 rue de la Ville l'Evêque 75008 Paris	421 938 861	Paris	100.00%	100.00%	100.00%	100.00%	Full
FREEBOX 8 rue de la Ville l'Evêque 75008 Paris	433 910 616	Paris	96.08%	95.79%	96.08%	95.79%	Full
FREE INFRASTRUCTURE (formerly PN) 8 rue de la Ville l'Evêque 75008 Paris	488 095 803	Paris	100.00%	100.00%	100.00%	100.00%	Full
FREE MOBILE 8 rue de la Ville l'Evêque 75008 Paris	499 247 138	Paris	100.00%	/	100.00%	/	Full
IFW 8 rue de la Ville l'Evêque 75008 Paris	400 089 942	Paris	100.00%	100.00%	100.00%	100.00%	Full
IH 8 rue de la Ville l'Evêque 75008 Paris	441 532 173	Paris	100.00%	100.00%	100.00%	100.00%	Full
IMMOBILIERE ILIAD 8 rue de la Ville l'Evêque 75008 Paris	501 194 419	Paris	100.00%	/	100.00%	/	Full
IRE 8 rue de la Ville l'Evêque 75008 Paris	489 741 645	Paris	100.00%	100.00%	100.00%	100.00%	Full
KEDRA 8 rue de la Ville l'Evêque 75008 Paris	439 597 857	Paris	100.00%	100.00%	100.00%	100.00%	Full
ON LINE 8 rue de la Ville l'Evêque 75008 Paris	433 115 904	Paris	100.00%	100.00%	100.00%	100.00%	Full
ONE TEL 8 rue de la Ville l'Evêque 75008 Paris	419 392 931	Paris	100.00%	100.00%	100.00%	100.00%	Full

TOTAL CALL Technoparc – Route de Nouceur Sidi Maar Casablanca - Morocco	/	Morocco	100.00%	100.00%	100.00%	100.00%	Full
TOUTCOM 8 rue de la Ville l'Evêque 75008 Paris	387 601 636	Paris	98.00%	98.00%	98.00%	98.00%	Full

NOTE 38: LIST OF CONSOLIDATED COMPANIES AT DECEMBER 31, 2006

	Registration number	Head office	Percentage control Dec. 31, 2006	Percentage control Dec. 31, 2005	Percentage ownership Dec. 31, 2006	Percentage ownership Dec. 31, 2005	Consolidation method in 2006
ILIAD 8 rue de la Ville l'Evêque 75008 Paris	342 376 332	Paris	100.00%	100.00%	100.00%	100.00%	Full
ASSUNET 8 rue de la Ville l'Evêque 75008 Paris	421 259 797	Paris	89.92%	89.88%	89.92%	89.88%	Full
CENTRAPEL 8 rue de la Ville l'Evêque 75008 Paris	434 130 860	Paris	99.98%	99.98%	99.98%	99.98%	Full
CITEFIBRE 8 rue de la Ville l'Evêque 75008 Paris	479 015 240	Paris	99.78%	0	99.78%	0	Full
DEDIBOX 8 rue de la Ville l'Evêque 75008 Paris	484 961 206	Paris	90.00%	90.00%	90.00%	90.00%	Full
FREE 8 rue de la Ville l'Evêque 75008 Paris	421 938 861	Paris	100.00%	100.00%	100.00%	100.00%	Full
FREEBOX 8 rue de la Ville l'Evêque 75008 Paris	433 910 616	Paris	95.79%	95.43%	95.79%	95.43%	Full
IFW 8 rue de la Ville l'Evêque 75008 Paris	400 089 942	Paris	100.00%	100.00%	100.00%	100.00%	Full
IH 8 rue de la Ville l'Evêque 75008 Paris	441 532 173	Paris	100.00%	99.98%	100.00%	99.98%	Full
IRE 8 rue de la Ville l'Evêque 75008 Paris	489 741 645	Paris	100.00%	0	100.00%	0	Full
KEDRA 8 rue de la Ville l'Evêque 75008 Paris	439 597 857	Paris	100.00%	99.98%	100.00%	99.98%	Full
KERTEL 8 rue de la Ville l'Evêque 75008 Paris	422 135 459	Paris	100.00%	100.00%	100.00%	100.00%	Full
ON LINE 8 rue de la Ville l'Evêque 75008 Paris	433 115 904	Paris	100.00%	100.00%	100.00%	100.00%	Full
ONE TEL 8 rue de la Ville l'Evêque 75008 Paris	419 392 931	Paris	100.00%	100.00%	100.00%	100.00%	Full
PN 8 rue de la Ville l'Evêque 75008 Paris	488 095 803	Paris	100.00%	0	100.00%	0	Full
TOTAL CALL Technoparc – Route de Nouceur Sidi Maar Casablanca - Morocco	/	Morocco	100.00%	100.00%	100.00%	100.00%	Full

TOUTCOM 8 rue de la Ville l'Evêque 75008 Paris	387 601 636	Paris	98.00%	98.00%	98.00%	98.00%	Full
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NOTE 39: CHANGES IN SCOPE OF CONSOLIDATION AND PERCENTAGE CONTROL IN 2007
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Consolidated companies

	Percentage control Dec. 31, 2006	Consolidation method at Dec. 31, 2006	Acquisition/ incorporation date	Percentage control Dec. 31, 2007	Consolidation method at Dec. 31, 2007
FREEBOX	95.79%	Full	January 19, 2007 August 1, 2007	96.08%	Full
ASSUNET	89.92%	Full	May 25, 2007	89.96%	Full
FREE MOBILE	/	/	July 24, 2007	100.00%	Full
IMMOBILIERE ILIAD	/	/	December 3, 2007	100.00%	Full

Deconsolidated companies

	Percentage control at Dec. 31, 2006	Consolidation method at Dec. 31, 2006	Deconsolidation date	Percentage control at Dec. 31, 2007	Consolidation method at Dec. 31, 2007
KERTEL	100.00%	Full	February 7, 2007	/	/