A limited liability corporation with a share capital of €1,000,000

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

Companies and Trade Register of Paris No. 342 376 332

DOCUMENT DE BASE

Pursuant to COB Regulation No. 98-01, the *Autorité des marchés financiers* registered this *Document de Base* on December 15, 2003 under No. I 03-253. The *Document de Base* may not be used in support of financial transactions unless it is accompanied by a *note d'opération* approved by the *Autorité des marchés financiers* by affixing its visa thereon.

This *Document de Base* has been prepared by the issuer and its signatories are liable for it. This registration, following an examination of the relevance and consistency of information provided regarding the company's position, does not imply an authentication of the accounting and financial items presented herein.

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This translation of the *document de base* speaks only as of its date and shall not, under any circumstances, create any implication that the information contained therein is correct as of any time subsequent to the date thereof or that there has been no change in the financial condition or the affairs of Iliad or the Iliad Group since such date.

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CHAPTER 1

CERTIFICATION BY THE PERSON RESPONSIBLE FOR THE *DOCUMENT DE BASE* AND THE PERSONS RESPONSIBLE FOR AUDITING THE FINANCIAL STATEMENTS

In this *document de base*, the term "Iliad" or "Company" refers to Iliad, and the term "Group" refers to the group of companies comprising the Company and all its subsidiaries.

1.1 CERTIFICATION BY THE PERSON RESPONSIBLE FOR THE *DOCUMENT DE BASE*

1.1.1 Person responsible for the *document de base*

Mr. Cyril Poidatz, Iliad General Manager.

1.1.2 Certification by the person responsible for the *document de base*

"To my knowledge, the information contained in this *document de base* is factually accurate and includes all information necessary for investors to evaluate the assets, business activity, financial position, results, and prospects of Iliad and its subsidiaries. There is no omission of any information that would alter the scope of the information provided."

Cyril Poidatz, Iliad General Manager

1.2 CERTIFICATION BY THE AUDITORS

1.2.1 Principal statutory auditors

PricewaterhouseCoopers Audit
Represented by Xavier Cauchois
Tour AIG
34, place des Corolles
92908 Paris La Défense 2

Appointed at the general shareholders' meeting held on October 19, 2000 for a six-year term expiring at the close of the general shareholders' meeting to be called in 2006 to approve the accounts for the fiscal year ending December 31, 2005.

Boissière Expertise Audit
Represented by Tita A. Zeïtoun
57, rue Boissière
75016 Paris

Appointed at the general shareholders' meeting held on December 30, 1997 for a six-year term. This appointment was renewed at the general shareholders' meeting held on May 6, 2003 for an additional six-year term expiring at the close of the general shareholders' meeting to be called in 2009 to approve the accounts for the fiscal year ending December 31, 2008.

1.2.2 Substitute statutory auditors

David Blanchard
Tour AIG
34, place des Corolles
92908 Paris La Défense 2

Appointed at the general shareholders' meeting held on October 19, 2000 for a six-year term expiring at the close of the general shareholders' meeting to be called in 2006 to approve the accounts for the fiscal year ending December 31, 2005.

FIDUCO
Represented by Jean-Luc Cohen
2-4, rue Adolphe Mille
75019 Paris

Appointed at the general shareholders' meeting held on December 30, 1997 for a six-year term. This appointment was renewed at the general shareholders' meeting held on May 6, 2003 for an additional six-year term expiring at the close of the general shareholders' meeting to be called in 2009 to approve the accounts for the fiscal year ending December 31, 2008.

1.2.3 Free translation of the *Attestation* by the statutory auditors on the *document de base*

PricewaterhouseCoopers Audit
Tour AIG
34, place des Corolles
92908 Paris La Défense 2
France

Boissière Expertise Audit
Représenté par Tita A. Zeïtoun
57, rue Boissière
75016 Paris
France

In our capacity as statutory auditors of Iliad S.A. and as required by regulation No. 98-01 of the *Commission des opérations de bourse*, we have examined, in accordance with professional standards applicable in France, the information concerning the financial position and the historical accounts included in this *document de base*.

This *document de base* is the responsibility of Mr. Cyril Poidatz, General Manager of Iliad. Our responsibility is to express an opinion on the fairness of the information concerning the financial position and the accounts contained in this document.

Our procedures, which were performed in accordance with professional standards applicable in France, consisted of assessing the fairness of the information concerning the financial position and the accounts and verifying that this information is consistent with the audited financial statements. Our procedures also consisted of reading the other information contained in the *document de base* in order to identify any material inconsistencies with the information concerning the financial position and the accounts and reporting any materially incorrect information that came to our attention, based on our overall knowledge of the Company as acquired during our audit. This *document de base* does not contain any specific forward-looking information determined according to a structured process.

We audited the financial statements of the Company and the Group for the years ended December 31, 2000, 2001 and 2002, as approved by the management board. Our audits were performed in accordance with professional standards applicable in France. Our reports on these financial statements were unqualified with an observation relating to the consolidated financial statements for the year ended December 31, 2001, drawing attention to the fact that due to a deviation from generally accepted accounting principles with respect to consolidation, Iliad S.A. was unable to include in its scope of consolidation the company One.Tel (which it acquired control of in mid-December 2001), as indicated in 1.2.2.1 of the notes to the consolidated financial statements for the year ended December 31, 2002. The figures available as of the date of the closing of the accounts are provided in the notes to the consolidated financial statements.

We performed a limited review of the interim consolidated financial statements, prepared under the responsibility of the management board and covering the period from January 1 to June 30, 2003. Our limited review was performed in accordance with professional standards applicable in France. Based on our limited review, we are not aware of any material irregularities which would call into question the fairness of these financial statements.

Based on the procedures described above and taking into account the observation made in one of our previous reports as indicated above, we have nothing to report with respect to the fairness of the information concerning the financial position and the historical financial statements contained in this *document de base.*

The Statutory Auditors

Paris, December 15, 2003

PricewaterhouseCoopers Audit	Boissière Expertise Audit
Xavier Cauchois	Tita A. Zeïtoun

1.3 INFORMATION POLICY

1.3.1 Person responsible for information

Mr. Olivier Rosenfeld
Chief Financial Officer
Iliad
8, rue de la Ville l'Evêque
75008 Paris
Telephone: +33 1 73 50 20 00
Fax: +33 1 73 50 27 05

E-mail: infofin@iliad.fr

1.3.2 Indicative timetable for communication of financial information

All financial information provided by Iliad (press releases, presentations, annual reports) is available on its website: http://www.iliad.fr

The indicative timetable for communication of financial information for Iliad for the year 2004 is as follows:

- Revenue for the fiscal year ended December 31, 2003: no later than February 13, 2004;
- Publication of provisional annual accounts for the fiscal year ended December 31, 2003: no later than April 30, 2004;
- Revenue for the three-month period ending March 31, 2004: no later than May 14, 2004;
- Ordinary general shareholders' meeting: May 2004;
- Revenue for the six-month period ending June 30, 2004: on or about August 13, 2004;
- Results of operations for the six-month period ending June 30, 2004: no later than September 30, 2004;
- Revenue for the three-month period ending September 30, 2004: no later than November 15, 2004

CHAPTER 2

INFORMATION REGARDING THE TRANSACTION

In the event of transaction involving a public offering, the information contained in this chapter will be presented in a *note d'opération* submitted for approval to the *Authorité des marchés financiers*.

CHAPTER 3

GENERAL INFORMATION
CONCERNING THE COMPANY AND ITS SHARE CAPITAL

Some of the general information regarding the Company and its share capital set forth in this chapter 3 follows from resolutions adopted by the ordinary and extraordinary general shareholders' meeting held on December 12, 2003, subject to the admission of the Company's shares for trading and the initial listing of the Company's shares on a regulated market.

3.1 GENERAL INFORMATION CONCERNING THE ISSUER

3.1.1 Corporate name and registered office

Corporate name: Iliad S.A.

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

3.1.2 Legal form

Iliad is a French limited liability corporation (*société anonyme*) with a board of directors governed by the provisions of the French Commercial Code and Decree No. 67-236 of March 23, 1967 on commercial corporations.

3.1.3 Company's incorporation, registration, and term of existence

The Company is registered under *SIREN* No. 342 376 332 in the Companies and Trade Register of Paris.

The Company's N.A.F. code is 22.1 E – Edition of reviews and periodical publications.

The Company was incorporated on August 31, 1987, for a fixed term of ninety-nine years commencing on the date the Company was registered in the Companies and Trade Register; other than in the event of early dissolution or extension, the Company's term will run until October 15, 2086.

3.1.4 Corporate purpose (Article 2 of the bylaws)

The Company's corporate purpose, directly or indirectly, in France or any other country is as follows:

- the study, implementation, maintenance, operation, management or marketing of all systems, equipment, networks or services, in the fields of telecommunications, Internet, computer systems, telematics and communications, including the installation and operation of electronic communication networks;

- the dissemination and publication, by any available technical means and in particular through the press, radio, audio-visual media, video, remote transmission, whether by means of magnetically-based or other technology, of all services, programs and information, and more specifically, the edition and provision of telecommunications and data transmission services for or to the public, and the dissemination of audio-visual communication services;

- the acquisition by any means whatsoever of and the management of any shareholdings in any French or foreign company, irrespective of such company's legal form and purpose, by purchase, subscription or otherwise;

- the acquisition by any means whatsoever of bonds, founders' shares or other securities issued by such companies;

- the provision of any and all commercial, financial, accounting and administrative services;

- the direct or indirect ownership, by way of contribution of joint ventures or any other means whatsoever, of shareholdings in any business or company with one or more activities directly or indirectly related to the Company's corporate purpose;

- the participation in any business or company with one or several activities which may be directly or indirectly related to the Company's corporate purpose, or to any similar or associated purpose, in particular through the formation of new companies, contributions, mergers, alliances or joint ventures, or economic interest groups;

- and more generally, the engagement in any industrial, commercial, financial, real estate, real and personal property or securities transaction, which may be directly or indirectly related to the Company's corporate purpose or any similar or associated purpose.

3.1.5 Consultation of legal documents

The Company's bylaws, minutes and other corporate documents required to be made available to shareholders pursuant to applicable regulations may be consulted at the Company's registered office.

3.1.6 Fiscal year

The Company's fiscal year begins on January 1st and ends on December 31st of each calendar year.

3.1.7 Allocation of profits pursuant to the bylaws of the Company (Article 31 of the bylaws)

The Company's income statement summarizes the Company's annual income and expenses and shows, after deductions for amortization and reserves, the Company's profits or losses for the fiscal year.

Out of the Company's profit for the fiscal year, less prior losses, if applicable, at least 5% is withdrawn to be allocated to the legal reserve. This withdrawal ceases to be required by law when such reserve has reached one-tenth of the Company's share capital; it resumes whenever the legal reserve falls for whatever reason below one-tenth of the Company's share capital.

Distributable profit consists of the profit for the fiscal year reduced by previous losses and amounts to be allocated to reserves pursuant to applicable law or the Company's bylaws, and increased by the profits carried forward. The general shareholders' meeting may deduct from this profit any amounts it may deem suitable to be allocated to any optional reserve fund, or to be carried forward.

The general shareholders' meeting may also decide to distribute amounts withdrawn from reserves at its disposal, by expressly indicating the reserve items from which the withdrawals are made. However, dividends are by priority withdrawn from the distributable profit of the fiscal year.

Other than through a reduction of share capital, no distribution may be made to shareholders whenever the shareholders' equity is, or would become following such distribution, less than the capital increased by the reserves that may not be distributed pursuant to applicable law or the Company's bylaws.

The differential arising from the revaluation of assets above historical costs may not be distributed; it may be fully or partially incorporated into the share capital.

Any losses are entered into a special account to be carried forward and charged against profit for subsequent fiscal years until fully used.

3.1.8 Payment of dividends (Article 32 of the bylaws)

The terms and conditions for the payment of dividends, as approved by the general shareholders' meeting, are determined by the general shareholders' meeting or, failing which, by the board of directors.

However, payments of dividends in cash must be made no later than nine months following the end of the fiscal year, unless such nine-month period has been extended by court decision.

The general shareholders' meeting may propose to shareholders the payment of a dividend or an installment payment on a dividend, in whole or in part, by payment in new shares in the Company in accordance with the conditions provided by law.

3.1.9 Management of the Company

At its meeting held on December 12, 2003, the Company's board of directors voted to separate the duties of the chairman of the board from those of the general manager.

The general manager is vested with full powers with respect to the day-to-day management of the Company and to represent it before third parties. The chairman of the board of directors is, in turn, responsible for ensuring that all corporate bodies function properly. The board of directors is responsible for determining the Company's strategic direction and overseeing its implementation; in addition, the board of directors is responsible for supervising the management of the Company. See paragraph 6.1.1 for a description of the functioning of the Company's corporate bodies.

3.1.10 General meetings of shareholders

Collective decisions by Company's shareholders are made at general shareholders' meetings, which may be ordinary or extraordinary, depending on the nature of the decisions to be taken at such meetings.

Duly constituted and convened general shareholders' meetings represent all shareholders. The decisions of such general shareholders' meetings are binding on all shareholders, including dissenting, absent or incapable shareholders.

3.1.10.1 Convening and meetings (Article 24 of the bylaws)

General shareholders' meetings are called by the board of directors, failing which, by the statutory auditors or anyone qualified by law to do so.

Shareholders' meetings are held at the registered office of the Company or at such other place indicated in the convening notice.

Shareholders' meetings may be held by videoconference or by any other means of telecommunication, including by Internet, which permits the identification of the shareholders in accordance with the conditions set forth in applicable laws and regulations.

3.1.10.2 Agenda (Article 25 of the bylaws)

The agenda for shareholders' meetings is determined by the party convening the meeting.

However, one or more shareholders or the works council are entitled to request that draft resolutions be placed on the agenda, as provided by applicable law and regulations.

The shareholders' meeting may not deliberate on any matter that has not been placed on the agenda. However, it may always, under any circumstances, dismiss and replace one or more directors.

The agenda of a shareholders' meeting may not be modified by a second convocation.

3.1.10.3 Access and representation at shareholders' meetings (Article 26 of the bylaws)

All shareholders may participate in general shareholders' meetings, in person or through a proxy, regardless of the number of shares held, upon establishing their identity share ownership in one of the following ways:

– the registration of the shares in the name of the shareholder in a shareholder account maintained by or on behalf of the Company;

– the delivery of a certificate by the qualified intermediary maintaining the shareholder's account, acknowledging the non-transferability of the shares registered in the account until the date fixed for the shareholders' meeting.

These formalities must be carried out at least five days before the shareholders' meeting. However, the board of directors may shorten or eliminate this time limit provided that such action is for the benefit of all shareholders.

Company shareholders that are not domiciled in French territory may maintain shareholder accounts and be represented at shareholders' meetings by any intermediary registered on their behalf and who holds a general power of attorney to manage their shares. This, however, requires the intermediary to have declared its capacity to hold shares as an intermediary on behalf of another person with the Company or with a financial intermediary prior to opening an account in accordance with applicable legal and regulatory requirements.

Shareholders who are unable to attend a shareholders' meeting in person may choose one of the following three options:

– representation by another shareholder or by their spouse; or

– voting by mail using a form the shareholder can obtain under the conditions set forth in the convening notice for the shareholders' meeting; or

– sending a proxy to the Company, with no indication of a representative. In this case, the chairman of the general shareholders' meeting votes in favor of adopting all draft resolutions submitted or approved by the board of directors, and votes against adopting all other draft resolutions. In order to cast any other vote, the shareholder must appoint a proxy who agrees to vote as instructed by the shareholder.

3.1.10.4 **Bureau** *of the shareholders' meeting (Article 27 of the bylaws)*

Shareholders' meetings are presided over by the chairman of the board of directors, or in the chairman's absence by a director appointed to this task by the board. In the event the shareholders' meeting has been called by the statutory auditors or by a court-appointed representative, the shareholders' meeting is presided over by the person who has issued the convening notice. If neither of the above holds, the shareholders' meeting itself elects its chairman.

The two shareholders attending the shareholders' meeting and who hold the greatest number of voting rights, on their own behalf or as proxies, and who accept such role, serve as scrutinizers (*scrutateurs*).

The *bureau* thus constituted appoints a secretary, who need not be a shareholder.

The members of the *bureau* are responsible for verifying, certifying and signing the attendance sheet, ensuring that discussions are properly conducted, settling matters that arise during the meeting, verifying the number of votes cast and ensuring that they are cast properly and overseeing that the minutes are properly established.

3.1.10.5 Quorum and voting at meetings (Article 28 of the bylaws)

Subject to the double voting rights described in paragraph 3.1.11 below, every shareholder at ordinary and special general shareholders' meetings holds one vote for each share he or she holds or represents.

The quorum is calculated on the basis of all the shares constituting the Company's share capital, after having deducted shares with no voting rights by virtue of applicable law or the Company's bylaws.

The ordinary general shareholders' meeting may deliberate validly upon a first convocation notice only if shareholders present or represented by proxy or voting by mail hold at least one-fourth of all shares with voting rights. No quorum is required if the shareholders' meeting is held upon a second convocation notice. Decisions by the ordinary general meeting require a majority of the votes cast by the shareholders present, represented by proxy or voting by mail.

The extraordinary general shareholders' meeting may deliberate validly upon a first convocation notice only if shareholders present or represented by proxy or voting by mail hold at least one-third of all shares with voting rights and, upon a second convocation notice, one-fourth of all shares with voting rights. Upon failure to achieve the latter quorum, the meeting may be postponed for up to two months after the date on which such meeting was convened. Decisions by the extraordinary general shareholders' meeting require a two-thirds majority of votes cast by the shareholders present, represented by proxy or voting by mail. Resolutions to increase the share capital by incorporation of reserves, profits, or share premiums are subject to the quorum and majority requirements of ordinary general shareholders' meetings.

In calculating a quorum, shareholders taking part in a shareholders' meeting by videoconference or other forms of telecommunication which allow them to be identified and which comply with the conditions set forth in applicable law are deemed to be present.

3.1.11 Double voting rights (Article 28 of the bylaws)

The extraordinary general shareholders' meeting held on December 12, 2003 decided that all fully paid-up shares which have been registered in the name of the same shareholder for at least three years, starting from the date the Company's shares are approved for trading on a regulated market or from any subsequent date, are to be granted double voting rights compared to the voting rights granted to other shares of the Company.

In the event a share capital increase by the incorporation of reserves, profits, or share premiums, or an exchange of shares conducted simultaneously with a stock split or regrouping of shares, a double voting right is granted to shares issued in respect of shares held in registered form and entitled to double voting rights, provided such issued shares are held in registered form following their attribution.

All shares converted to bearer shares or sold lose the double voting rights granted pursuant to Article 28-1 of the bylaws.

However, the successive transfer by right of succession, liquidation, spousal community property or *inter vivos* gift to a spouse or parent does not result in the loss of the double voting rights or a suspension of the holding period contemplated by the bylaws.

A merger or *scission* (spin-off) of the Company has no effect on double voting rights, which may be exercised within the surviving entity if permitted by the surviving entity's bylaws.

The extraordinary general shareholders' meeting may cancel the double voting rights only with the approval of a special meeting of the holders of double voting rights.

3.1.12 Form and identification of securities holders (Article 9 of the bylaws)

Except when otherwise provided by law, fully paid-up shares can be held in registered or bearer form at the option of the shareholder. All shares must be held in registered form until they are fully paid-up.

The Company is entitled, at any time and in accordance with the terms and conditions of applicable legal and regulatory requirements, to require the agency responsible for the clearing and settlement of securities to furnish a list of the identity, address, nationality, date of birth, or, in the case of a legal entity, the year of establishment, of holders of securities that confer, or will confer, the right to vote at shareholders' meetings, as well as the number of securities held by such holders, and, if applicable, any restrictions on such securities.

The Company, either through the clearing and settlement agency or directly and under the same conditions, may also request of the persons or entities appearing on such list and whom the Company believes may be holding securities on behalf of a third party whether this is the case and, if so, to be provided with information permitting the identification of such third party or parties. In the event the identity of the holders of the securities is not so provided, the vote or proxy issued by the intermediary registered as a holder will not be counted.

3.1.13 Holdings exceeding certain thresholds (Article 12 of the bylaws)

Any person or legal entity, acting alone or in concert with others, that directly or indirectly owns or controls a number of shares representing 1% or more of the Company's share capital or voting rights must declare to the Company within five trading days of the crossing of this threshold, by registered letter with return receipt requested or by another equivalent means for shareholders residing outside of France, the date the threshold was exceeded, the total number of shares and voting rights held, as well as the number of securities held that will give access to the Company's share capital and the voting rights associated therewith.

This declaration must be restated under the same conditions each time a shareholders' holdings or voting rights exceed or drop below any whole multiple of 1% of the Company's share capital or voting rights.

Upon failure to make this declaration as required, the shares exceeding the percentage that should have been declared in accordance with the above stipulations will be deprived of their voting rights at every shareholders' meeting held for a period of two years following the date the notice requirement is cured, provided a request to this effect was made by one or more shareholders representing at least 1% of the Company's share capital or voting rights and entered into the minutes of the general shareholders' meeting.

3.2 GENERAL INFORMATION CONCERNING THE COMPANY'S SHARE CAPITAL

3.2.1 Amount of share capital (Article 6 of the bylaws)

As of the date of the registration of this *Document de Base*, the Company's share capital totaled €1 million, divided into 47,624,230 fully subscribed and paid-up shares, all of the same class.

3.2.2 Changes in share capital and rights associated with shares

Any changes to the Company's share capital or to the rights associated with its shares are subject to applicable legal requirements, as the Company's bylaws do not contain any specific provisions in this regard.

3.2.3 Acquisition by the Company of its own shares

The ordinary general shareholders' meeting held on December 12, 2003 authorized the board of directors, in its 29th resolution, to purchase the Company's shares pursuant to Articles L. 225-209 *et seq*. of the French Commercial Code and COB Regulation No. 98-02, as amended. This authorization is subject to the admission of the Company's shares for trading and the initial listing of the Company's shares on a regulated market.

3.2.4 Authorized unissued share capital

The extraordinary general shareholders' meeting held on December 12, 2003 delegated to the board of directors in its 15th, 16th, 17th and 18th resolutions the powers necessary in order to:

1. increase the Company's share capital, on one or more occasions, during a period of twenty-six months from the date of such meeting, through the issuance of shares or other securities, including stand-alone warrants, to be granted free of charge or against payment, giving the right immediately or in the future, at any time or on a fixed date, to new or previously-issued shares of the Company, through subscription, conversion, exchange, reimbursement, presentation of a warrant, a combination of these means or in any other manner, with preservation of shareholders' preferential subscription rights, it being specified that:

   (i) the maximum nominal amount of the share capital increases that may be carried out immediately or in the future pursuant to this delegation is €400,000;

   (ii) the maximum aggregate principal amount of debt securities giving access to the Company's share capital that the Company may issue may not exceed €200 million (or the equivalent value in any other legal currency or any other monetary unit defined by reference to a basket of currencies); and

   (iii) the authorization does not include the issuance of preferred shares or investment certificates or securities giving access thereto;

2. increase the Company's share capital, on one or more occasions, during a period of twenty-six months from the date of such meeting, by accessing French, foreign, or international markets, through public offerings, issuances of shares or other securities, including stand-alone warrants, to be granted free of charge or against payment, giving the right immediately or in the future, at any time or on a fixed date, to new or previously-issued shares of the Company, through subscription, conversion, exchange, reimbursement, presentation of a warrant, a combination of these means or in any other manner, without preservation of shareholders' preferential subscription rights, it being specified that:

   (i) such securities may be issued notably (a) as consideration for in-kind capital contributions of shares in a public exchange offer in France or abroad for shares meeting the conditions set forth in Article L.225-148 of the French Commercial Code; or (b) following the issuance by a company of which the Company directly or indirectly holds more than half of the share capital, and with the Company's consent, of debt securities with subscription warrants for shares of the Company, or any other securities giving the right, immediately or in the future, through conversion, exchange, reimbursement, presentation of a warrant, a combination of these means or in any other manner, to the allocation of securities, at any time or on a set date, that are, or will be, issued as representation of a portion of the Company's share capital;

   (ii) the maximum nominal amount of the share capital increases that may be carried out immediately or in the future pursuant to this delegation is €400,000, it being understood that this amount will be counted towards the nominal value of any share capital increase which may be carried out, directly or otherwise, under the powers delegated by the extraordinary shareholders' meeting as described in paragraph 1 above;

(iii) the maximum aggregate principal amount of issuances of the Company's debt securities giving access to the Company's share capital may not exceed €200 million (or the equivalent value for any other legal currency, or any other monetary unit defined by reference to a basket of currencies), it being understood that this amount will be counted towards the maximum principal amount of debt securities that may be issued under the powers delegated by the extraordinary shareholders' meeting as described in paragraph 1 above; and that

(iv) the authorization does not include the issuance of preferred shares or investment certificates or securities giving access thereto;

3. increase the Company's share capital, on one or more occasions, during a period of twenty-four months from the date of such meeting, through the issuance of shares, without preservation of shareholders' preferential subscription rights, to one or more individuals considered to be "qualified investors" (*investisseurs qualifiés*) or as belonging to a "limited group of investors" (*cercle restraint d'investisseurs*) as such terms are defined in Article L. 411-2 of the French Monetary and Financial Code, it being understood that the maximum nominal amount of any capital increase that may be carried out immediately or in the future pursuant to this delegation is €200,000, and that this amount will be counted towards the nominal value of any capital increase that may be directly or indirectly made under the powers delegated by the extraordinary shareholders' meeting as described in paragraph 2 above;

4. increase the company's share capital, on one or more occasions, during a period of sixty months from the date of such meeting, through incorporation of reserves, profits or premiums followed by the creation and allocation of shares free of charge, or by increasing the nominal amount of the existing shares, or a combination of both methods, not to exceed a maximum nominal amount of €75 million, with such amount to be separate from the maximum limit for share capital increases to be carried out pursuant to the three preceding delegations conferred by the extraordinary shareholders' meeting.

Furthermore, subject to the admission of the Company's shares for trading and the initial listing of the Company's shares on a regulated market prior to December 31, 2004, the extraordinary shareholders' meeting of December 12, 2003 authorized the board of directors, in its 19th resolution, to use the powers delegated in paragraphs 1, 2, and 4 above during the period of public takeover bids and/or public exchange offers involving the Company's shares. This authorization will expire following the annual ordinary general shareholders' meeting that will be called to approve the Company's individual accounts for the year ended December 31, 2003.

In the event of the admission of the Company's shares for trading and the initial listing of the Company's shares on a regulated market, the board of directors plans to convene a general shareholders' meeting to approve the issuance of stock subscription warrants to the members of the underwriting syndicate who will be responsible for placing the shares. These warrants may be exercised in the context of the exercise of the over-allotment option, if necessary.

The table below summarizes the powers delegated by the general shareholders' meeting to the Company's board of directors:

Powers delegated to the board of directors by the extraordinary general shareholders' meeting	Maximum nominal amount of share capital increase (in €)	Duration of delegated powers[(1)]
1. Issuance of securities giving access to the Company's share capital, with preservation of shareholders' preferential subscription rights.	400,000[(2)]	26 months
2. Issuance of securities giving access to the Company's share capital, without preservation of shareholders' preferential subscription rights.	400,000[(2)]	26 months
3. Issuance to certain categories of persons of securities, giving immediate or future access to the Company's share capital, without preservation of shareholders' preferential subscription rights.	200,000[(3)]	24 months
4. Share capital increases through incorporation of reserves, profits or premiums.	75,000,000[(2)]	60 months

(1) As from the date of the extraordinary shareholders' meeting held on December 12, 2003.

(2) Authorization valid during the period of public takeover bids and/or public exchange offers involving the Company's securities pursuant to Article L. 225-129 IV of the French Commercial Code.

(3) Within the limits applied to share capital increases without preservation of shareholders' preferential subscription rights (delegation No. 2).

3.2.5 Potential share capital

3.2.5.1 Founders' share subscription warrants (bons de souscription de parts de créateur d'entreprise*, or* BSPCE)

– The extraordinary general shareholders' meeting held on June 28, 2001 issued 240,000 founders' share subscription warrants ("**BSPCE A**") to Catherine Samama, which warrants are subject to the provisions of Article 163 bis G of the French General Tax Code, each entitling the holder to subscribe for one share to be issued. These warrants are exercisable for a period five years as from their date of issuance.

– The extraordinary general shareholders' meeting held on June 28, 2001 issued 192,000 founders' share subscription warrants ("**BSPCE B**") to Olivier Rosenfeld, which warrants are subject to the provisions of Article 163 bis G of the French General Tax Code, each entitling the holder to subscribe for one share to be issued. These warrants may be exercised in portions of one-thirteenth of the total number of BSPCE Bs issued to Olivier Rosenfeld (each such fraction is hereafter referred to as a "**Tranche**"). The first Tranche became exercisable upon the subscription by Olivier Rosenfeld for the BSPCE Bs on June 28, 2001, the date of the general shareholders' meeting which voted to issue the BSPCE Bs. The second Tranche is exercisable as of September 9, 2001, and each subsequent Tranche is or will become exercisable at the end of each three-month period as from September 9, 2001. Such exercisable BSPCE Bs may be exercised on one or more occasions, at any time as of the date on which they become exercisable, for up to five years as from their date of issuance by the general shareholders' meeting, *i.e.*, until June 28, 2006.

– The extraordinary general shareholders' meeting held on June 28, 2001, issued 197,440 founders' share subscription warrants ("**BSPCE C**") to Olivier Rosenfeld, which warrants are subject to the provisions of Article 163 bis G of the French General Tax Code, each entitling the holder to subscribe for one share to be issued. These warrants are exercisable for a period five years as from their date of issuance.

– The extraordinary general shareholders' meeting held on August 12, 2002, issued 238,124 founders' share subscription warrants ("**BSPCE 2002**") to Catherine Samama, Michaël Boukobza, Cyril Poidatz and Olivier Rosenfeld, which warrants are subject to the provisions of Article 163 bis G of the French General Tax Code, each entitling the holder to subscribe for one share to be issued. These warrants are exercisable for a period five years as from their date of issuance.

The table below summarizes the main characteristics of the founders' share subscription warrants issued by the Company.

	BSPCE A	BSPCE B	BSPCE C	BSPCE 2002
Date of issuance by shareholders' meeting	June 28, 2001	June 28, 2001	June 28, 2001	August 12, 2002
Number of warrants issued	240,000	192,000	197,440	238,124
Number of warrants exercised as of December 12, 2003	0	0	0	0
Number of warrants expired as of December 12, 2003	0	0	0	0
Number of warrants outstanding as of December 12, 2003	240,000	192,000	197,440	238,124
Number of warrants exercisable as of December 12, 2003	240,000	162,461	197,440	238,124
Number of holders of warrants	1	1	1	4
Management members	0	1	1	3
Salaried employees not members of management	1	0	0	1
Exercise price per warrant (in €)	2.97	2.97	13.87	4.67
Opening date of warrant exercise period	June 28, 2001	June 28, 2001	June 28,2001	August 12, 2002
Closing date of warrant exercise period	June 28, 2006	June 28, 2006	June 28, 2006	August 12, 2007
Warrant expiration date	June 28, 2006	June 28, 2006	June 28, 2006	August 12, 2007
Number of shares that can be issued through exercise of the warrants outstanding as of December 12, 2003[(1)]	**104,010**	**83,200**	**85,560**	**2,381,240**
Maximum dilution from warrants outstanding as of December 12, 2003	**0.22%**	**0.17%**	**0.18%**	**4.76%**

(1) Taking into account transactions involving the Company's share capital since the issuance of the warrants and following the share split approved by the general shareholders' meeting held on December 12, 2003.

3.2.5.2 Stock subscription and purchase options

The extraordinary general shareholders' meeting held on December 12, 2003, in accordance with Articles L. 225-177 *et seq.* of the French Commercial Code, authorized the board of directors to grant Company stock subscription or purchase options, on one or more occasions, to such individuals as it may designate among employees or management members of the Company or of companies with which the Company is associated within the meaning of Article L. 225-180 of the French Commercial Code.

The total number of options that may be granted pursuant to this authorization may not give the right to a number of shares representing more than 3% of the Company's share capital on the date of grant after taking into account previously granted options. This authorization has been given for a period of thirty-eight months as from the date of the general shareholders' meeting.

The exercise price for options granted under this authorization is determined by the board of directors as follows:

- as long as the Company's shares are not admitted for trading on a regulated market, the exercise price will be determined according to objective share price valuation methods;

- if the Company's shares are admitted for trading on a regulated market, the subscription or purchase price may not be less than 80% of the average trading price for the twenty trading days prior to the day on which the options are granted. No option may be granted less than twenty trading days after the detachment from the shares of a coupon entitling the holder thereof to the receipt of a dividend or to a preferential subscription right for a share capital increase;

- in any event, the exercise price for the stock purchase options may not be less than 80% of the average purchase price of shares held by the Company pursuant to Article L. 225-208 of the French Commercial Code and, if applicable, pursuant to the share repurchase plan authorized by the 29th resolution of the general shareholders' meeting held on December 12, 2003, or any share repurchase plan that may be subsequently adopted.

As of the date hereof, the Company has not made use of this authorization.

3.2.5.3 Information relating to potential dilution of the Company's share capital as a result of transactions involving potential share capital over the last three fiscal years (entry of new shareholders or transactions involving share capital held by existing shareholders)

With the exception of the BSPCEs referred to in paragraph 3.2.5.1 above (the "Dilutive Securities"), there are no other securities granting access to the Company's share capital or voting rights, directly or indirectly, immediately or in the future.

Type of Dilutive Securities	**Date granted**	**Holders**	**Exercise price (€)**	**Exercise period**		**Potential dilution possibly arising from exercising these Dilutive Securities (%)**
				By holder[(1)]	**Number of shares to which Dilutive Securities entitle the holder[(2)]**	
BSPCE	06/28/2001	Catherine Samama	2.97	from 06/28/2001 to 06/28/2006	104,010	0.22
	06/28/2001	Olivier Rosenfeld	2.97	from 06/28/2001 to 06/28/2006[(3)]	83,200	0.17
	06/28/2001	Olivier Rosenfeld	13.87	from 06/28/2001 to 06/28/2006	85,560	0.18
	08/12/2002	Catherine Samama	4.67	from 08/12/2002 to 08/12/2007	595,310	1.23
	08/12/2002	Michaël Boukobza	4.67	from 08/12/2002 to 08/12/2007	595,310	1.23
	08/12/2002	Cyril Poidatz	4.67	from 08/12/2002 to 08/12/2007	595,310	1.23
	08/12/2002	Olivier Rosenfeld	4.67	from 08/12/2002 to 08/12/2007	595,310	1.23
Total					2,654,010	5.51

(1) Except upon departure of beneficiary.

(2) Taking into account transactions involving the Company's share capital since the issuance or granting of the Dilutive Securities and following the share split approved by the general shareholders' meeting held on December 12, 2003.

(3) These warrants may be exercised in portions of one-thirteenth of the total number of BSPCE Bs issued to Olivier Rosenfeld (each such fraction is hereafter referred to as a "**Tranche**"). The first Tranche became exercisable upon the subscription by Olivier Rosenfeld for the BSPCE Bs, *i.e.*, as of June 28, 2001, the date of the general shareholders' meeting that voted to issue the BSPCE Bs. The second Tranche is exercisable as of September 9, 2001, and each subsequent Tranche is or will become exercisable at the end of each three-month period as from September 9, 2001.

3.2.6 Securities not representing share capital

As of the date hereof, the Company has not issued any securities not representing share capital of the Company.

Subject to the admission of the Company's shares for trading and the initial listing of the Company's shares on a regulated market prior to December 31, 2004, the ordinary general shareholders' meeting held on December 12, 2003 granted the board of directors the necessary powers to issue, on one or more occasions, in France or abroad, in euros or in any other currency or monetary unit established by reference to a basket of currencies, by means of a public offering or otherwise, bonds or other similar securities, to which may be attached, if applicable, warrants entitling the holder to the grant, acquisition, or subscription of bonds or other debt securities, up to a total maximum principal amount of €100 million or its equivalent in any other currency or monetary unit established by reference to a basket of currencies on the date of the decision of the issuance. The shareholders' meeting also authorized the board of directors to determine whether such bonds would be subordinated or unsubordinated, have a fixed or perpetual maturity, or be index-linked or composite in nature. This authorization is valid for five years from the date of the shareholders' meeting.

3.2.7 Changes in the Company's share capital over the last five years

Date of extraordinary general meeting	Transaction	Number of shares issued or cancelled	Nominal amount of capital increase or reduction	Issue or contribution premium	Cumulative amount of issue or contribution premiums	Cumulative amount of share capital	Total cumulative number of shares outstanding	Nominal value per share
11/20/1998	Share capital increase through incorporation of issue premium and retained earnings.(1)	240,000	24,000,000 F (€ 3,658,776.41)	-	-	28,000,000 F (€ 4,268,572.48)	280, 000	100 F (€ 15.24)
	Reduction of nominal value of shares and multiplication of the number of shares (share split).	2,520,000	-	-	-	28,000,000 F (€ 4,268,572.48)	2,800,000	10 F (€ 1.52)
11/26/1999	Share capital increase through incorporation of reserves.	3,200,000	32,000,000 F (€ 4,878,368.55)	-	-	60,000,000 F (€ 9,146,941.03)	6,000,000	10 F (€ 1.52)
12/30/2000	Share capital increase through contribution-in-kind.(2)	868,493	8,684,930 F (€ 1,351,449.87)	166,287.17 F (€ 25,350.32)	166,287.17 F (€ 25,350.32)	68,684,930 F (€ 10,470,950.08)	6,868,493	10 F (€ 1.52)
06/28/2001	Share capital increase through incorporation of reserves.	-	3,402,047 F (€ 518,638.72)	-	166,287.17 F (€ 25,350.32)	72,086,977 F (€ 10,989,588.80)	6,868,493	10.50 F (€ 1.60)
	Conversion of capital into euros.	-	-	-	€ 25,350.32	€ 10,989,588.80	6,868,493	€ 1.60
	Reduction of nominal value of shares and multiplication of the number of shares (share split).	103,027,395	-	-	€ 25,350.32	€ 10,989,588.80	109,895,888	€ 0.10
03/13/2002	Reduction of share capital with allocation to an issue premium account and increase in nominal value of shares.	103,027,395	€ 9,989,588.80	€ 9,989,588.80	€ 10,962,034.12	€ 1,000,000	6,868,493	€ 0.15
05/15/2002	Share capital reduction through repurchase and cancellation of shares.	2,106,070	€ 306,627.67	€ 9,528,719.35	€ 1,433,314.77	€ 693,372.33	4,762,423	€ 0.15
	Share capital increase through incorporation of share premium and increase in nominal value of shares.	-	€ 306,627.67	€ 306,627.67	€ 1,126,687.10	€ 1,000,000	4,762,423	€ 0.21
12/12/03	Share split – multiplication of the number of shares by 10 and reduction of the nominal value of each share	42,861,807	-	-	€ 1,126,687.10	€ 1,000,000	47,624,230	€ 0.02

(1) Incorporation of issue premium of 1,732,000 FF (€264,041.70) and retained earnings of 22,268,000 FF (€3,394,734.72).

(2) Contribution of 42,438,000 shares of Free S.A., equal to 14.05 % of Free S.A.'s share capital, for a total value of 8,851,217.17 FF or €1,349,359.36.

3.3 BREAKDOWN OF SHARE CAPITAL AND VOTING RIGHTS

3.3.1 Breakdown of the Company's share capital and voting rights as of December 12, 2003

As of December 12, 2003, following the general shareholders' meeting mentioned in the preamble to this chapter 3, the breakdown of the Company's share capital and voting rights was as follows:

Shareholder	As of December 12, 2003	
	Number of shares	**% of share capital and voting rights**
1. Management members		
Xavier Niel	37,123,410	77.95%
Rani Assaf	1,152,590	2.42%
Michaël Boukobza	952,500	2.00%
Franck Brunel	952,500	2.00%
Antoine Levavasseur	1,152,590	2.42%
Cyril Poidatz	952,500	2.00%
Olivier Rosenfeld	952,500	2.00%
Alain Weill	95,070	0.20%
Subtotal – management members	*43,333,660*	*90.99 %*
2. Institutional shareholders		
GS CAPITAL PARTNERS III, L.P.	2,239,890	4.70%
GS CAPITAL PARTNERS III OFFSHORE, L.P.	614,560	1.29%
STONE STREET FUND 2000, L.P.	218,360	0.46%
Bridge Street Special Opportunities Fund 2000, L.P.	110,310	0.23%
GOLDMAN, SACHS & CO VERWALTUNGS GMBH	103,550	0.22%
Subtotal – Goldman Sachs[(1)]	*3,286,670*	*6.90%*
AXA Expansion I	241,660	0.51%
AXA Placement Innovation III	64,400	0.14%
Subtotal – AXA Private Equity	*306,060*	*0.65 %*
3. Others		
Employees	400,630	0.84%
Private individuals	297,210	0.62%
Subtotal –others	*697,840*	*1.46%*
Total	47,624,230	100.00%

(1) Goldman Sachs is also represented on the board of directors.

There are no shareholders other than those referred to above that directly or indirectly hold more than 1% of the Company's share capital or voting rights.

3.3.2 Changes in the breakdown of the Company's share capital over the last three fiscal years

The changes in the breakdown of the Company's share capital over the last three fiscal years are as follows:

Shareholders	As of 12/31/2000	As of 12/31/2001	As of 12/31/2002
	% of share capital	% of share capital	% of share capital
1. Management members			
Xavier Niel	50.27%	58.94%	77.93%
Rani Assaf	1.68%	1.68%	2.42%
Michaël Boukobza	0.16%	0.16%	2.00%
Franck Brunel	0.33%	0.33%	2.00%
Antoine Levavasseur	1.68%	1.68%	2.42%
Cyril Poidatz	0.15%	0.14%	2.00%
Olivier Rosenfeld	-	-	2.00%
Alain Weill	-	-	0.20%
Subtotal – management members	*54.27%*	*62.94%*	*90.97%*
2. Institutional shareholders			
GS CAPITAL PARTNERS III, L.P.	3.62%	3.62%	4.70%
GS CAPITAL PARTNERS III OFFSHORE, L.P.	1.00%	1.00%	1.29%
STONE STREET FUND 2000, L.P.	-	-	0.46%
Bridge Street Special Opportunities Fund 2000, L.P.	-	-	0.23%
GOLDMAN, SACHS & CO VERWALTUNGS GMBH	0.17%	0.17%	0.22%
Subtotal – Goldman Sachs(1)	*4.79%*	*4.79%*	*6.90%*
3. Others			
Société Wal Services SA	14.27%	14.27%	-
Société Coefficial	0.13%	0.13%	-
Employees and private individuals	26.54%	17.87%	2.13%
Subtotal – others	*40.94%*	*32.27%*	*2.13%*
Total	100.00%	100.00%	100.00%

(1) Goldman Sachs is also represented on the board of directors.

In 2003, AXA Private Equity acquired a position in the Company's share capital through the two mutual funds AXA Expansion I and AXA Innovation III (see the table in paragraph 3.3.1).

3.3.3 Shareholders' agreements and actions in concert

3.3.3.1 Shareholders' agreements

None.

3.3.3.2 Actions in concert

To the Company's knowledge, and with the exception of (i) members of the Goldman Sachs group (GS CAPITAL PARTNERS III, L.P., GS CAPITAL PARTNERS III OFFSHORE, L.P. and GOLDMAN, SACHS & CO VERWALTUNGS GMBH), (ii) mutual funds controlled by AXA Private Equity (AXA Expansion I and AXA Placement Innovation III) and (iii) Company shareholders members of management (Xavier Niel, Rani Assaf, Franck Brunel, Antoine Levavasseur, Michaël Boukobza, Cyril Poidatz, Olivier Rosenfeld and Alain Weill), who act in concert within their respective groups, none of the Company's shareholders act in concert.

3.3.4 Changes in the breakdown of share capital over the last three fiscal years

Transaction date	Shareholder	Position within the Company[1]	Percentage of share capital held prior to transaction	Percentage of share capital acquired or subscribed in transaction	Type of transaction	Number of shares acquired, subscribed or cancelled	Price of acquisition or subscription per share[2]	Percentage of share capital held after transaction
12/30/2000	Xavier Niel	Chairman of the supervisory board	57.54%	NS	Capital increase through contribution in kind[3]	225	10.19 FF	50.27%
12/30/2000	Cyril Poidatz	Chairman of the management board	0.07%	0.08%	Capital increase through contribution in kind	5,628	10.19 FF	0.15%
12/30/2000	Rani Assaf	Employee	-	1.68%	Capital increase through contribution in kind	115,259	10.19 FF	1.68%
12/30/2000	Michaël Boukobza	Member of the management board	-	0.16%	Capital increase through contribution in kind	11,256	10.19 FF	0.16%
12/30/2000	Franck Brunel	Employee	-	0.33%	Capital increase through contribution in kind	22,511	10.19 FF	0.33%
12/30/2000	Goldman Sachs (GS CAPITAL PARTNERS III, L.P., GS CAPITAL PARTNERS III OFFSHORE, L.P., and Goldman Sachs & Co Verwaltung GmbH)	Institutional investors Member of the supervisory board	-	4.79%	Capital increase through contribution in kind	328,667	10.19 FF	4.79%
12/30/2000	Antoine Levavasseur	Employee	-	1.68%	Capital increase through contribution in kind	115,259	10.19 FF	1.68%
12/30/2000	Minority shareholders natural persons	-	0.08%	3.93%	Capital increase through contribution in kind	269,688	10.19 FF	4.01%
02/28/2001	Xavier Niel	Chairman of the supervisory board	50.27%	8.67%	Share purchase	595,800	NC	58.94%
02/23/2001	Michel Niel	Member of the supervisory board	0.02%	0.01%	Share purchase	450	NC	0.02%
07/25/2001	Michel Niel	Member of the supervisory board	0.02%	0.02%	Share purchase	1,050	NC	0.04%
03/14/2002	Goldman Sachs (STONE STREET FUND 2000, L.P., Bridge Street Special Opportunities Fund 2000, L.P.)	Institutional investors Member of the supervisory board	4.79%	-	Share purchase	32,867	NC	4.79%
03/18/2002	Xavier Niel[4]	Chairman of the supervisory board	-	16.41%	Share purchase	1,127,218	NC	16.41%
05/06/2002	Olivier Rosenfeld	Member of the management board	-	1.39%	Share purchase	95,250	NC	1.39%
05/06/2002	Michaël Boukobza	Member of the management board	0.16%	1.22%	Share purchase	83,994	NC	1.39%

(1) On the transaction date.
(2) No data is provided on the amounts of transactions to which the Group is not a party.
(3) Contribution of 42,438,000 shares of Free, equal to 14.05% of Free's share capital.
(4) Joint account belonging to Xavier Niel and his son, Jules Niel.

05/06/2002	Cyril Poidatz	Chairman of the management board	0.15%	1.24%	Share purchase	85,272	NC	1.39%
05/06/2002	Franck Brunel	Employee	0.33%	1.06%	Share purchase	72,739	NC	1.39%
05/06/2002	Alain Weill	Member of the supervisory board	-	0.14%	Share purchase	9,507	NC	0.14%
05/15/2002	Xavier Niel[4]	Chairman of the supervisory board	16.27%	-	Repurchase and cancellation of shares by Iliad	1,117,711	€ 4.67	-
05/15/2002	Wal Services SA	Institutional investor	14.27%	-	Repurchase and cancellation of shares by Iliad	980,258	€ 4.67	-
05/15/2002	Minority shareholders natural persons	Natural persons	0.12%	-	Repurchase and cancellation of shares by Iliad	8,101	€ 4.67	-
10/24/2002	Catherine Samama	Employee	0.05%	0.19%	Share purchase	9,000	NC	0.24%
04/04/2003	AXA Private Equity (AXA Expansion I, AXA Placement Innovation III)	Institutional investors	-	0.64%	Share purchase	30,606	NC	0.64%
05/07/2003	Xavier Niel	Chairman of the supervisory board	77.93%	0.02%	Share purchase	1,050	NC	77.95%

(1) On the transaction date.
(2) No data is provided on the amounts of transactions to which the Group is not a party.
(3) Contribution of 42,438,000 shares of Free, equal to 14.05% of Free's share capital.
(4) Joint account belonging to Xavier Niel and his son, Jules Niel.

3.3.5 Pledges

3.3.5.1 Pledges of the Company's shares

None.

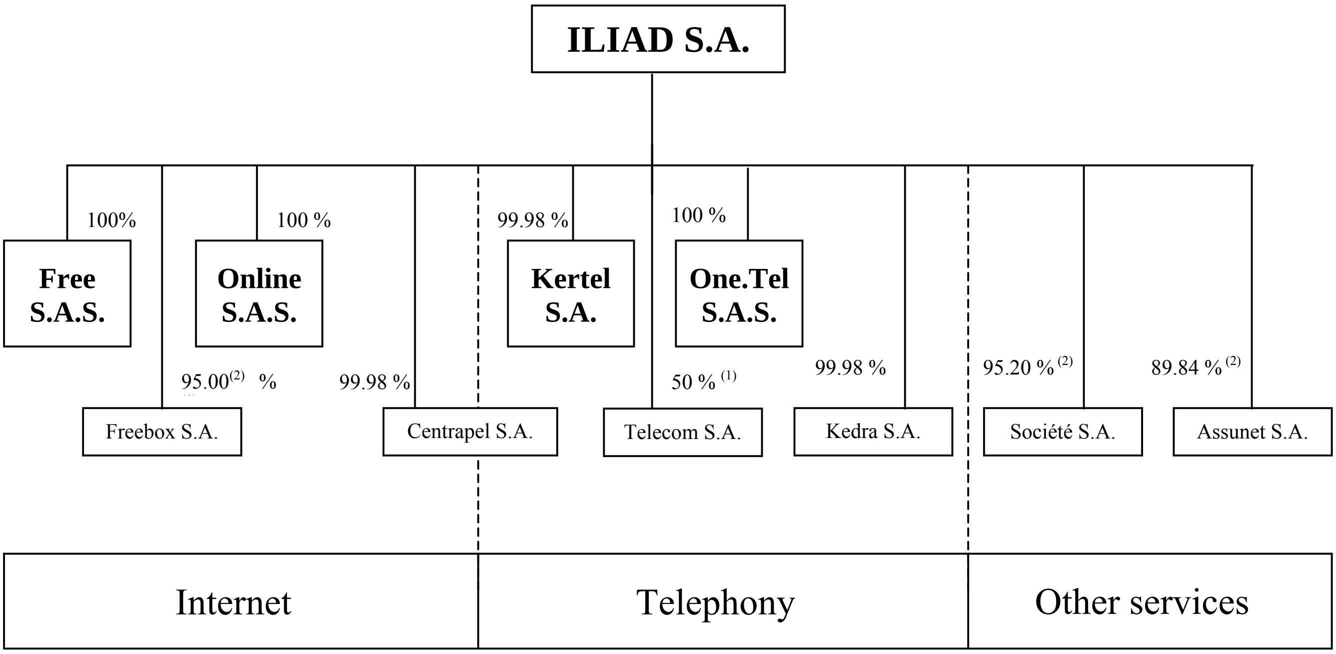
3.3.5.2 Pledges of the Company's assets

There do not exist any significant pledges or priorities with respect to the Company's assets. There are no security interests over any of the company's financial fixed assets.

3.3.6 Legal organizational chart of the Group

The following legal organizational chart shows the main operating entities of the Group, it being specified that the Company directly runs the businesses of ANNU and Iliad Telecom. The percentages shown represent the percentage ownership of Iliad in each of the respective companies.

Simplified legal organizational chart as of December 12, 2003



(1) Telecom S.A. is a company jointly owned with Lionel Rozenberg and his family group.

(2) Minority interests in Freebox, Société S.A. and Assunet S.A. are held by the Group's employees or management members.

As indicated in paragraph 4.1 hereof, over the last three years the Group has seized opportunities for external growth in order to enhance and optimize its network by adding to its existing data traffic (Free) voice activity generated by the fixed telephony operator One.Tel, acquired in December 2001, and prepaid phone cards commercialized by Kertel, acquired in March 2003.

3.4 MARKET FOR THE COMPANY'S FINANCIAL INSTRUMENTS

As of the date of registration of this *document de base*, Iliad's shares have not been admitted to any regulated market in France or abroad. The Company has submitted a request to Euronext Paris S.A.

for the admission of its shares on a regulated market. This request should be examined by the board of directors of Euronext Paris S.A. in its meeting to be held on December 16, 2003.

3.5 DIVIDENDS

During the last 5 fiscal years, the Company has distributed dividends only in respect of fiscal years 2001 and 2002. The ordinary general shareholders' meeting held on June 25, 2002 decided to distribute a dividend of €4,000,435 (amounting to €0.84 per share), or approximately 45.34% of net income for the fiscal year 2001. The ordinary general shareholders' meeting held on May 6, 2003 decided to distribute a dividend of €4,286,181 (amounting to €0.9 per share), or approximately 16.45% of net income for the fiscal year 2002.

The Company's dividend policy is set by the Company's board of directors, based on an analysis of the Company's results of operations and financial position. The Company's objective in 2004 is to pursue a dividend distribution policy consistent with its development strategy for dividends in respect of fiscal year 2003 as well as in respect of future fiscal years. However, this objective in no way constitutes a commitment by the Company which may, in light of its financial results, capital expenditure and debt service needs, decide to limit dividend distributions or not to distribute any dividends at all.

Dividends not claimed within 5 years as from their payment date are forfeited to the French State.

CHAPTER 4

DESCRIPTION OF ILIAD'S BUSINESS

All technical terms used in this chapter are defined in a glossary which can be found at the end of this document on page 181.

4.1 OVERVIEW OF THE COMPANY AND THE GROUP

A leading Internet service provider and a telecommunications operator in France

Formed in 1991, the Group has leveraged its telecommunications networking expertise to establish itself as the second largest Internet service provider in France, with market share of approximately 18% in the dial-up access market as of September 30, 2003[1] and 14.2% in the ADSL[2] market as of this same date. It is also one of the best performing operators in the French fixed telephony market.

The Group is currently a leader in the Internet and telecommunications sector in France due to its highly attractive services as viewed by the consumer market. The Group is currently:

- the second largest ADSL broadband Internet service provider with market share of 14.2% and almost one fifth of all new subscribers in France during the first nine months of 2003[3]. As of November 30, 2003, Free had 440,000 ADSL broadband subscribers[4];

- the leader in the unbundling of the local loop in France, having unbundled more than two-thirds of the total number of unbundled access lines (140,000 lines out of a total of 226,000 partially unbundled lines as of November 30, 2003[5]). This leading position in unbundling has enabled the Group to provide technically sophisticated services (such as high connection speeds and associated VoDSL telephony and audio-visual content) that are both attractively priced and profitable for the Group; and

- a fixed telephony operator through its subsidiaries One.Tel and Kertel. The Group is therefore able to make the most of its network infrastructure, which can be used to transport both data and switched voice traffic.

Over the last three years, the Group has seized opportunities for external growth in order to enhance and optimize the use of its network. Its existing data traffic business (Free) has now been complemented with a voice business generated by the fixed telephony operator One.Tel, acquired in December 2001, and with prepaid phone cards marketed by Kertel, acquired in March 2003. The acquisition of these two companies increased the Group's growth and profitability during 2002 and 2003 and enabled it to spread network costs over a more diversified business, which now covers both Internet traffic and switched voice traffic.

The Group's business is based on one of the leading alternative telecommunications networks in France and includes a range of services focused on the residential sector. Today the Group's business falls into three main segments: Internet, Telephony and Other Services.

The *Internet* segment is undergoing a period of significant growth driven by the expansion in infrastructure, lower hardware costs (for computers, modems, etc.) and lower charges for Internet access services, as well as by the increase in the number of public projects and, more particularly, by

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[1] *Source:* IDATE, *Le marché mondial de l'Internet*, 2003 edition.
[2] *Source:* Iliad/France Télécom.
[3] *Source:* Iliad/France Télécom.
[4] *Source:* Iliad.
[5] *Source:* France Télécom, ART and Iliad.

the expansion in the availability of broadband technologies such as ADSL. The Group's Internet business is centred on (i) the provision of Internet access by the company Free, based on both dial-up access (which includes two services, one a pay-as-you-go service and the other a fixed-rate package offering 50 hours of access per month) and broadband access via ADSL and (ii) the provision of shared website hosting and the registration of domain names by the company Online. Following the success, first, of its "Pay-as-you-go" and "50-hour plan" services and subsequently of its unlimited broadband access service which costs €29.99 per month, Free is now the second largest Internet access provider in the country, with 18% of the dial-up market[1] as of September 30, 2003 and 14.2% of the ADSL market[2] with 355,250 broadband subscribers as of September 30, 2003. For its part, Online hosts approximately 55,000 websites, making it a major provider of shared hosting solutions for business websites.

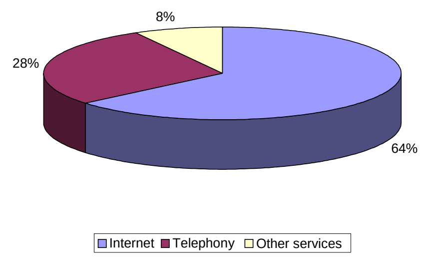
The Group's *Telephony* segment is centered on the activities of the fixed telephony operator One.Tel and those of the prepaid phone card provider Kertel, as well as on the call termination business developed by Kedra.

With approximately 180,000 customers as of September 30, 2003, One.Tel is a relatively small fixed telecommunications operator, but it is profitable and has adopted an aggressive pricing policy likely to result in an increase in its market share. Following the acquisition of this company in December 2001, the Group concentrated on repositioning One.Tel's service offering, adopting a policy of carrier preselection, simplifying the range of services offered and establishing an attractive pricing policy. As it is able to use to the Group's own network, One.Tel is now in a position to win a large number of new customers without compromising its profitability. Kertel, which is the second largest provider of prepaid phone cards in France, was acquired by the Group in 2003 and benefits from both the quality and reach of a first-rate distribution network (particularly through its exclusive agreement with the French post office, La Poste, for the top up of mobile phone cards) and very attractive tariffs achieved as a result of economies of scale made possible by its use of the Group's network. Finally, Kedra offers high-quality call termination services which contribute to the overall profitability of the Group's fixed telephony business.

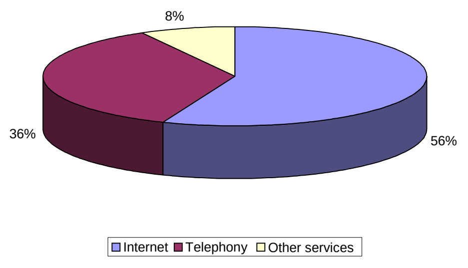
The *Other Services* segment includes in particular the reverse look-up directory ANNU, which is accessed mainly via Minitel and also by telephone, as well as web content services provided by the Group subsidiaries Assunet S.A., a web-based insurance broker, and Société S.A., which operates a website providing information about companies.

Breakdown of revenue and EBITDA by line of business as of September 30, 2003 (nine months)

Revenue
(€202.6 million)



EBITDA(1)
(€36.2 million)



(1) Earnings before interest, tax, depreciation and amortization.

1 *Source:* IDATE, *Le marché mondial de l'Internet*, 2003 edition.
2 *Source:* Iliad/France Télécom.

The table below shows the Group's consolidated net revenues, operating income and EBITDA:

Group consolidated net revenues, operating income and EBITDA
(December 31, 2002 and September 30, 2003)

in € millions	December 31, 2002 (12 months)	September 30, 2003 (9 months)
Consolidated net revenues	160.2	202.6
Operating income	35.1	24.9
EBITDA	43.2	36.2

Local loop unbundling: a key factor for the profitable growth of the Group

The unbundling of the local loop is a technical operation which allows other operators to gain access to their subscribers and thereby free themselves to a great extent from their dependence on France Télécom's network. Local loop unbundling (LLU) is vital for the Group's ADSL services, as this enables it to take full advantage of the density and quality of its network in order to provide end-to-end management of the infrastructures connecting it to its customers.

LLU allows the Group to offer its customers attractive prices (currently €29.99 per month for the ADSL broadband Internet access package, with a download rate of 1,024 kbits per second) and a competitive range of services, providing higher transmission speeds (cf. the comparative speeds listed on www.grenouille.com) combined, for customers who have a Freebox modem, with telephony (launched in August 2003) and audio-visual services (available to the consumer market as from December 2003).

LLU is a key element for the profitability of the Group due to the high margins that can be generated by it. At present, most of the recurrent charges paid to France Télécom relate to the rental of equipment used for connecting the subscriber's modem to the Group's corresponding DSLAM.

By placing LLU at the heart of its strategy and adopting an aggressive and profitable pricing policy, Free succeeded in winning one in five new ADSL broadband customers during the first nine months of 2003, in an extremely competitive market. As of November 30, 2003, the company had 440,000 ADSL customers, 140,000 of whom are on unbundled lines[1]. Free's objective for year end 2004 is for at least half of its ADSL customers to be using unbundled lines, although its ability to do so may be limited by the availability of optical links and the incumbent operator's ability to meet Free's requirements for such connections. Subject to these same possible limitations, Free's objective for year end 2005 is to have 60% of its ADSL customers using unbundled lines based on a target of 1 million customers.

[1] *Source:* Iliad.

Growth in Free's broadband customer base between 2002(*) and 2003

	December 31, 2002	March 31, 2003	June 30, 2003	September 30, 2003	November 30, 2003
Broadband customers	99,100	205,300	275,630	355,250	440,000
Number using unbundled lines	3,300	8,770	45,850	87,230	140,000
Percentage using unbundled lines	*3.3%*	*4.3%*	*16.6%*	*24.6%*	*31.8%*
Share of ADSL access market in France	7.2%	11.5%	13.3%	14.2%	*Not available*

(*) Free's ADSL broadband Internet access service was launched in October 2002.

Key dates and development of the Group's organizational structure

The key dates in the development of the Group are as follows:

1996 - Launch of the reverse look-up directory 3617 ANNU.

1999 - Creation of the Internet service provider Free.

- The Group was granted category L. 33-1 and L. 34-telecommunications licences, authorizing it to roll out a telecommunications network and to provide telecommunications services to the public.

2000 - Start of the roll-out of the Group's telecommunications network and interconnection with France Télécom's network.

- Sale of the Group's Minitel business (excluding ANNU).

2001 - Completion in April 2001 of the interconnection between the Free Telecom network and the France Télécom network at the regional level and in the Paris region.

- Launch of the Freebox (modem and DSLAM) research and development project.
- Acquisition of the French subsidiary of the Australian telecommunications operator One.Tel in December 2001.

2002 - Restructuring of One.Tel and migration of its traffic to the Group's network.

- Launch of Free's broadband service.
- Start of local loop unbundling operations in Paris.

2003 - Roll-out of LLU to the majority of residents in France.

- In March 2003, the Group became the second largest ADSL broadband Internet service provider in France.[1]
- Acquisition of Kertel, specializing in prepaid phone cards.
- Launch of the ADSL fixed telephony service using the Freebox modem in August 2003.
- Launch of an ADSL-based audio-visual content service offering in December 2003.

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1 *Source:* IDATE, *Le marché mondial de l'Internet, edition 2003.*

4.2 COMPETITIVE ADVANTAGES

The Group benefits from a number of competitive advantages which should enable it to sustain its profitable growth and maintain its position as the second largest Internet service provider in France (dial-up and broadband)[1], in addition to reinforce its position as a fixed telecommunications operator. The Group believes it is well-placed to take full advantage of the growth potential in the Internet and telecommunications sectors because it has the following:

An established Internet services provider, Free, with a well-known brand

Through the success of its consumer market services, Free has managed to establish itself as a major player in the Internet access market in France since 1999. Free's successive launching of its dial-up "Pay-as-you-go" and "50-hour plan" offerings and its €29.99 per month broadband service helped to establish the credibility and recognition of the brand. The Group benefits from a brand associated with the concepts of freedom, cutting-edge technology and value-for-money.

Technically sophisticated and attractively priced service offerings

The Group's network enables it to design sustainable service offerings that are at once easy to understand (the charge for the One.Tel service is a straightforward 1 cent per minute, see paragraph 4.5.2.1 hereof), technically sophisticated and attractively priced. The three Internet access offerings, consisting of two dial-up services (the "Pay-as-you-go" service and the "50-hour plan", which is charged at a fixed rate of €14.94 per month) and the broadband access service at €29.99 per month, are among the most competitively priced on the market in their respective segments while providing a high level of quality. This positioning is a central factor in the Group's strategy and aims to create the right environment for lasting and profitable growth of its business.

A high-performance national network supporting both Internet service provider and fixed telephony operations for the consumer market

In order to be able to offer high-performance and innovative services to its customers and to guarantee the profitability of its business operations, the Group decided, in 1999, to establish its own telecommunications network, which would allow it to control the technical aspects and pricing of its services for the routing of both data (Internet) and voice (telephony). Since early in the second half of 2001, the Group has been rolling out and operating its own optical fiber network. The skills and experience acquired by the Group's network teams now mean that it is able to use its own resources to operate and maintain a nationwide network and guarantee its Internet customers a level of quality and connection speeds which are each recognized as among the best on the market. The specific technical features of the network and its high level of density are key factors in the success and profitability of the Group's service offerings in both Internet access and telephony. The size, design and scalable architecture of the Group's network make it currently capable of serving, without significant additional investments, all potential customers simultaneously using the Group's telephony, broadband and audio-visual services in areas where unbundling of the local loop has occurred.

The leader in the unbundling of the local loop

The Group considers that the unbundling of the local loop is at the heart of its ability to offer original, sustainable and profitable broadband Internet access services. Currently the Group has the largest number of unbundled lines (140,000 out of a total of 226,000 unbundled lines), according to the figures provided by the French regulator, the *Autorité de régulation des télécommunications* ("ART"), as of December 1, 2003. This was achieved by the installation of approximately 550 Freebox DSLAMs in 162 co-location facilities located in France Télécom exchanges. The Group intends to

[1] *Source:* IDATE, *Ibid.*

capitalize on its experience in unbundling the local loop to expand the areas in which it can offer differentiated services to its customers.

Targeted research and development focusing on the consumer market

The Group's investment in research and development of hardware and software products has enabled it to position itself as leader in the creation of innovative technology available to the consumer market. The success of this policy is based largely on the Group management's commitment to providing high-quality technical equipment and retaining flexibility in its choice of hardware, resulting in the design of hardware specifically suited to the Group's service offerings and using cutting-edge technologies such as design of the Freebox modem/DSLAM unit, and in the development of innovative software solutions (such as billing software, Cisco SS7 interconnect software, etc.). By relying largely on its internal resources in this way, the Group has, from the start, been able to optimize its capital expenditures.

Understanding of key regulatory issues

The Group has demonstrated its understanding of regulatory issues by establishing a constructive dialogue with the ART, particularly in the context of the local loop and interconnect working groups set up by the ART. The Group has also shown its ability to take full advantage of the appeal procedures offered by the ART to defend its interests. The Group believes that it has a good overall understanding of the current legislative and regulatory environment, as well as of the proposals under discussion which could have an impact on its activities as an Internet access provider and telecommunications operator.

A proven ability to generate profits in periods of high revenue growth

The Group has posted net profits each year since 2001, despite its significant investments in interconnection and LLU operations and the significant level of competition in its markets. The Group has demonstrated its capacity to finance internally substantially all of its capital expenditures and new business start-up costs, while continuing to distribute dividends. With its high-performance network and large customer base, the Group believes it will be able to continue to pursue its strategy of profitable growth.

The ability to build on its experience

As the different parts of the Group's network complement and are integrated with one another, the Group is able to put its experience in certain areas of its business to work in the development of other services. The Group's expertise in fixed telephony acquired in the course of restructuring and running One.Tel enabled Free to launch the first available fixed telephony over ADSL services for the consumer market beginning in August 2003, without changing the prices of its broadband Internet access offering.

An experienced management team with complementary skills

Over the last few years, the management team has succeeded in positioning the Group as the second largest Internet service provider in France, while sustaining the profitability of the Group and pursuing a strategy of internally financed growth. This success is due largely to the experience and complementary skills of the management team in the following areas: knowledge of the Internet and telecommunications sector, understanding of key regulatory issues, consumer marketing know-how, strong technological expertise, sound financial management and commitment to a graduated investment policy. These skills have transformed a Group that originally specialized purely in electronic data transmission services into a leading player in the Internet market in France, even in today's highly competitive environment. They have also enabled the Group to acquire and integrate, on very favorable terms, new and complementary businesses (One.Tel in 2001 and Kertel in 2003).

4.3 STRATEGY

Leveraging its competitive strengths described in paragraph 4.2 above, the Group's strategy is based on the following four principles:

Continuing to provide the best broadband Internet access offerings in France

To continue the growth of its market share, the Group plans to pursue its policy of winning new ADSL broadband customers by combining a competitive pricing policy with a focus on the quality of its offerings (such as continuous increases in bandwidth and innovative ADSL-based telephony and audio-visual content) and its technical and customer support services. The Group's aim is to implement this policy of winning new customers in a fast-growing market in a manner that further enhances the Group's profitability.

Increasing the number of subscribers on unbundled lines (Option 1)

The Group intends to increase the number of customers on unbundled lines in two complementary ways. First, the Group plans to increase its market share in areas which have already been unbundled by continuing to offer its Freebox services directly to new subscribers (Option 1). It also plans to encourage the migration of the maximum possible number of Option 5 subscribers (subscribers on lines that have not yet been unbundled) to Option 1 (subscribers on unbundled lines) by expanding the density of its network. The expansion of the network will not only be subject to technical constraints but will also depend on the prioritization of areas to be unbundled. This targeted expansion of the network will be carried out as a priority in areas that already have a large number of subscribers, so that a return on investment can be achieved quickly. Given the significant difference in profitability between subscribers using unbundled lines and subscribers not using such lines, the objective of this expansion of LLU (either with the aim of migrating existing subscribers or winning new subscribers) is to increase the Group's profit margins substantially.

Promoting the brand and increasing the market share of the Group's fixed telephony business

Following the restructuring of One.Tel, the Group's fixed telephony business is now profitable, but remains underused because of One.Tel's relative lack of name recognition. As a result, the Group aims to take the necessary measures to promote the One.Tel brand, particularly by carrying out targeted publicity campaigns emphasizing the competitiveness and simplicity of One.Tel's offering.

Considering acquisition opportunities for Group growth

Although it continues to focus on internal growth as the core of its strategy, the Group will pursue a policy of external expansion if targeted opportunities arise in areas that strongly complement its existing business or result in improved use of the Group's network.

4.4 A NETWORK SERVICING THE GROUP'S INTERNET AND TELEPHONY OPERATIONS

In order to access the Internet, data must be routed between the user's computer and the Internet. Such Internet access is traditionally provided by Internet service providers using interconnect services, *i.e.* by connecting to the incumbent operator's network or to that of other licensed operators.

After Free was established, the Group believed it was critical to have control over as many network elements used for connecting its subscribers to the Internet as possible. This decision meant that Free could operate its own network infrastructure and quickly resulted in an influx of recurrent revenues from its "Pay-as-you-go" services and increased its profitability (largely as a result of the reduction in expenses on interconnect charges).

The Group began its network roll-out strategy in December 1999 when it obtained licenses awarded under Articles L. 33-1 and L. 34-1 of the French Post and Telecommunications Code, authorizing Free Telecom (formerly Linx) to build and operate a telecommunications network and to provide telecommunications services to the public. Rather than build its own optical fiber infrastructure, Free's strategy was to obtain and operate optical fibers already installed by other operators, particularly by concluding with these operators long-term (10 to 25 year) IRU (Indefeasible Right of Use) agreements, granting Free an irrevocable right to use the dark optical fibres, in order to minimize its capital expenditures and guarantee a rapid interconnection with the incumbent operator's network.

The Group's network has been developed in three main phases:

- August 2000 - April 2001: interconnection with all 18 digital main switching units and all digital local exchanges in the Paris urban region for the collection of data traffic;
- April 2001 - August 2002: interconnection at a number of digital local exchanges outside Paris and upgrade for routing of voice traffic;
- Since September 2002: unbundling of the local loop and expansion of the national network.

These three development phases, described in more detail in section 4.4.2 below, demonstrate the Group's constant efforts to achieve the appropriate balance between network density and return on investment.

General characteristics of the Group's network

Status of Free's optical fiber network as of September 30, 2003

Section	Contracted from	Length (km)
National	LDCom	5,700
Urban	Local authorities	340
	LDCom	1,045
	Free (owned)	50
Total		7,135

Connection points between the Group's network and the France Télécom network as of September 30, 2003

Type of France Télécom site	No. of connection points	Total No. of France Télécom sites
Digital main switching units	18	18
Digital local exchanges	208	550
France Télécom LLU sites	162	500[1]

[1] Proposed construction by France Télécom of shared and dedicated co-location facilities by March 31, 2004

Main equipment used by Free's optical fiber network as of September 30, 2003

Type of equipment installed	Quantity
Freebox DSLAM	450
Lucent ADM	223
Cirpack switches	20

Nokia switches	2
Cisco modem servers	38
Cisco switch routers	25
Huaweï DWDM equipment	70

4.4.1 General principles of interconnection and local loop unbundling in France

Interconnection and local loop unbundling allow operators to access and use part of the incumbent operator's network in return for payment to the incumbent operator of access and use charges. Interconnection to the incumbent operator's network allows the alternative operator to deliver its customers' telephony traffic, while local loop unbundling allows it complete control over the line connecting the customer to the Main Distribution Frame (MDF).

4.4.1.1 Interconnection

Interconnection means the linking together of several telecommunications networks in order to allow uninterrupted routing of communications between them.

France Télécom network showing the 18 trunk exchange areas

In order to interconnect to the incumbent operator's network in a given trunk exchange area, the alternative operator must install a physical connection from a Point of Presence (POP) to a France Télécom switch located in one of eighteen France Télécom digital main switching units.

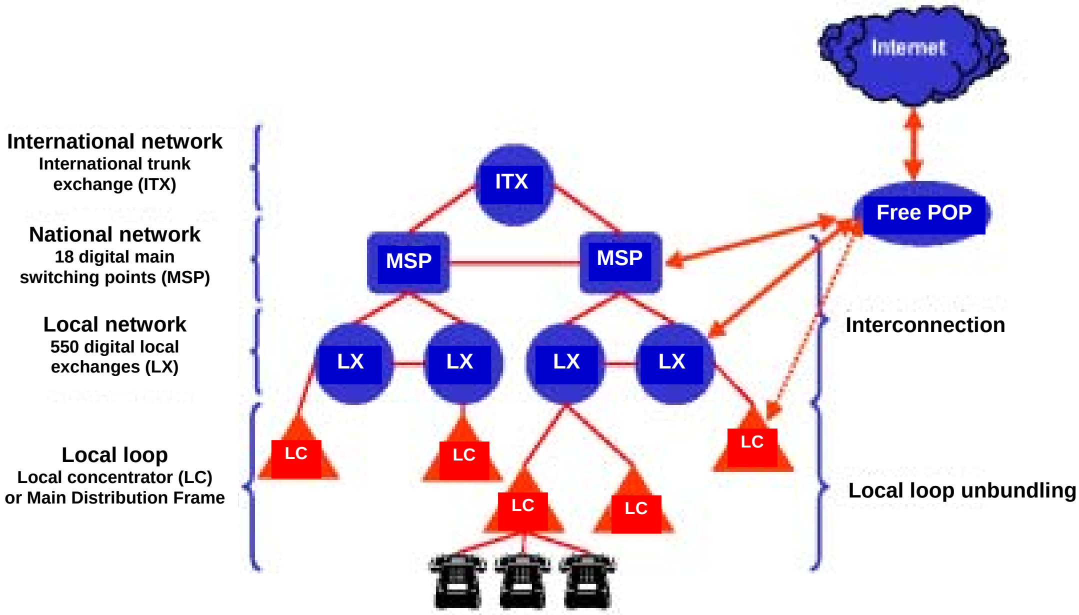
The alternative operator may also connect to the lowest hierarchical level of switches installed on the network, *i.e.* the digital local exchange, which is the switch closest to the customer.

In turn, each user is connected to a digital local exchange by means of a local concentrator.

In an interconnect agreement, the incumbent operator charges the alternative operator on the basis of the transmission capacity placed at its disposal, measured in digital primary blocks (E1, a unit of measure corresponding to a bit rate of approximately 2 Mbits per second).

The OLO (Other Licensed Operator) can choose the level at which it wishes to make the interconnection, *i.e.* at the main switching unit or the local exchange, and the number of E1 blocks it wishes to reserve at each level. The higher the level in the France Télécom network at which traffic delivery takes place, the higher the interconnect charges and the charges for transport and collection of data billed by the incumbent operator to the alternative operator.

Schematic diagram of France Télécom's switched network



4.4.1.2 Unbundling of the local loop – shared access

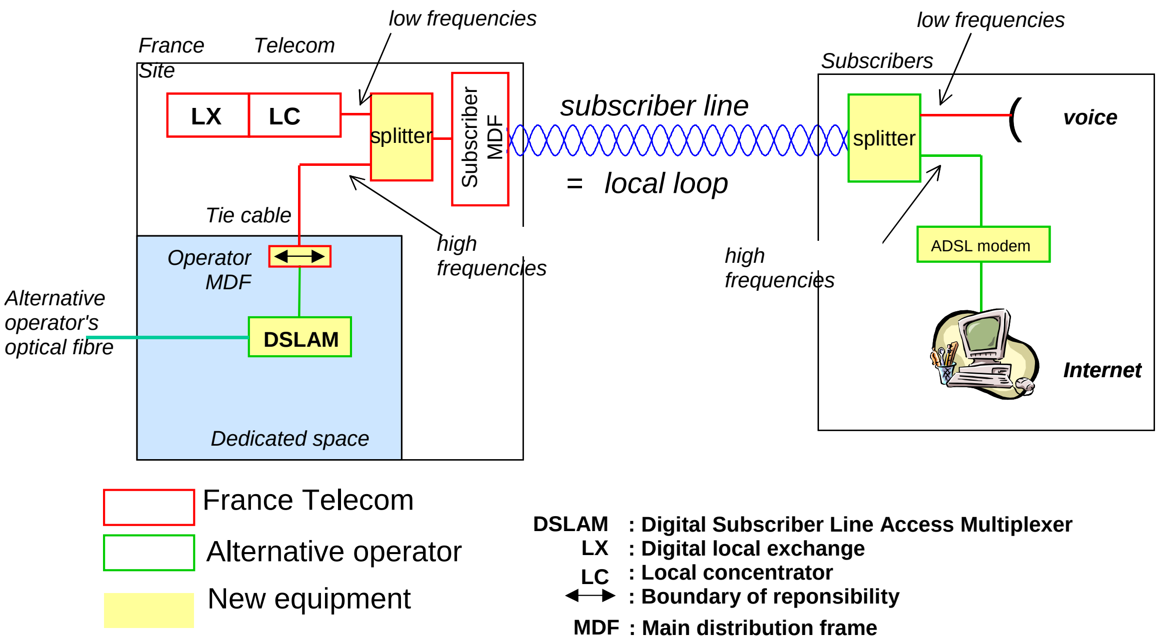
The local loop is that part of the network located between the telephone socket on the subscriber's premises and the local concentrator to which the subscriber's line is connected.

The incumbent operator must, upon request, provide any Other Licensed Operator (OLO) with direct access to the local loop. This access, which is referred to as unbundling, allows these OLOs to control access to their customers by operating their own equipment.

In an unbundled system, the copper pair (the part of the subscriber's line which connects the subscriber to the closest digital local exchange) is not connected directly to the equipment managed by France Télécom, but rather to an ADSL line concentrator (also called a DSLAM) installed in co-location facilities or dedicated rooms provided for this purpose in the France Télécom exchanges and managed by the operator chosen by the subscriber. A special modem is installed on the subscriber's premises to allow the subscriber to receive data transmissions at a speed up to 160 times faster than those possible with a conventional 56K modem.

In the case of partial unbundling, the alternative operator uses only the "high" frequencies of the copper pair needed for transporting data, while the "low" frequencies are still used by France Télécom to provide ordinary telephone service. The following diagram shows the technical architecture used for this type of access. In this case, the user still pays the telephone line rental to France Télécom.

Schematic diagram of partial unbundling



Source: Iliad

In practice, an alternative operator needs to use an optical fiber network which terminates in France Télécom's premises and install its own DSLAM equipment in co-location facilities or in dedicated spaces.

Local loop unbundling completely frees an operator from dependence on France Télécom's network. The charges payable to France Télécom relate primarily to the rental of the copper pair, the splitter and the copper tie cable linking the subscriber's modem to the operator's DSLAM.[1]

For purposes of clarification, the following sections contain the abbreviations MSU (for the digital main switching unit) and LX (for the digital local exchange) in relation to interconnection and the term "France Télécom site" in relation to local loop unbundling.

4.4.2 Development phases of the Group's network

4.4.2.1 Phase 1: August 2000 - April 2001: Interconnection at the digital main switching units (MSU) and all digital local exchanges (LX) in the Paris urban region for the collection of data traffic

Initially, the Group's main objective was to interconnect its network to that of France Télécom in order to require a minimum level of national coverage. This required the Group to be connected at a minimum to the 18 France Télécom MSUs covering all regions in metropolitan France. The Group's network therefore consisted of a network of modem servers operated by Free and capable of meeting the needs of dial-up Internet subscribers.

Between August 2000, the date of the first interconnection in Lille to the MSU for the northern region, and June 2001, the date of the last interconnection in Poitiers to the MSU for the central region, Free's teams ordered E1 transmission capacity on France Télécom's network which it interconnected directly to the Group's network using optical fibers leased from a provider who had already installed the fiber network.

[1] See sections 5.2.1.2 and 5.2.1.3 for a detailed description of the fixed and variable LLU charges.

Free's innovative interconnection concept was to establish a direct connection between France Télécom's switches and the Group's Cisco modem servers. Therefore, instead of installing conventional switches between the France Télécom switches and its modem servers, Free helped to develop an application on the Cisco modem servers which supported the France Télécom network protocol.

This type of architecture, designed for data traffic, resulted in (i) a significant reduction in the level of required capital expenditure by reducing the quantity of equipment required for operation of the network, and particularly by avoiding the need for a central switch, (ii) greater control over the quality of service, and (iii) economized bandwidth over the national network as data is converted to IP mode at the level of the regional Point of Presence (POP).

By April 2001, the Group was interconnected to the 18 regional MSUs and 119 LXs in the Paris region, thereby covering all of metropolitan France, mainly through the leasing of optical fibers at the MSU level and of bandwidth capacity for the national transport of data.

4.4.2.2 Phase 2: April 2001 - August 2002: Interconnection at a number of digital local exchanges outside Paris and upgrading for voice traffic routing

The second phase of development focused on increasing the density of the Group's network by interconnecting it to a greater number of LXs in order to reduce the level of interconnect charges payable to France Télécom.

Through the conclusion of IRU agreements with several operators, including in particular the company Louis Dreyfus Communications ("LDCom"), Free was able, beginning in April 2001, to begin taking delivery of dark optical fiber pairs contained in cables laid by LDCom in fifteen regional towns and cities and of several dark optical fiber pairs in cables laid in the sewers of Paris.

This second development phase was fundamental in the development of the Group's network as it exists today. The principal benefit of these optical fibers is that they provide Free with a high level of density at the urban level and enable it to interconnect at a lower hierarchical level in the France Télécom network, *i.e.* at the LX level rather than the regional MSU level. Being in closer proximity to its subscribers has considerably reduced the recurring interconnection charges paid by Free to France Télécom. During this phase, Free's teams worked on the highly complex task of taking delivery of each pair of dark optical fibers in France Télécom's digital local exchanges and installing optical equipment (Add/Drop Multiplexers (ADM)) to enable these fibers to carry data (lit fibers).

The Group also decided during this period to enable its network to transport voice as well as data. In addition therefore to the central switch located in the main POP in Courbevoie, Free's teams installed switches in each regional POP. This provided Free with a network capable of transporting both voice and data, a development which coincided with the acquisition of One.Tel. The use of the Cirpack softswitch technical solution helped keep any additional necessary capital expenditure to a minimum compared with the potential profits the Group could obtain from providing a conventional telephone service.

By August 2002, after completion of these operations, Free had regional-level interconnection at the 18 MSUs and local-level interconnection at 208 LXs, covering all of metropolitan France. This optical fiber network, largely operated under the terms of IRU agreements with a ten-year term in the case of metropolitan loops (expiring between 2011 and 2013) and a twenty-five year term in the case of the northern Paris loop (expiring in 2025), can be used to transport both data and voice, permitting migration of One.Tel traffic (during 2002) and Kertel traffic (since June 2003) to the Group's network and the launching of an ADSL voice service (since August 2003). In order to guarantee the security and independence of the traffic flows, voice and data traffic are processed by different equipment.

4.4.2.3 Since September 2002: Unbundling of the local loop and expansion of the national network

The unbundling of the local loop is the latest major development in the Group's network, allowing the Group to be in closer proximity to its customers. From the beginning of the second half of 2002, Free was able to design and launch a broadband Internet access offer using an optical fiber network already connected to 162 France Télécom sites. End-to-end management of the network allows for a broadband offering along the entire chain linking the subscriber to the World Wide Web.

In November 2002, Free's teams began installing Freebox DSLAMs in France Télécom sites, either in facilities designed for use by several alternative operators or in dedicated rooms. By November 30, 2003, 550 DSLAMs had been installed in 162 France Télécom sites.

Map showing the Group's national network as of November 30, 2003

Source: Iliad

Until March 2003, the Group's national network was based mainly on contracts for the provision of capacity (bandwidth), whereby the monthly cost is proportional to the level of the transmission capacity used, or data transported, on the network. In order to offer the maximum bandwidth to its subscribers on unbundled lines, the Group decided to migrate its national network from contracts for the use of bandwidth capacity to contracts for the provision of dark optical fibers directly operated by the Group. This migration resulted in a shift in the Group's cost structure from variable costs to fixed costs regardless of the bandwidth used. In March 2003, Free signed a fifteen-year IRU agreement with LDCom for the provision of a pair of dark optical fibers linking the various regions of France. This optical fiber pair is operated by Free primarily through the use of Huawei wavelength multiplexing equipment (DWDM) and provides Free with flexibility for significant growth in the number of broadband customers throughout France without any currently foreseeable constraint in the amount of available bandwidth.

At present, although Free has maintained its interconnections at all 18 MSUs and at 208 LXs (37 of which are located within the Paris city limits), it also enjoys autonomy on a national level as a result of the fifteen-year IRU agreement, described in the preceding paragraph, for the provision of an optical fiber pair which it operates for its own account. Furthermore, of the 208 LXs, 162 have already been installed with Freebox DSLAMs, providing all broadband customers within the area of coverage of these France Télécom sites with access to the benefits of Free's unbundled service offering.

Today, the Group's network extends more than 7,000 km and the substantial majority of the network is held pursuant to IRU agreements, Free's preferred method of ownership. The few sections of the network that are not covered by such agreements are either leased or owned, often in conjunction with joint construction projects undertaken with private operators or local authorities.

Since 2002, the Group has also been developing relationships with local authorities who have invested in laying dark fibers or who wish to develop or co-develop local access networks. In this regard, the Group has already concluded optical fiber provision contracts with the cities of Nancy, Metz, Besançon and Toulouse, and is pursuing similar negotiations with most other local authorities who have decided to develop their own networks. The Group has also concluded an IRU agreement with CompleTel relating to a dark optical fiber pair deployed in the northern and eastern regions of France.

4.4.3 Other network elements

Network security

The Group's network is built on a secure architecture, using stable, proven technical and software solutions which have been scaled to absorb significant growth in the number of customers and to accommodate the foreseeable increase in value-added services generated by broadband. The network is monitored 24 hours per day, seven days per week by a dedicated and multi-skilled team.

The network is mainly arranged in a loop configuration, allowing data to be transmitted from either side of the loop. If the network fiber on one side of the loop is interrupted, traffic will continue to be routed from the other side. Moreover, the data and equipment (Nokia switch and data back-up equipment) are duplicated at two different sites, allowing the network to remain functional even if one site suffers a technical fault. Finally, a preventive and corrective maintenance contract is provided as part of each IRU agreement pursuant to which the operator owning the fibers undertakes to remedy problems which may arise in a timely manner.

Firewalls are installed to protect the network architecture against attacks. The server platform is connected to the switched and ADSL access networks via the Group's IP transport network.

The Group has developed its server platform to run mainly on "open" software such as Linux in order to provide a range of services including web services, search engines, communication services, games, personal pages, news and email. The Group manages its databases, customers, sales, billing and customer accounts using software developed in-house based on Linux architecture.

Peering

One year after the launch of its network, Free set up the FreeIX system for the free exchange of traffic between Internet service providers (access and hosting) at multiple points called "peering points". These peering points use Cisco and Extreme Network infrastructure and allow exchanges between close to forty Internet service providers, providing a high level of Internet connectivity in France. Free is also connected to the SFINX peering point (1 Gigabyte) and operates several multi-Gigabyte private peering connections.

International transit

For international transit, Free uses the services of three transit service providers offering bandwidth capacity of nearly 10 Gigabits per second: Opentransit (France Télécom International), Telia (Telia-Sonera Group) and Sprint.

Server platform

All Free's servers run on a Linux operating system, which is a well-established system used by many Internet-based companies.

Free's Linux-based infrastructure consists mainly of Dell 1U PC servers installed at its various POPs. Free uses Network Appliance file servers for data storage.

4.5 DESCRIPTION OF THE COMPANY'S MAIN BUSINESS ACTIVITIES

4.5.1 Internet access

4.5.1.1 Free

Free is the second largest Internet access provider in France[1] and one of the few such providers to have become profitable through the provision of ISP services. Free first posted a profit in April 2001, only 24 months after the start-up of its business.

Today, Free has three different Internet access offerings, characterized by their simplicity, attractive pricing and recognized technical quality and which provide tools allowing subscribers to take full advantage of the Internet's many features, including portals, search engines, email, personal website construction tools and account management tools). These three offerings consist of the "Pay-as-you-go" service, the "50-hour plan" and Free's broadband offering.

Free initially based its growth strategy on the provision of non-subscription access to the Internet ("Pay-as-you-go" access) offering a limited range of content. Its marketing strategy was based on minimizing advertising expenditure and emphasized the simplicity and low cost of the offering. This strategy was successful, with Free now claiming nearly three million user-created email addresses.

After completing the roll-out of its telecommunications network and interconnecting with the France Télécom network in April 2001, Free was in a position to control the cost structure of an offering based on Internet connection time. Free therefore launched an attractive and profitable dial-up package, charging a fixed rate of €14.94 for 50 hours of Internet usage per month.

With more than 200,000 "50-hour plan" subscribers as of November 30, 2003, Free has capitalized on the different nuances of its brand name, transforming it from a name implying that the offering is free of charge into a name associated with high-quality paid services and the freedom offered to users of these services.

This new brand image was enhanced with the launch in October 2002 of Free's ADSL broadband offering for €29.99 per month. Through the use of its network and by building on its experience in dial-up offerings, Free has developed a high-quality broadband access offering which is attractively priced and, where possible, which makes the most of the opportunities afforded by the unbundling of the local loop.

Free's offerings are pertinent to all Internet user segments and have different maturity profiles, with some subscribers migrating from one offering to another (such as from the "Pay-as-you-go" service to the "50-hour plan" and from the "50-hour plan" to the Free broadband offering). The flat growth of the "50-hour plan" offering and the slight decline in the "Pay-as-you-go" offering are more than offset by strong growth in the broadband offering.

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[1] *Source:* IDATE, *Le marché mondial de l'Internet*, 2003 edition.

The following tables give details of all the Internet access services marketed by Free.

Details of Internet access services provided by Free
as of November 30, 2003

"Pay-as-you-go"	"50-hour plan"
	€14.94 per month
• No subscription/no commitment access via PSTN or Numéris (cost of telephone call billed by France Télécom) • An unlimited number of email addresses • 100 Mb of space for hosting the customer's personal website • Specific tools enabling customers to manage and customize their websites	• 50 hours Internet usage per month with no minimum contract period • An unlimited number of email addresses • The least expensive charge per additional minute on the market (local Internet call rate) • 100 Mb of space for hosting the customer's personal website • Specific tools enabling customers to manage and customize their websites

Free's Broadband Service Offering	
€29.99 per month	
Option 1 (Unbundled line)	**Option 5**
• Unlimited usage for a fixed price — 1024 kbits per second download rate and 256 kbits per second upload rate (minimum) • Set-up charge: free • USB/Ethernet modem (Sagem or Freebox modem) provided free of charge • No minimum contract period • Cancellation charge: €99 maximum (reduced by €3 per month for each month subscribed) • Unlimited use of bandwidth • Unlimited number of email addresses • 100 Mb of space for hosting the customer's personal website • Specific tools enabling customers to create and manage their websites • Access to telephony services and audio-visual content offerings for customers with a Freebox modem:	• Unlimited usage for a fixed price — 512 kbits per second download rate and 128 kbits per second upload rate (minimum) • Set-up charge: free • USB/Ethernet modem (Sagem or Freebox modem) provided free of charge • No minimum contract period • Cancellation charge: €99 maximum (reduced by €3 per month for each month subscribed) • Unlimited use of bandwidth • Unlimited number of email addresses • 100 Mb of space for hosting the customer's personal website • Specific tools enabling customers to create and manage their websites

Charges for calls made using the Freebox modem	
Type of call	*Charge*
Local and national	Free
International	From €0.03 per minute (billed per second)
Mobile	0.19 per minute (billed per second)
To Freebox subscribers	Free
Audio-visual content offerings (accessible to subscribers in unbundled zones)	
Unscrambled general interest or public service channels	Free
Pay channels and packages	From €0.49 per month

Dial-up Internet access offering

The "Pay-as-you-go" offering

In April 1999, Free entered the Internet service provider (ISP) market with a simple, no-subscription service. This commercial strategy was at first based solely on providing "Pay-as-you-go" access and enabled Free to win a large share of the dial-up market with relatively small advertising outlay as compared to its competitors.

With this type of offering, the customer pays France Télécom for the telephone call while using the Internet at the local Internet call rate. France Télécom then repays approximately 98% of the average revenues generated to Free. The economic model for this type of service is therefore based entirely on repayments by France Télécom.

With nearly 200 million minutes of connection time generated by "Pay-as-you-go" customers since November 2002, this dial-up service remains a profitable business for the Group, despite a slight decrease in revenues (see paragraph 5.2.2).

The "50-hour plan"

Following the appearance of fixed-rate packages on the Internet access market and once Free was able to control the cost of providing telecom minutes following the completion of the first phase of the roll-out of the Group's network, Free decided in April 2001 to launch its own fixed-rate service whose main selling points were its reasonable price (€14.94 per month) and the significant number of usage hours (50 hours). The "50-hour plan" was therefore designed to complement and serve as an alternative to the "Pay-as-you-go" offering for users wishing to access the Internet for long periods of time at the lowest possible price. This fixed-rate package is still one of the most attractively priced on the dial-up market, but is suffering from competition from the unlimited broadband offerings, particularly in the case of subscribers whose Internet usage approaches or exceeds 50 hours per month.

Broadband Internet access offering

The ADSL broadband Internet access service launched by Free in October 2002 marked an important milestone in the broadband sector in France, as Free was the first ISP to offer such a service at a price below €30 per month with a guaranteed download rate ranging from 512 kbits per second to 1024 kbits per second.

Free's broadband offering is characterized by its simplicity, attractive price (€29.99 per month), high bandwidth (up to 512 kbits per second upload rate and 1024 kbits per second download rate), recognized quality (the response time of the network servers, or "ping", being the shortest on the market) and, for owners of Freebox modems, by value-added services such as fixed telephony services or audio-visual content beginning in December 2003.

Free's ADSL service is based on two modes of access referred to by the ART as "Option 5" (subscribers on lines that have not been unbundled) and "Option 1" (subscribers on unbundled lines).

– *Option 5.* Under Option 5, the ADSL subscriber's traffic is delivered directly to the Internet service provider's main server center by France Télécom. In this case, the Internet service provider is dependent on France Télécom for access and the collection of all traffic. Only the modem (Sagem) is provided to the subscriber by Free.

– *Option 1.* Under Option 1, or local loop unbundling, a Freebox DSLAM is installed in France Télécom sites and an ADSL modem is installed on the subscriber's premises. In this configuration, the Group leases the copper pair from France Télécom for transporting Internet traffic. The "high" frequencies are entirely at the alternative operator's disposal for routing data, voice and audio-visual content. ADSL traffic can thereby be managed from end to end by the Group. France Télécom's role is restricted to leasing the equipment between the ADSL modem installed on the subscriber's premises and the Freebox DSLAM, plus the initial wiring installation.

Free's profit margin from its €29.99 per month ADSL offering varies significantly according to whether the customer is an Option 1 (unbundled) customer or an Option 5 (not unbundled) customer (for further information, see paragraph 5.2.1.2 below). Therefore, Free's objective, while still continuing to increase its market share with both its Option 1 and Option 5 offerings, is to offer Option 1 directly to new subscribers in unbundled local loop areas and also to migrate existing Option 5 subscribers to the Option 1.

As part of its broadband access offering, Free provides all its new subscribers with either a USB or Ethernet ADSL modem or a Freebox modem free of charge. A Freebox modem is provided to all new subscribers within 2.5 kilometers of co-location or dedicated facilities containing a Freebox DSLAM. Free provides customers further than 2.5 kilometers from co-location or dedicated facilities with a Sagem modem.

The migration of existing Option 5 subscribers to Option 1 is currently being carried out without replacing the USB or Ethernet ADSL modems provided under Option 5 with Freebox modems, regardless of the distance from the subscriber's premises to the co-location facilities containing the Freebox DSLAM.

Freebox

The Group has chosen to develop its own ADSL upload and download equipment in-house in order to win as many new customers as possible in a competitive and fast-growing market with distinguished service offerings. As a result of the technological resources of the development team at Freebox S.A. and a very selective purchasing policy, the Group has been able to optimize the cost of designing a DSLAM and a modem capable of meeting the high bandwidth requirements necessary to offer high value-added services. The use of both a Freebox DSLAM and a Freebox modem enables Free to provide its customers with a first rate technical service offering capable of transmitting voice, data and audio-visual traffic simultaneously and over long distances, and gives Free a leading edge over its competitors.

The Freebox DSLAM. The DSLAM developed by Freebox S.A. is configured to optimize the existing Free network and guarantees each subscriber a theoretical download rate of 8 Mbits per second from the local concentrator. Each Freebox DSLAM, installed in racks which can hold up to four DSLAMs, can be connected to 384 lines and is designed to leverage the Free network which uses only IP protocol, unlike conventional transmission networks which use ATM/SDH protocol. The Freebox DSLAM has a Giga Ethernet output and was designed to accommodate the high bandwidth requirements of the audio-visual services launched in December 2003.

The Freebox modem. The Freebox modem is a multi-function ADSL modem developed to enable customers to receive services that can be offered via broadband Internet access. In addition to traditional access using a personal computer connected via a USB or Ethernet socket, the Freebox modem has two telephone sockets for voice over DSL services and a Peritel TV socket and is capable of decoding audio-visual content compressed in Mpeg2 format (see photo below).

The Freebox modem and the Freebox DSLAM include components acquired from third party suppliers and assembled by companies which are not part of the Group. However, the software used has mainly been developed in-house by the Group using open software such as Linux.

Freebox modem connections:
1) power supply
2) auxiliary socket
3) audio socket
4) video socket
5) Peritel socket (TV)
6) telephony
7) USB
8) Ethernet
9) telephone line in

The use of both the Freebox modem and the Freebox DSLAM means that Free will easily be able to accommodate future developments in ADSL technology and provide its customers with a very high theoretical bandwidth (8 Mbits per second) while reducing the loss of bandwidth over distance. Free uses this high bandwidth capacity to offer high value-added services such as audio-visual services over ADSL (MPEG 2 format) beginning in December 2003, as well as voice and high-speed Internet access (1 Mbit per second).

In conclusion, Free's unbundled service offering enables the company to have complete control over the network from end to end and thereby over the transmission of traffic and the quality of its services, with:

- a presence on the subscriber's premises in the form of a Freebox or Sagem modem (unbundled offering);
- a presence in the France Télécom sites in the form of the Freebox DSLAM;
- optical fibers between the France Télécom sites and Free's regional POP; and
- optical fibers between Free's regional POP and the Free server center.

Telephone service offered to subscribers with a Freebox modem

Since August 25, 2003, Free has been offering a voice over ADSL (VoDSL) service to all its subscribers with a Freebox modem, enabling them to make and receive calls over a fixed-line telephone connected directly to their Freebox modem. In order to receive this service, the Freebox subscriber applies for a new telephone number on Free's website. Free is the first operator in France to provide this type of offering. Based on a policy of per-second billing, with no minimum charge and no connection charge and the lowest per-minute rate on the market, Free's telephony service is very attractive not only for local and national calls, which are free, but also for international calls and calls to mobile phones (see the tables on pages ● and ● hereof for details of the telephone service provided through the Freebox modem). The availability of this service to Freebox subscribers is a result of both the upgrading of the Group's network since 2002 to allow it to carry voice traffic and the development of a billing system following the takeover of One.Tel, as well as the company's skill in designing the Freebox DSLAMs and modems.

Audio-visual content offered to subscribers with a Freebox modem

At the end of November 2003, Free launched an audio-visual content service available from the end of December 2003 free of charge to all subscribers with a Freebox modem in an unbundled local loop area. This offering allows subscribers to receive unscrambled general interest or public service channels and pay-per-view channels and packages from €0.49 per month by linking the Peritel socket of the Freebox modem to the subscriber's television.

These programs are transmitted in Mpeg2 format at a rate of 3.5 Mbits per second. The use of Multicast technology prevents an overload of the network, as the capacity used is the same regardless of how many subscribers are watching one channel simultaneously.

Pursuant to the terms and conditions of the distribution agreements between the Group and the proprietors of the audio-visual content, Free assumes, without charge, the coding and transmission of the audio-visual channels and packages. The Group invoices subscribers directly for pay channels and packages and remits the bulk of the invoiced fees to the content proprietors.

Free's web portal

Free's portal is one of the most frequently visited portals in France, and helps to increase customer loyalty and win new customers. Furthermore, the services featured on the Free portal encourage dial-up subscribers to migrate to broadband Internet.

Website visitors in September 2003
Top 10 brands

	Number of individual visitors	Coverage (in %)
Wanadoo.fr	8,299,000	58.4%
MSN	7,465,000	52.5%
Free	**7,288,000**	**51.3%**
Google	7,114,000	50.1%
Microsoft	6,849,000	48.2%
Yahoo!	5,147,000	36.2%
Lycos Europe	4,857,000	34.2%
Tiscali	4,674,000	32.9%
Voilà	4,585,000	32.3%
Pages Jaunes (Yellow Pages)	3,832,000	27.0%

Source: Nielsen//NetRatings Panel.

4.5.1.2 Online

Online was created in 1999 and manages more than 55,000 Internet domains, making it the second largest provider of shared web hosting services in France. Its core customer base consists of professionals and small and mid-size businesses who wish to benefit from a cost-effective solution for hosting their websites.

Following its merger in December 2003 with its subsidiary BookMyName, a company accredited by the Internet Corporation for Assigned Names and Numbers (ICANN) for the registration of Internet domain names, Online is now also a domain name registrar.

In practice, Online's service offering consists of hosting its customers' domain name in its Domain Name Systems (DNS) and providing the associated disk space, as well as managing the hosted space.

The customer pays a rental charge based on the type of hosting service chosen and may choose its own website address. Online's hosting and registration offerings are presented below:

Online's web hosting and domain name registration services as of November 30, 2003

Hosting offerings	**Disk space**	**Charge (excl. VAT) per year**	**Options**
XS	100 KB	€ 0[1]	Upgrade only
M	100 MB	€29.90	All
L	250 MB	€59.90	All
XL	500 MB	€119.90	All
XXL	1,024 MB	€239.90	All
Options			
Additional email accounts	Per account/year	€20.00	
Secure payment		€100.00	
Domain name registration (examples)			
Domain	*Duration*	*Purchase cost*	*Renewal*
.com	1 year	€6.95	€6.95
.fr[2]	1 year	€65.00	€25.00

(1) This offering is subject to conditions and is only available for ".com", ".net" or ".org" domains. For domains transferred to the XS service, the charge is €5 excluding VAT per year.
(2) Certain ".fr" domain names are subject to special terms and conditions of purchase.

Once the customer has been allocated web space by Online, the customer is responsible for creating its website content using the website construction and management software provided by Online. The customer is therefore completely free to choose its website content, provided such content complies with all current national and international laws and regulations, particularly concerning intellectual property and copyright, and does not contain any material which may be considered derogatory, defamatory, offensive or subversive of public order or which could result in an invasion of privacy.

As part of its hosting services, Online also provides its customers with email addresses, email aliases and email forwarding services in various numbers according to the subscription package chosen by the customer.

4.5.1.3 Centrapel: a technical support and customer service platform used by all Group companies

Free, One.Tel and Kertel offer their customers technical support and customer services through a helpdesk platform installed in the Group's offices in Paris and run by a Group subsidiary, Centrapel S.A. The Group is currently in the process of expanding and training its technical support and customer service teams. Centrapel seeks to recruit operators who have completed two years of post-Baccalaureat level studies or who have experience working in technical support for an ISP, and is also investing in providing training for its operators. All new employees are therefore given one month's training in support techniques before starting work answering customer calls. As of November 30, 2003, Centrapel employed 345 people compared to 144 as of January 1, 2003. This support service operates from 8 a.m. to 10.30 p.m. Monday to Friday and from 9 a.m. to 8 p.m. on weekends and public holidays.

Centrapel's support team includes approximately fifty employees based in Paris and elsewhere in France responsible solely for dealing with problems related to local loop unbundling (relations with France Télécom, migration of lines, etc.).

Centrapel also provides Free's customers with an online support service available through Free's website. This service provides answers to user FAQs and allows Free's customers to email specific questions to the support service.

With a view to reducing customer churn and contributing to the Group's customer loyalty policy, Centrapel uses high-quality software tools developed in-house by the Group's IT team. These tools are used for monitoring customer relationships, handling faults and maintaining a log of problems encountered by Free's customers. This customer loyalty policy is part of the Group's strategy to improve customer service resources and to provide advice to customers who may wish to upgrade to other services provided by the Group.

4.5.2 Telephony segment

The Group's telephony business is centered around the fixed telephony operator One.Tel acquired by the Group in 2001 and the call termination business operated by Kedra, and was expanded during 2003 with the acquisition of the prepaid phone card provider Kertel. In a market dominated by large players, the Group has managed to develop a sustainable and profitable business largely due to the economies of scale offered by the use of its own network.

4.5.2.1 One.Tel

The fixed telephony operator One.Tel France SAS ("One.Tel") was established in 1998, but was placed in administration in June 2001 largely as a result of the financial difficulties encountered by its Australian parent company. One.Tel was acquired by the Group in December 2001 as part of its business continuation plan and the One.Tel trademark was licensed to the Group for ten years by the British company Centrica Telecommunications Ltd., the successor in interest to One.Tel (UK).

The restructuring plan carried out after the takeover involved the migration of One.Tel's voice traffic to the Group's network during the first half of 2002, improvement of the business's gross margin, and the changeover from One.Tel's old billing system to the existing billing and customer tracking system developed by the Group's technicians.

Since its takeover by the Group, One.Tel has implemented a procedure for optimizing the cost of winning customers and managing its customer base by recommending that all new customers provide bank details before any new connection to the service allowing for payment by direct debit. This measure, together with the in-house development of an efficient billing system and heavy promotion of the use of carrier preselection, automatically ensuring that customers' calls use the Group's network, contributes to a high bill collection rate and increases customer loyalty.

On a commercial level, as in the case of the Group's Internet access offerings, One.Tel launched a very competitive and simple offering in September 2002: 1 cent per minute for local and national calls (see detailed pricing in the table below). For international calls, One.Tel benefits from its experience as part of a multinational group in its negotiations with the leading international telecommunications operators. One.Tel is interconnected with several international operators and with two trading platforms for buying and selling international call minutes, which enables it to offer both competitive rates and a high level of quality for all its call destinations.

The Group considers that One.Tel's still very small share of the fixed telephony market in France (0.5%, represented by 180,000 billed customers as of September 30, 2003) is partly due to the unfamiliarity of the brand, which in turn is the result of the lack of advertising of One.Tel's offerings between June 2001 and September 2002, during which time the company was in administration and then, following its acquisition by the Group, was undergoing restructuring. The Group believes that, in such a competitive market, One.Tel needs to reinforce its very attractive commercial offering with a more aggressive advertising campaign to make the brand more widely known and thereby allow the company to achieve a market position more in keeping with its commercial potential.

One.Tel's fixed telephony offering is both simple and attractively priced. The following table compares the One.Tel offering with that of its main competitors, and should be read together with the table shown in paragraph 4.6.3.

One.Tel tariffs for carrier preselection calls as of November 30, 2003, in euros including VAT per minute

<table>
<tr><th>Type of call</th><th colspan="2">Connection charge or minimum charge per call</th><th colspan="2">Charge per minute</th></tr>
<tr><td>Calls to fixed lines</td><td colspan="2"></td><td colspan="2"></td></tr>
<tr><td>National call</td><td colspan="2">€0.11</td><td colspan="2">€0.01(1)</td></tr>
<tr><td rowspan="2">Local call</td><td>Peak</td><td>Off-peak</td><td colspan="2" rowspan="2">€0.01(1)</td></tr>
<tr><td>€0.10</td><td>€0.09</td></tr>
<tr><td>Calls to mobiles</td><td colspan="2"></td><td colspan="2"></td></tr>
<tr><td rowspan="2">To Orange and SFR</td><td>Peak</td><td>Off-peak</td><td>Peak</td><td>Off-peak</td></tr>
<tr><td>60 seconds billed €0.30(2)</td><td>50 seconds billed €0.23(2)</td><td>€0.22</td><td>€0.08</td></tr>
<tr><td rowspan="2">To Bouygues, Spot and Nomad</td><td colspan="2" rowspan="2">50 seconds billed €0.29(2)</td><td>Peak</td><td>Off-peak</td></tr>
<tr><td>€0.32</td><td>€0.16</td></tr>
<tr><td>International calls</td><td colspan="2">€0.11</td><td colspan="2">From €0.06</td></tr>
</table>

(1) Billed per second from the first second.
(2) Billed per second after the minimum charge.

Since the first half of 2003, in addition to One.Tel's service offering, the Group has provided a telephony service to small and medium enterprises under the name Iliad Telecom. Revenues from this business are as yet very limited.

4.5.2.2 Kertel

The acquisition in 2003 of the prepaid phone card provider Kertel was another facet of the Group's strategy for optimizing its network, particularly on the basis of the synergies developed with One.Tel and Kedra. These synergies have allowed the Group to benefit from shared experience and know-how in such matters as billing and rate negotiations, especially for international rates.

Kertel is a leading provider of prepaid phone cards in France. By focusing on this single sector of activity, Kertel sold more than 2.6 million cards in 2003.

Kertel was acquired in early 2003 from the Pinault-Printemps-Redoute Group. The Group feels that its policy of restructuring and building on the use of its own network has already proven effective in the relatively brief period since its acquisition of Kertel.

Although only a few months have passed since the company was brought into the Group,

Kertel sells its products nationwide through the largest distribution network in the market, and the brand is well known in France. Kertel cards are sold in more than 25,000 outlets such as post offices (on the basis of the exclusive distribution agreement signed between the company and the French post office, La Poste), tobacco stores (under the terms of a distribution agreement with the French tobacco company Altadis and the Société Pipière Française) and the Relay newsstand chain, as well as a large number of local shops (gasoline stations, grocery stores, etc.) and large chain stores (Carrefour, Casino, Monoprix, Fnac, The Phone House, etc.).

On a commercial level, as of November 30, 2003, the difference in call charges between prepaid phone cards sold by Kertel and the France Télécom smart card was as high as 80% for certain call destinations.

The Group believes that by further increasing its distribution network, Kertel will be in a position to further enhance its competitive position in the prepaid phone card market.

4.5.2.3 Kedra

Since 2002 Kedra has been offering a low-cost fixed telephony call termination service. The philosophy behind this service is similar to the "call-back" system which, since the early 1990s and particularly in the United States, has resulted in a significant drop in the cost of international calls. The service, aimed at fixed telephony carriers in general and at the Group's subsidiaries providing telephony services in particular, transfers at a minimal cost calls destined for certain operators which charge high prices. When a subscriber calls one of these operators, the call is forwarded to the Kedra platform which connects it directly to the telephone operator called, but at a lower cost than would normally be charged, thus allowing the customer to benefit from the decreased mark-up.

Kedra charges the Group companies offering telephony services for its services. It also sells minutes to other alternative operators. Kedra's profits are therefore largely based on margins earned on contracts with operators outside the Group.

4.5.3 "Other Services" segment

The "Other Services" segment mainly consists of the Minitel-based reverse look-up directory service, which historically has been one of the most profitable of the Group's services. Before it sold almost all Minitel services in its portfolio in 1998, Minitel services provided by the Group were the main source of its internally-financed growth. This segment also includes the Group's subsidiaries Assunet and the company Société S.A. which offer web content services to their customers.

4.5.3.1 ANNU

The Minitel-based reverse look-up directory, ANNU, was launched by Iliad in 1996. This service, which is widely known in the consumer market, allows users to find a name and address associated with a telephone or fax number, either via Minitel, telephone, Internet or SMS text messaging.

Based on an easy-to-use electronic data transmission solution, the ANNU service uses the directory database established and maintained by France Télécom in return for the payment of an annual charge to the incumbent operator. In 2002, this charge amounted to €3.35 million. Iliad considers that in light of the changes in European regulations relating to directories, this amount is disproportionate to the costs actually incurred by France Télécom in updating and maintaining its directory database. The Group applied to the ART requesting a ruling on the disputed charge, and the ART subsequently issued a decision on September 23, 2003, requiring France Télécom to offer Iliad a new pricing structure no later than November 28, 2003. France Télécom has appealed this decision.

ANNU generates the second largest revenues from Minitel in France and is the third largest Minitel site in terms of usage hours. It uses the standard pricing model for Minitel services (payment of €0.84 per minute of usage) or Audiotel services (payment of the equivalent of a local call charge from a fixed-line telephone).

In spite of efforts to promote new ways of using the reverse look-up directory (text messaging, mobile telephony or Internet), the Group considers that the decline in the use of the Minitel in France is irreversible and, in the medium term, is likely to result in a significant loss in revenue from this business.

Furthermore, the Group's reverse look-up directory is faced with strong competition from France Télécom, which has launched its own reverse look-up directory service (3617 QuiDonc). The combined effect on Iliad's earnings of this increase in competition and the decline in the use of Minitel in France has been significant, resulting in a 12.6% decrease in revenues from ANNU for 2002 compared to 2001.

Despite the fall in revenue from Minitel services and competition from the incumbent operator, the Group plans to continue this profitable activity as long as possible, which requires little in the way of human resources or capital expenditure, although the Group will take into account in its forecasting the foreseeable reduction in earnings from its reverse look-up directory service.

4.5.3.2 E-commerce business

Iliad operates two web content sites, Assunet.com and Société.com, which account for only a very minor proportion of the Group's revenues. These two companies were restructured in 2001. Société.com currently has positive operating results, and Assunet.com is approaching positive operating results.

Assunet.com

Assunet is a web-based insurance broker which provides an online quotation search engine service allowing its customers to obtain quotes online from fifteen major insurance companies. The customer enters his or her request on the Assunet site, free of charge, and Assunet immediately responds with the three most attractive quotes based on the coverage and deductible levels in accordance with the customer's profile and requirements.

Société.com

Société.com provides information about companies, such as entries, amendments and removals from the French Companies and Trade Register.[1] The Société.com website also provides access to a number of documents which can be ordered and paid for in a number of different ways.

[1] *Source:* INPI.

4.6 THE GROUP'S MARKETS AND COMPETITIVE POSITIONING

4.6.1 Internet access

The Internet: an expanding market

The Internet access market is undergoing significant growth. According to an IDATE[1] report, the number of Internet users worldwide will have increased 16% during 2003 despite a slight slowdown in countries where Internet usage is already highly developed.

	No. of web users 12/20/02	**Penetration rate 12/20/02**	**No. of web users 12/2003***	**Penetration rate 12/2003***	**Increase 2003/2002***	**No. of web users 12/2007***	**Penetration rate 12/2007***
Western Europe(1)	148 M	35.1%	161 M	38.2%	8.8%	197 M	47%
North America	200 M	64%	214 M	67.8%	7%	253 M	77.5%
Latin America	33 M	6.2%	40 M	7.4%	21.2%	83 M	14.5%
Asia/Pacific	180 M	5%	234 M	6.5%	30%	448 M	11.9%
Eastern Europe(2)	25 M	8.2%	31 M	10.2%	24%	60 M	19.9%
Africa/Middle East(3)	22 M	2.2%	27 M	2.6%	22.7%	45 M	4.1%
Total	**608 M**	**9.8%**	**707 M**	**11.3%**	**16.3%**	**1,086 M**	**16.7%**

Source: IDATE, *Ibid*.

(1) including Scandinavia
(2) including Russia
(3) including Turkey and South Africa
(*) estimates

At the end of 2002, North America and Western Europe accounted for 57% of the world's Internet users, with penetration rates of 64% and 35.1%[2], respectively. There are still good prospects for winning new subscribers in these areas, particularly due to the expansion in infrastructure, the launch of government-backed projects, the reduction in equipment costs, improvement in local language content, reductions in subscription charges and, especially, the expansion in the use of broadband technology. The migration of subscribers to broadband will be a significant growth factor for these more mature markets. An IDATE report anticipates a penetration rate of 47% in Western Europe by 2007, compared to 35.1% at the end of 2002.

Determining factors in the growth of Internet usage in Western Europe

In Western Europe, following a period of very strong growth in the level of Internet usage, particularly as a result of so-called "free" services followed by the introduction of fixed-rate inclusive packages, the prospects for further growth now partly depend on the roll-out of broadband technologies. The market should continue to grow during 2003 and 2004, largely due to:

- the level of penetration of home computer use. The use of home computers is a key element in the development and expansion of the Internet access market. Western Europe is still not at the same level as the United States, which is a far more mature market, although the disparity is decreasing. There are still considerable disparities within Western Europe itself;

- the use of new technologies offering both broadband Internet access (such as ADSL and cable) and the widespread distribution of new types of content (such as TV, video on demand, network gaming, etc.);

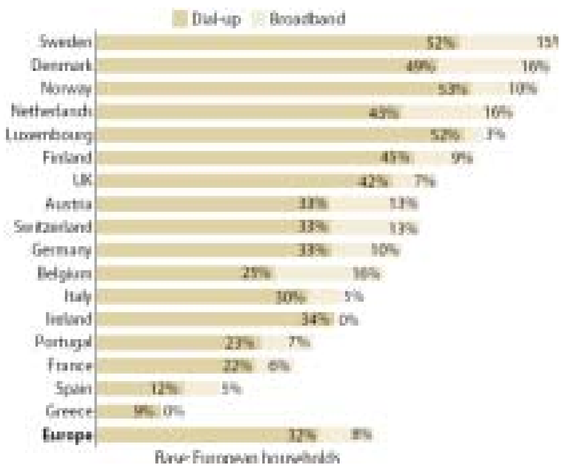
[1] IDATE, *Le marché mondial de l'Internet*, 2003 edition.
[2] *Source:* IDATE, INPI.

- a significant drop in the cost of Internet access, bringing it within the reach of the general public;
- the growth and general improvement of local language content and e-commerce;
- increased liberalization and competition in the telecommunications sector;
- the commitment on the part of the authorities towards promoting ever-wider usage of the Internet.

Rapid growth of the French market

France is the second most populated country in Europe, and its Internet market is growing rapidly, with a 100% increase in the number of French web users between 2000 and 2002. However, the Internet penetration rate in France was one of the lowest in Europe in 2002. According to an IDATE report, early usage of the Internet in France was probably held back by the Minitel, which still had 16 million users in 2001. A process of accelerated growth in the French Internet market, bringing France in line with other European countries, could be a further growth factor for Internet service providers in this market.

Internet penetration rate by type of access in Europe in 2002



Number of internet users by type of access in France (2000-2002)

	Dec. 2000	Dec. 2001	Dec. 2002	Change 2000-2002
Dial-up	5,263,000	6,986,500	9,135,000	74%
Broadband	190, 601	601,500	1,675, 000	779%
Total	5,453,601	7,588,000	10,810,000	98%

Source: ART, 2003 (estimates provided by AFA, France Telecom and Aform)

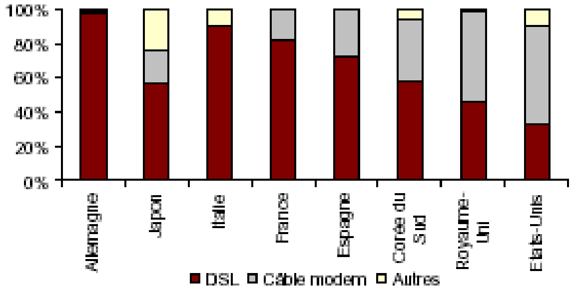
The broadband market: an excellent basis for growth

Countries with high Internet penetration rates continue to show an increase in the number of Internet users, but the main factor for growth is now the migration of subscribers to broadband connection technologies.

Choice of broadband technology

The predominance of one broadband connection technology over another varies from country to country. In the United States, cable modem lines are used for 57% of all broadband access. In Western Europe, by contrast, ADSL appears to have become the technology of choice, accounting for 80% of the broadband access market. In France, ADSL has established itself as the primary technology used for broadband access, accounting for nearly 85% of all broadband connections.

DSL and cable modem connections by country (12/2002)



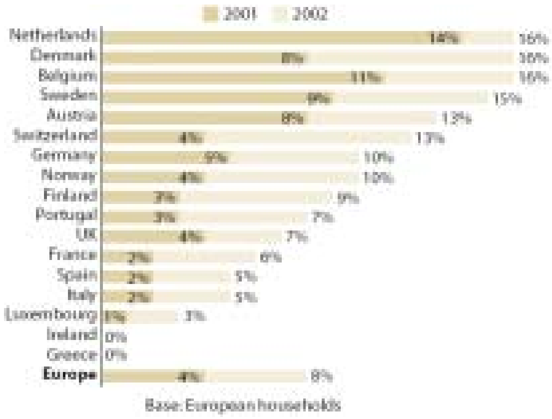
Countries from left to right: Germany, Japan, Italy, France, Spain, South Korea, United Kingdom, United States

Source: IDATE, *Le marché mondiale de l'Internet*, 2003 edition.

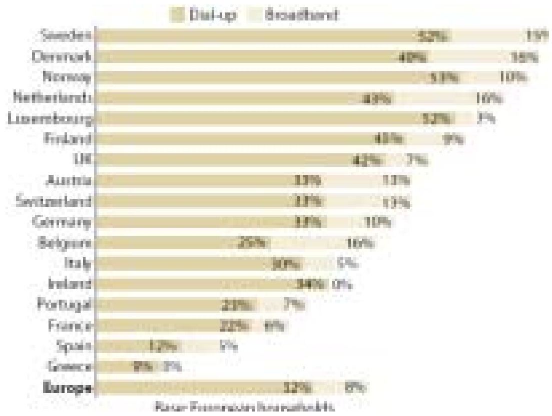
Broadband penetration rate in Europe: enormous potential remaining in France

The number of DSL and cable modem connections in Europe doubled during 2002. The Northern European countries are generally ahead of other European countries in terms of penetration of broadband technologies, particularly due to the early deregulation of the telecommunications sector, as was the case in Sweden (deregulated in 1993), as well as a high level of commitment on the part of the public authorities.

Broadband penetration rate in European households



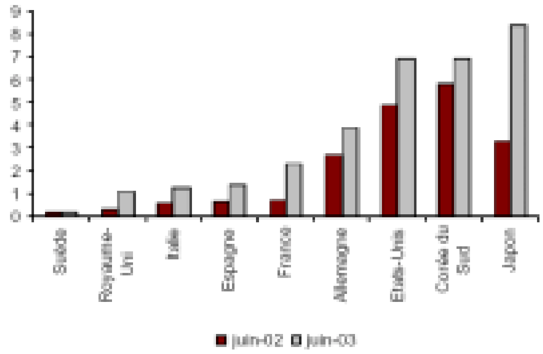
Internet penetration rate by type of access in Europe in 2002



Source: Forrester Research, Inc.

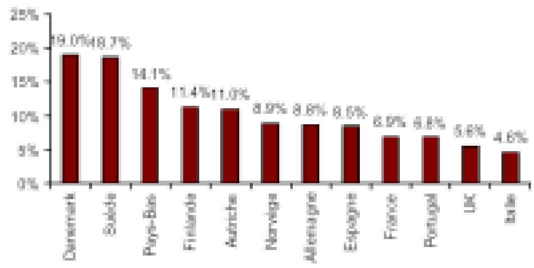
Translation for information purposes only

Growth in number of ADSL subscribers (in millions)



Countries from left to right:
Sweden, United Kingdom, Italy, Spain, France, Germany, United States, South Korea, Japan
■ June 02 □ June 03

Percentage of households connected to broadband Internet in Western Europe and Scandinavia (01/2003)



Countries from left to right:
Denmark, Sweden, Netherlands, Finland, Austria, Norway, Germany, Spain, France, Portugal, United Kingdom, Italy

Source: IDATE, *Le marché mondial de l'Internet*, 2003 edition.

A thriving ADSL market in France

According to IDATE, at the beginning of 2003 France had 2,108,164 broadband subscribers, representing a household broadband penetration rate of 6.9% compared to an average of 8% for Europe as a whole. While this penetration rate is well below the European average, the French ADSL broadband Internet market is growing rapidly, with 2.5 million subscribers as of September 30, 2003, an increase of more than 80% since the beginning of the year.

ADSL technology is by far the most common form of broadband access, accounting for 85% of all broadband connections, and the margin of growth in this sector still seems to be significant. In fact, as a result of investments made by telephony operators, particularly following the liberalization of the telecommunications sector in 1998, the existing infrastructure enables broadband Internet access for the majority of the French population. A number of new public authority initiatives have been introduced, including one campaign entitled "*Internet déclaré d'utilité tout public*" (Internet declared a utility for the general public) launched on October 30, 2003 by the French Government with a view to encouraging the French public to make wider use of computers and the Internet at home.

There is likely to be accelerated growth in France in terms of the number of households with broadband access, which means that prospects are healthy for the Group in light of its positioning in this sector of the market.

Internet access market providers in France

In France, as in the rest of Europe, after a period in which there was a proliferation of access providers in the market, the Internet service provider market has matured. Incumbent operators have made up for initial lost ground and have reestablished their positioning in their domestic markets. At the same time, a wave of consolidation and concentration has reduced the overall number of access providers in the market.

The Group's main competitors in the French access market are:

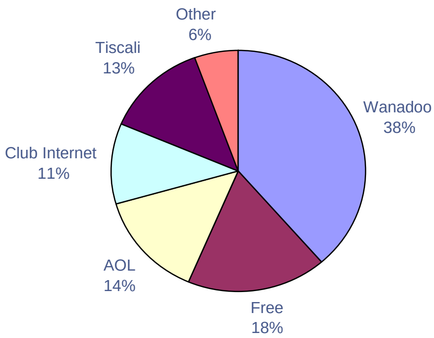
– international Internet service providers, some of whom are partnered with telecommunications operators, such as Wanadoo, AOL, TOnline.net (Club-Internet), Tiscali, and LDCom (9 Telecom);

– companies operating cable networks (Noos);

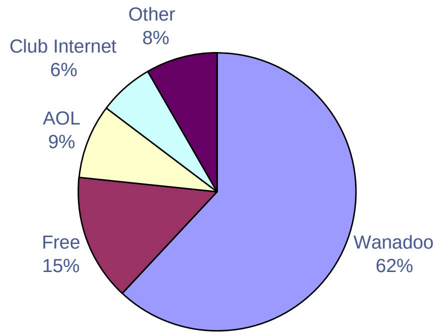
– independent local access providers; and

– companies offering Internet access as a means of winning customers for services such as banks and mass-marketing companies.

Market share for dial-up access (March 2003)



Market share of leading ISPs in the ADSL sector (March 2003)



Source: IDATE, *Le marché mondial de l'Internet*, 2003 edition.

The launch of so-called "free" Internet in France was the driving force behind the growth of the residential market, and Free rapidly positioned itself as a leading player in this sector. With the introduction of fixed-rate inclusive packages at the end of 1999, this type of service became increasingly popular and established itself as the core of the dial-up Internet sector. Today, the "no subscription" or "free" services are showing a slight decline while subscription offerings are relatively stable.

Since mid-2002, most of the Group's main competitors have decided to focus on providing ADSL-based broadband offerings. The proliferation of different service offerings accompanied by increased segmentation and strong competitive pressure stimulated growth of the Internet market during 2002 and 2003.

Since the end of 2002, local loop unbundling has provided a major opportunity for growth of the Group and its competitors (excluding Wanadoo), particularly regarding profitability and the development of service offerings (such as fixed telephony and audio-visual services).

In addition to pursuing market growth for broadband access to increase broadband use in the home as a means of winning new customers, Internet service providers also aim to migrate as many subscribers as possible from dial-up services to broadband in order to benefit from higher average earnings per subscriber.

4.6.2 Website hosting and sale of Internet domain names

Online's business covers both the web hosting market and, since the merger between Online.net and its subsidiary BookMyName, the sale of domain names.

The web hosting market is highly competitive, as demonstrated by the very large number of web hosting and service providers in the market (approximately 200), among which Online.net is a leader. According to the OECD, Online.net ranks with sites such as ovh.com, lerelaisinternet.com, amen.fr and transpac.fr as one of the best known Internet hosting sites. The fragmentation of competition in this sector has resulted in a wide range of pricing according to the size of the site to be hosted, the services provided (telephone support, dedicated server, forums, multiple simultaneous connections, etc.) and the expected number of visitors to the site.

The more specialized business of domain name sales is also subject to intense competition, and includes a number of specialist players such as gandi.net, joker.com and nsi.com, as well as most Internet service providers who offer web hosting services, such as Wanadoo or Tiscali.

4.6.3 Telephony operators

Competition in the fixed telephony market is characterized by the overwhelming dominance of the incumbent operator and by the considerable number of emerging operators.

Telephony

Since January 1, 2002, all subscribers have been able to choose their own operator for local calls, as had already been the case since January 1, 1998 for long distance and international calls and since November 1, 2000 for calls from fixed-line phones to mobiles. The operator can be selected on a call-by-call basis or else by automatic carrier preselection which allows subscribers to specify that all calls be automatically routed through the operator of their choice. As of December 31, 2002 (Source: ART), 3,979,179 million customers had opted for carrier preselection and 4,815,465 million for call-by-call selection.

In order to improve its position vis-à-vis its principal competitors (France Télécom, Cegetel, Tele 2, 9 Telecom, Omnicom), One.Tel is continuing to encourage its customers to opt for carrier preselection and is firmly positioned as having one of the most attractive pricing structures of any alternative operator in the market.

Until very recently, as a result of its restructuring, One.Tel had not undertaken any major television advertising campaigns, unlike its competitors. However, in light of potential profits going forward, the Group believes that investing in this type of advertising is an important means of promoting the brand and increasing market share.

The following table shows a comparison between the Group's fixed telephony offering and those of its main competitors in France.

The Group's fixed telephony offering compared to those of its main competitors (prices in euros (including VAT) per minute as of November 30, 2003, excluding special deals)

Calls made	from the Freebox modem	from a France Télécom line via:				
		One.Tel	**FT**	**TELE 2**	**CEGETEL**	**9 TELECOM**
Local	**10 hours free per month, then €0.01 per minute**	**€0.01**	**€0.033**	**€0.014**	**€0.017**	**€0.012**
minimum charge peak	*none*	*€0.10/call*	*60 sec: €0.091*	*60 sec: €0.122*	*60 sec: €0.122*	*60 sec: € 0.12*
minimum charge off-peak	*none*	*€0.09/call*	*60 sec: €0.091*	*60 sec: € 0.122*	*60 sec: €0.122*	*60 sec: €0.12*
National	**10 hours free per month then €0.01 per minute**	**€0.01**	**€0.091**	**€0.034**	**€0.041**	**€0.033**
minimum charge	*none*	*€0.11/call*	*39 sec: €0.11*	*20 sec: €0.122*	*20 sec: €0.122*	*20 sec: € 0.12*
International						
E.g.: United Kingdom	**€0.03**	**€0.059**	**€0.22**	**€0.08**	**€0.084**	**€0.05**
minimum charge	*none*	*€0.11/call*	*€0.12/call*	*15 sec: €0.122*	*11 sec: €0.122*	*10 sec: €0.13*
Mobiles Orange/SFR						
peak	**€0.19**	**€0.22**	**€0.23**	**€0.22**	**€0.22**	**€0.23**
minimum charge	*none*	*60 sec: €0.30*	*40 sec: €0.23*	*40 sec: €0.23*	*20 sec: €0.228*	*40 sec: €0.245*
off-peak	**€0.19**	**€0.08**	**€0.11**	**€0.08**	**€0.09**	**€0.075**
minimum charge	*none*	*50 sec: €0.23*	*40 sec: €0.23*	*40 sec: €0.23*	*20 sec: €0.228*	*40 sec: €0.225*
Mobiles Bouygues Telecom						
peak	**€0.19**	**€0.32**	**€0.29**	**€0.334**	**€0.31**	**€0.29**
minimum charge	*none*	*50 sec: €0.29*	*40 sec: €0.26*	*31 sec: €0.334*	*20 sec: €0.31*	*20 sec: €0.305*
off-peak	**€0.19**	**€0.16**	**€0.14**	**€0.174**	**€0.15**	**€0.0105**
minimum charge	*none*	*50 sec: €0.29*	*40 sec: €0.26*	*60 sec: €0.334*	*20 sec: €0.31*	*20 sec: €0.285*
Freebox	**Free**	**Cost of local call**	**Cost of local call**	**Cost of local call**	**Cost of local call**	**Cost of local call**

Prepaid phone cards

France Télécom launched the first prepaid phone smart card (the "*Télécarte*") in 1987. Prior to 1998, 100 million cards were sold each year. After the initial liberalization of the French market, a number of new prepaid phone card providers entered this market beginning in 1997-1998 with an offering based on coded calling cards and rapidly gained market share through aggressive pricing and wide distribution networks. In response to this competition, France Télécom during 2000 launched its own line of coded calling card products (known as the "*Ticket Téléphone*") in an addition to its Télécarte product.

The prepaid phone card market covers two main products:

- smart cards: a chip inserted on the front of the card records the remaining credit. This type of card is mainly sold by France Télécom under the Télécarte brand and may only be used in phone booths equipped with a special decoder. Today, the market for this product is in sharp decline due to the increasing popularity of PIN-based calling cards;

- calling cards: these cards have a unique PIN on the back which corresponds to a prepaid account in the operator's central system. This type of card, sold by Kertel, may be used from any type of touchtone phone, whether a residential, mobile, or public phone.

To use PIN calling cards, customers dial a toll free number (3003 or 3031 for Kertel). After entering a 12-digit code, customers can call anywhere in the world.

Kertel has chosen to focus on the PIN calling card market, offering consumers a choice among a complete range of cards:

- standard cards for general fixed telephony usage (the main competitors in this segment are France Télécom, Intercall and GTS Omnicom);

- geographical or "ethnic" cards aimed at specific regions or communities abroad (the main competitors in this segment are Telecom Center and Leader Communication);

- promotional cards provided by advertisers as part of their publicity strategy (such as product launches, promotions and customer loyalty campaigns) which serve as an ideal and widely accessible publicity tool for current or prospective customers.

Kertel's service offering is part of a relatively mature market.

Kertel's main competitor is the incumbent operator. A large number of other phone card providers have entered the prepaid card market, but they do not have as wide a distribution network or as attractive a pricing structure as the France Télécom Group.

The Group believes that in view of France Télécom's position in the smart phone card market, where the cost of the Télécarte service covers both the cost of manufacturing the smart card and the cost of its phone booths, there is no incentive for the incumbent operator to align its prices with those of its competitors.

4.7 BREAKDOWN OF REVENUES BY LINE OF BUSINESS OVER THE LAST THREE FISCAL YEARS

See paragraphs 5.2.2, 5.2.3 and 5.2.7 hereof.

4.8 PRINCIPAL ESTABLISHMENTS

All premises used for the Group's business are owned by the Group companies or are occupied under long-term lease agreements with third parties.

The Group has a long-term lease for a building occupying an area of 5,800 square meters located at 8, rue de la Ville l'Evêque, in the 8th *arrondissement* of Paris which houses all the Group companies. It also owns a property occupying an area of 2,740 square meters in the 19th *arrondissement* of Paris which houses technical equipment, leases premises situated at Bezons under a lease entered into on December 11, 2003 (6,900 square meters) and leases an equipment room in Courbevoie, Hauts-de-Seine to house its national network hub (1,140 square meters).

4.9 ILIAD'S POTENTIAL DEPENDENCE ON CERTAIN FACTORS

4.9.1 Dependence on patents and software licenses

The Group considers that it is not dependent to any significant degree on patents and software licenses owned by third parties. The Group has always given priority to developing equipment and software (particularly based on so-called "open" software such as Linux) by its research and development teams. For its ANNU service, the Group holds a license to use France Télécom's subscriber database, but believes that there is very little risk of this license not being renewed. Among the trademarks used by the Group's companies, only the One.Tel trademark is covered by a license for use in France, granted in 2001 by the British company Centrica Telecommunications Ltd. for a ten-year term in consideration for an annual fee based on revenues but capped at €250,000.

4.9.2 Dependence on supply, industrial, commercial or financial agreements

Network operated by the Group

Through its subsidiary Free, the Group has concluded agreements granting it Indefeasible Rights of Use ("IRU") of the dark optical fibers it uses. Under these long-term agreements, the Group has acquired the indefeasible right to use these fibers for a given period, without having to obtain any right-of-way easements. Most of these agreements were signed with the LDCom group and with local authorities for a period of ten years in the case of metropolitan loops (excluding Northern Paris), fifteen years for the national loop and twenty-five years for the Northern Paris loop. The first agreements expire on December 31, 2010. The Group considers the risk of non-renewal of these agreements to be very low, in view of the over-capacity of fibers already laid by LDCom and local authorities. However, if any of the agreements were not to be renewed, requiring the Group to find alternative solutions, the Group considers that the existence of many alternative operators already offering dark fibers provides satisfactory assurance that a replacement solution could be found before the expiration of the IRU agreements, particularly at the local level where many sections of dark fiber have been laid in recent years.

Furthermore, the Group believes that the IRU agreements reduce the risk of Group liablility for damage caused by the fibers of its network. The Group does acknowledge, however, that certain sections of the network which are laid on publicly owned land may be subject to certain restrictions related to the use and occupancy of public property. Finally, in accordance with the provisions of the IRU agreements signed with LDCom, LDCom and the Group are committed to jointly financing the construction of a new fiber route in the event of physical problems (such as a power failure caused by natural hazards, civil engineering works, etc.) affecting a section of LDCom's optical fiber network that is covered by the IRU agreements.

Freebox modem and Freebox DSLAM

The Group uses the services of two equipment assembly companies located in France to assemble the Freebox modem and the Freebox DSLAM with generic electronic components purchased from third party manufacturers. The choice of the components, the construction of equipment and the development of the software used by the Group for its business do not depend on components protected by intellectual property rights such that the Group's growth would be adversely affected were it to be deprived of access to such components. The Group considers the components used in its equipment to be highly standardized and therefore easily interchangeable. In the event of breakdown at the factories responsible for assembling the Freebox modems and DSLAMs, the Group also considers that it could use the services of other equipment assemblers. However, any such substitution of components or assemblers could be on less favorable financial terms and result in additional costs for the Group.

To minimize any risk of suspension or slowdown in the installation of its Freebox DSLAMs or delivery of its Freebox modems to customers, the Group aims to maintain constant stock levels sufficient to meet the Group's estimated needs for three months.

4.9.3 Dependence on new operating processes

Apart from the technical processes involved in local loop unbundling and the DSL technology itself, which is highly advanced, the Group does not consider itself to be dependent on new technical processes necessary for carrying out its business.

4.9.4 Main customers and suppliers of the Group

As the Group's service offerings are mainly targeted at the consumer market, almost all its revenue is achieved through sales to private individuals. Consequently, no single customer of the Group (other than France Télécom in the context of the "pay-as-you-go" access offering" described in paragraph 4.5.1.1 and the ANNU business described in paragraph 4.5.3.1 above) represents a significant percentage of its revenues.

As far as the Group's suppliers are concerned, the main contracts entered into by the Company relate to the Group's network and can be subdivided into two categories: contracts for the use of dark optical fibers, allowing the Group to operate its network, and contracts granting the Group access to the subscriber through interconnect and unbundling agreements entered into primarily with France Télécom.

IRU agreements involve the granting of usage rights by local authorities or private suppliers such as LDCom and CompleTel of optical fibers which make up the Group's network. Pursuant to these contracts, which are of a duration of between 10 and 25 years, a single up-front payment is made when the fiber is made available. A detailed description of these contracts is provided in paragraph 4.4.4.1 hereof. The risk to the Group of the non-renewal of these contracts is described in paragraph 4.9.2 hereof.

Interconnection and unbundling agreements provide the Group with access to its subscribers, either by means of the France Télécom network in the case of interconnection agreements or directly in the case of unbundling agreements. As described more fully in paragraphs 4.4.1.1 and 4.4.1.2, the interconnection and unbundling agreements, respectively, allow the Group (i) to interconnect its own network with the France Télécom network by means of a physical connection to an incumbent operator's switch and (ii) to take advantage of direct access to a segment of the network between the subscriber's telephone socket and the main distribution frame to which the subscriber is connected in order to achieve the closest possible proximity to the subscriber. In the case of interconnection agreements, the incumbent operator charges fees based on the transmission capacity made available to the operator. In the case of unbundling, the amounts charged by France Télécom are essentially limited to the rental of the copper pair, the filter and the copper tie cable that connect the subscriber's modem to the operator's DSLAM. France Télécom is required to make available to all alternative operators for both interconnection and unbundling.

The Group is also party to less strategic supply agreements, primarily with the assemblers of the Freebox modems and DSLAMs, and with Sagem, which supplies the company with USB/Ethernet ADSL modems and with advertising agencies.

The amounts charged by the incumbent operator in interconnection and unbundling agreements as well as amounts reinvoiced by the Group to France Télécom in connection with the "pay-as-you-go" access offering and the reverse look-up directory service are subject to review by the ART.

4.10 CHANGES IN THE AVERAGE NUMBER OF EMPLOYEES OVER THE LAST THREE FINANCIAL YEARS

4.10.1 Breakdown by line of business

As of November 30, 2003, the Group had a workforce of 520 employees, all with indefinite term employment contracts. This number has increased considerably compared with the first quarter of 2003 due to the acquisition of Kertel and the Group's policy of increasing its technical support and customer service teams working for its subsidiary Centrapel. The Group anticipates that the number of employees working for this subsidiary will rise due to the expected increase in the number of subscribers, particularly those using its telephony services, but also because of the Group's aim to improve the support service offered to the Group's customers.

Agreements relating to the reduction of working hours to 35 hours per week have been concluded within the Group companies in compliance with applicable legislation.

The table below presents the recent changes in the Group's workforce, broken down between management and non-management employees.

	as of December 31, 2001	as of December 31, 2002	as of June 30, 2003	as of November 30, 2003
Management	61	73	92	104
Non-management employees	162	188	248	416
Total	223	261	340	520

4.10.2 Breakdown of the Group's employees by line of business as of November 30, 2003

Iliad (holding company)	35
- management - non management	21 14
Internet (Free, Online, Freebox)	58
- management - non management	41 17
Centrapel	346
- management - non management	1 345
Telephony (Kertel, One.Tel, Kedra, Telecom)	71
- management - non management	35 36
Other Services	10
- management - non management	6 4
Total	520
- management - non management	104 416

4.10.3 Assessment of employee relations

Iliad considers that relations with its employees are good. Almost all the Group's employees work in the building housing all the Group companies, located in the 8th *arrondissement* of Paris.

4.11 CAPITAL EXPENDITURE POLICY

Figures relating to the Group's capital expenditures for the last three full fiscal years and for the fiscal year 2003 are provided in paragraph 5.2.4 hereof.

4.11.1 Company research and development policy

The Group's research and development policy was initially structured around two main objectives: offering differentiated services to subscribers using dedicated equipment and reducing costs relating to the construction and operation of its network.

It is with these two objectives in mind that Freebox S.A. developed the Freebox modems and the Freebox DSLAMs installed by Free. The Group intends to continue to develop in-house the architecture of the equipment used both in the operation of its network and in the provision of services to its customers, as well as the software applications based on "open" systems such as Linux used by all Group companies.

The team responsible for the Group's research and development is based at Freebox S.A. and is composed of 12 employees. In 2002, the Group devoted €1.6 million to research work mainly relating to the Group's Internet and Telephony businesses.

The aim of the Group's research and development policy is to ensure the development of network architectures and software solutions adapted for specific offerings and needs, and to ensure that the development of the corresponding equipment can easily be assembled by third party manufacturers on optimal financial terms. The R&D team is working on next-generation versions of the Freebox modem and DSLAM and is monitoring technological developments not only of ADSL 2 and ADSL 2+, but also of other technologies still in the experimental stage. Although Free has decided, along with the other leading access providers in the market, to develop its Internet services based on ADSL technology, other technologies such as WIFI networks or fiber-to-home technology could in the future be used instead of or in addition to ADSL.

4.11.2 Principal capital expenditure and acquisition of interests during the last three fiscal years

Details of the capital expenditure devoted to expanding the Group's national network (network equipment, IRU agreements, etc.) can be found in paragraph 5.2.1.3 hereof.

4.11.3 Principal capital expenditure in progress

The Group is currently concentrating its capital expenditure on local loop unbundling and is installing its Freebox DSLAMs in dedicated or shared co-location facilities provided by the France Télécom. The Group is also investing in the extension of its network density (increasing the number of connections to France Télécom sites) by constructing additional sections of optical fibers jointly with private operators or local authorities or by concluding IRU agreements with such operators or local authorities. In addition to the capital expenditure corresponding to the free provision to its subscribers of Sagem modems or Freebox modems, the Group is investing in the production of Freebox modems and Freebox DSLAMs by the Group's independent assemblers in order to be able to meet the growth in demand for broadband Internet access.

4.11.3.1 Description and method of financing

The table below shows the amount of principal capital expenditures undertaken during the years ended December 31, 2001 and 2002 and during the six months ended June 30, 2003:

in € millions	**2001**	**2002**	**Six months ended June 30, 2003**	**TOTAL**
Intangible assets	2,266	8,770	18,215	29,251
Property, plant and equipment	15,722	16,823	26,962	59,507
Long-term investments	321	319	875	1,515
Total	18,309	25,912	46,052	90,273

4.11.4 Principal future capital expenditure

The Group anticipates devoting substantially all of its future capital expenditures to (i) producing both the current and future versions of the Freebox modem and distributing these modems to its subscribers using unbundled lines and (ii) increasing its network density by installing additional Freebox DSLAMs in France Télécom sites and operating new sections of optical fiber. The Group also intends to continue to develop its access to the unbundled local loop by financing the construction of shared co-location facilities in France Télécom sites. This development will accelerate the migration of broadband subscribers to Option 1 (unbundled) which, as explained in paragraph 5.2.1.2 below, will result in a substantial reduction in the cost of providing broadband Internet access. In addition, the Group will continue to invest as necessary in securing and extending its network by increasing the number of optical fiber loops (thereby reducing risk of loss of service in the event of a power failure in any one section of the network) and will carry out certain civil engineering works, either independently or in conjunction with other parties, to extend its network (thereby increasing network density).

With respect to the unbundling of the local loop, the Group is using the information it has available regarding the geographical breakdown of its broadband subscribers to give priority to unbundling the local loops at those France Télécom sites serving the greatest number of subscribers and to secure a rapid and satisfactory return on its investment.

4.12 RISK FACTORS

Investors should be aware of the risks described below before making any investment decision. If one or more of these risks were to materialize, the Group's business activities, financial situation, results of operations and growth could be adversely affected.

4.12.1 Risks relating to Iliad's business and strategy

Difficulty in predicting future growth and profitability

The Group's revenues depend for the most part on the number of subscribers to its Internet access service, which is closely linked, directly or indirectly, to the increase in the number of Internet users in France, and in particular the number of broadband users. The level of future revenues generated by subscribers is therefore difficult to predict. If the increase in the number of Internet users in France were to slow, the Group's business, results of operations and financial situation could be seriously affected and the Group may be unable to meet all or some of its objectives.

The Group's capacity to adapt to significant growth

The Group is currently experiencing a period of significant growth in the demand for ADSL broadband Internet access. The Group's technical, financial and sales teams, and the Group's other resources such as the Centrapel teams managing the Group's online technical support and customer service platform, are already and will continue to be subjected to considerable pressure due to this growth. The Centrapel teams must therefore improve their response times to customer telephone calls as the number of such call increases.

To manage its growth effectively, the Group will be required to continue to upgrade its financial, operating and control procedures, replace or upgrade its operational and financial information systems and recruit, train, motivate, manage and retain managers and key employees. Any inability of the Group's management to manage this growth effectively would have a severe adverse effect on the Group's revenues, results of operations and financial situation.

Difficulty in upgrading the capacity of the platform for online access to the Group's services in line with the growth in Internet traffic

Until now the Group has been able to upgrade the capacity of its technical platform for online access in line with the growth in Internet traffic. Given the generally accepted forecasts for the growth of Internet traffic in France, however, the objectives that the Group has set for itself in terms of both increasing the number of users of its services (particularly for broadband Internet access) and expanding its network, the Group will require the resources necessary to provide a corresponding increase in the capacity of its access infrastructures. The can be no assurance that the Group will be able to obtain such resources.

Dependence on managers and key employees

The Group's success is highly dependent on maintaining its relationship with Xavier Niel, Chairman of Iliad's board of directors and the Group's majority shareholder, and with other managers and key employees. The Group has a culture which fosters teamwork and motivation, and has arranged for its main employees to acquire an ownership stake in Iliad's share capital, which significantly contributes to employee loyalty. However, there can be no assurance that these key employees will remain with the Group in the strong growth environment that is expected to continue.

In order to sustain its business, the Group is taking particular care to ensure that the engineers and technicians working on its platform and network and designing and developing the Freebox modem and the Freebox DSLAM are skilled in a number of different areas. The Group's future success will depend in particular on its ability to attract, train, retain and motivate highly qualified employees and managers. However, since competition to attract employees with such qualifications is intense, there can be no assurance that the Group will be able to do so.

The loss of one or more key employees or a manager or the Group's inability to attract other qualified employees could have a material adverse effect on the Group's revenues, results of operations and financial situation.

Dependence on the principal shareholder

In the event of the admission of the Company's shares to a regulated trading market, Xavier Niel is likely to continue to hold a substantial percentage of shares of the Company's share capital and to remain chairman of the board of directors. This will place him in a position of having a decisive influence over most of the Group's corporate decisions and in particular those requiring shareholder approval (such as the appointment and removal of directors, distribution of dividends, amendments to the bylaws and decisions concerning important Group transactions, including issuances of new shares of capital stock).

Rapid changes in pricing and technical aspects of Internet access offerings

The Internet access services market is characterized by rapidly changing pricing structures (such as usage-based charges, unlimited use packages and free access) and technical access methods (such as dial-up access, ADSL, etc.). The Group's access services are currently available on or through almost all the above pricing terms and technical methods. The development of new pricing structures and access methods based on different economic models, unforeseen changes in the relative importance of the various existing access service offerings or growth in use of existing replacement technologies (such as cable, satellite, and fiber to home) could undermine the economic assumptions on which the Group's development plan is based, which could have an adverse effect on the Group's business, results of operations and financial situation and on the Group's ability to meet its objectives.

Need to improve the technical features and functionality of the services offered by the Group

The Internet market is characterized by rapid changes in technology and in the types of services and features offered to customers. To remain competitive, the Group will continually have to improve the speed with which it responds to technological or other change and the functionalities and features of its products and services, and will have to develop new products and services that are attractive to its customers. The Group may not succeed in making these improvements or developments in a timely manner, which would have an adverse effect on the Group's business, financial situation, and results of operations and on the Group's ability to meet its objectives.

Availability of equipment for the development of the broadband Internet access offering

The Group believes that the components used in its Freebox modems and DSLAMs are standardized and substitutable and that its component stock management policy allows it to anticipate growth in demand for broadband Internet access. Nevertheless, a shortage in the availability of these components or a significant increase in their price could hinder the Group's ability to provide new customers, in a timely manner, with the Freebox modem required to access value-added broadband services, which could have an adverse effect on the Group's growth.

Effect of acquisitions or investments

As part of its external growth strategy, which may take the form of acquisitions, partnerships or alliances, the Group may make acquisitions or investments in any one of its business segments. Part of these acquisitions or investments could be paid for by the issuance of Iliad shares, which would result in dilution of the Group's existing shareholders. Such acquisitions and investments, whether paid for in cash or shares, could have an adverse effect on the market price of Iliad's shares.

Risk related to Kedra's business

The call termination business could be significantly affected if the prices charged by certain telecommunications operators were to fall, which would undermine the economic model on which the Kedra platform is based, or if the interconnection methods chosen and provided by third parties were no longer available. However, the Group considers that even the complete loss of this business would only marginally affect the gross margin generated by the Group's telephony business.

The forecasts provided herein could prove to be inaccurate

This *document de base* contains forecasts of the development of the number of Internet users and Internet use in Europe, and more particularly in France, as well as of the number of "unbundled" Internet users and personal computer penetration rates in France. There can be no assurance that these forecasts will be achieved, particularly because they use or are based on certain assumptions concerning the growth of the various sectors of the Internet market which cannot be verified. If the growth assumptions underlying any forecasts prove inaccurate, the Group's strategy, objectives and financial situation could be adversely affected.

Subsequent sale of shares by significant shareholders

The company's two main shareholders today are Xavier Niel and the Goldman Sachs funds. If, following an initial public offering of Iliad's shares, either of these shareholders were to sell a large number of shares, Iliad's share price could be affected, depending on the market condition at the time of the sale, the number of shares sold and the reasons for and the terms of the sale, as well as the public's perception of such sales.

4.12.2 Risks relating to the Internet and telecommunications sectors

ADSL is an unproven technology for the transport of high value-added data

Although widely used in the residential sector, ADSL technology is still relatively new, and its reliability and performance has not been fully established, particularly in the context of broadband use, for providing high value-added solutions requiring substantial bandwidth such as, for example, the transmission of high-definition audio-visual data. Technical failures cannot therefore be ruled out, although this risk is likely to be lessened over time as a result of experience and expertise acquired by the various access providers in this sector.

Consequences of changes in the pricing set out in France Télécom's Reference Interconnect Offer and Reference Unbundling Offer approved by the *Autorité de régulation des télécommunications* (ART)

The Group's profitability depends in part on the pricing and technical conditions established by France Télécom in its Reference Interconnect Offer (revised each year) and in its Reference Unbundling Offer (revised from time to time). Any significant increase in the prices or change in the technical conditions set forth in the Reference Interconnect Offer or the Reference Unbundling Offer, as approved by the Minister for Telecommunications on advice from the ART, could have a material adverse effect on the Group's business, financial situation and results of operations and on the Group's ability to meet its objectives.

Lack of experience in distributing audio-visual content

The Group, through its subsidiary Free, has very recently launched an audio-visual service offering over ADSL using the Freebox modem. The new European regulatory framework subjects all transmission networks and related services to the same rules with a view to achieving the convergence of the telecommunications, media and information technologies sectors (see paragraph 4.14.1). This new regulatory framework, which was to have been transposed into domestic law on July 25, 2003, currently exists only in the form of a draft bill. As a result, the regulatory authority to which the Group will be subject in respect of its audio-visual offering has not yet been determined. As the Group is not today a major distributor of audio-visual content, there can be no assurance that the provision of this service will not be delayed or restricted by law or by the regulator appointed to monitor the provision of audio-visual content services via ADSL, or will not be impeded by intellectual property constraints. Furthermore, the national legal and regulatory conditions under which such services may be provided have not yet been defined, resulting in uncertainty regarding the commercial and financial conditions of such services and the resulting potential impact on the Group's financial results.

Competition

The Internet and telephony markets are extremely competitive.

Internet

In the Internet sector, competition for customers for access services is intense and is likely to increase significantly in the future. The Group anticipates that competition in its market will increase due to

(i) the continued growth of Internet use in France, (ii) the increase in the number of strategic alliances among the Group's competitors, (iii) the introduction by some of the Group's competitors of pricing policies intended to counter Free's aggressive offerings and (iv) the presence in the market of certain multinational companies with greater economic resources than those of the Group.

Telephony

The fixed telephony sector in France is a mature market and therefore not likely to undergo rapid expansion, and is heavily dominated by the incumbent operator. Although the Group believes it possesses a number of competitive advantages in this market, including in particular the use of its own network, it cannot guarantee that it will manage to develop its fixed telephony business as planned in a sector where the players are principally multinational companies whose financial resources exceed those of the Group, and in which the capacity for investment, particularly in advertising, presents a considerable advantage.

Other Services

The ANNU service is based essentially on a license to use France Télécom's directory database. The Company can make no assurances that France Télécom will not grant this license to third parties or that its revenues from the Minitel market, which are already in decline, will not fall more rapidly than anticipated.

Security and confidentiality of information on the Internet

The need to secure communications and transactions on the Internet has been a major obstacle in the development of the Internet in general. Internet use may decrease if the achieved level of protection of communications and transactions proves to be inadequate or diminishes. The Group has taken and is continuing to take significant measures to guarantee the reliability of its security system and to limit problems that may be caused by security failures or a breach of the security system. Unauthorized persons might attempt to penetrate the Group's network security system. If they manage to do so, these persons might appropriate privileged information about the users of the Group's services or cause the service to be suspended. Some leading sites and suppliers of Internet services have suffered from "denial of service" attacks, in which very large numbers of requests for information are sent to the site with the aim of overloading its servers, or have been the victims of Internet viruses. Although the Group is taking the steps necessary to protect itself against such attacks, there can be no assurance that further attacks would not result in the incurrence of damages, even if only in terms of image. Consequently, the Group might be required to increase its expenditures and its efforts to protect itself against these risks or to alleviate their effects, which could have a significant impact on its business, financial situation and results of operations and on its ability to meet its targets.

4.12.3 Market risks

Foreign exchange risks

The Group believes that foreign exchange risks are not a significant concern for its business as it is carried out only in France. Virtually all of the Group's revenues, operating expenses, capital expenditures, assets and liabilities are expressed in euros. Only some of the equipment installed on the Group's network or electronic components used in the Freebox modem or the Freebox DSLAM may result in charges incurred in a currency other than the euro.

Liquidity risk

The Group has historically financed its growth principally with internal resources, with limited recourse to borrowing from time to time to finance specific projects. At June 30, 2003, the Group's net cash position stood at €14.7 million compared to €21.3 million at December 31, 2002. The high ratings awarded to Iliad by the Banque de France for 2003 (with a credit rating of 3 and payment rating of 7, corresponding to ratings awarded to "companies with the best credit rating and whose capacity to honor their financial commitments is fully assured") attest to the quality of the Group's management of its debt.

The Group is not subject to any liquidity risk as a result of prepayment clauses in loans entered into by Group companies or as a result of the breach of any financial covenants (such as ratios, objectives, etc.)

Interest rate risk

The Group is not exposed to any significant interest rate risk. The Group companies have only incurred a small number of loans which are described in chapter 5 hereof and in respect of which the outstanding balance amounted to €15.9 million as of September 30, 2003. The Group's cash is placed in variable rate investments. As of September 30, 2003, the Group had not entered into any hedging arrangements to cover interest rate risk. In addition, the Group has no significant investment assets (such as bonds, treasury bills, other negotiable debt instruments, loans and advances) and no off balance sheet commitments which might expose the Group to interest rate risk (such as securities subject to put rights, term interest rate contracts, etc.)

The table below shows the Group's net interest rate exposure (at June 30, 2003) as well as an analysis of the sensitivity of the Group to interest rate fluctuations:

(in € millions)	Less than 1 year	From 1 to 5 years	Greater than 5 years
Investment liabilities	9,162	9,474	921
Investment assets	0	0	0
Net exposure prior to hedging	(9,162)	(9,474)	(921)
Off balance sheet commitments	0	0	0
Net exposure after hedging	(9,162)	(9,474)	(921)

Net interest rate exposure renewable in less than one year (in € thousands)	9,162
Interest rate fluctuation	1%
Average remaining time prior to maturity (in months)	6
Sensitivity (in € thousands)	46

Share risk

None.

4.12.4 Legal risks

Risks relating to the Group's relations with the incumbent operator

Despite the legal and regulatory framework requiring the incumbent operator, France Télécom, to permit the development of local loop unbundling and to grant the Group access to its installations, the Group may be confronted by situations where there is a conflict of interest with France Télécom as the dominant competitor and principal supplier. France Télécom could exercise a significant influence over the Group's operations and strategy and restrict its capacity for growth.

Risks relating to legal or regulatory issues

The application of existing laws to the Internet and to the applications and services connected to the Internet is currently being refined in France and the European Union and a certain number of legislative and regulatory proposals applicable to the Internet are being considered, particularly with respect to the protection of personal data and liability for content. These regulatory uncertainties could have a material adverse effect on the activities, results of operations and financial situation of the Group companies and on the Group's ability to meet its targets.

Risks relating to liability for content

French law is uncertain with respect to the liability of access or hosting providers and portal operators, such as Free and Online, for the content of websites accessible through their services. Some suits have been filed in the past, in France and other countries, against access or hosting providers because of the content of the information transmitted or made available online (in particular for press-related violations, invasion of privacy and trademark infringement). Free and Online may be subject to similar suits and could incur significant costs in order to defend themselves against such claims. Analysis of the proceedings and the preparation of an appropriate defense could prove to be costly even if Free and Online were are eventually held not liable. Finally, the existence of any such proceedings could have an adverse effect on the Group's reputation.

Intellectual property rights

The Group can provide no assurance that measures taken in France and abroad to protect its intellectual property rights, particularly its trademarks, logos and domain names, will be effective or that third parties will not infringe or appropriate its intellectual property rights. Furthermore, given the worldwide reach of the Internet, the Group's trademarks, and particularly Iliad, Free, ANNU and Kertel and other forms of intellectual property, could be distributed in countries offering less intellectual property protection than European countries or the United States of America. Given the importance to the Group of the recognition of its trademarks, any infringement or appropriation of this kind could materially adversely effect the Group's business, results of operations, financial situation and its ability to meet its objectives.

Furthermore, certain of the Group's trademarks (particularly Free and Online) co-exist with other identical trademarks registered by third parties for similar telecommunications services.

This situation is likely to require the Group in the long term to co-exist on its market with trademarks similar to its own. There is a risk that this co-existence could result in a dilution of these trademarks market which could adversely effect the Group's business, results of operations and financial situation and its ability to meet its objectives.

Lastly, given the hi-tech nature of the Group's business, the Group can provide no assurance that it is not infringing the intellectual property rights of third parties. This is an inherent risk for all operators in the telecommunications, audio-visual and Internet sectors and is typically resolved through licensing agreements with the holders of the relevant intellectual property rights.

Risk relating to the use of "open" system software

The Group is developing its own software programs on the basis of so-called "open" software, and in particular Linux. Open software consists of programs made available to users either free of charge or for a small fee. Based on the concepts of sharing and free use of source code, such software is distributed under a specific type of license (such as the GNU General Public License) generally allowing the user to modify and re-use the software without having to obtain prior permission from the rights holder. Furthermore, any software development which uses open software must, in turn, be freely accessible to and re-usable by third parties under the same conditions as the integrated open software.

The use of open software allows the user to benefit from the expertise of a community of developers at a lower cost than that charged for other commercially available software. However, open software does not come with a contractual warranty. Furthermore, the chain of ownership of the copyright to open software is uncertain. Consequently, the Group may be subject to liability in the event of the failure of an open system software program or an infringement action by a third party claiming to be the holder of intellectual property rights in such a program

Confidentiality constraints

The Group does not consider that is has any specific confidentiality constraints.

Links with or dependence on other companies

In order to achieve transmission capacity and quality levels required to respond to the increase in the number of customers and to meet their requirements, the Group relies partly on the use of passive telecommunications infrastructures belonging to LDCom and other operators such as CompleTel or on networks deployed by certain local authorities.

Assets required for business operations not owned by Iliad

Other than networks to which Iliad is interconnected and certain interconnection equipment and the dark fibers used by its network under long-term IRU agreements, the Group considers that it is the owner of all the assets required for carrying out its business operations.

Special tax provisions

Iliad is not subject to any special tax provisions.

Disputes

In the normal course of its business, the Group is involved in a certain number of legal proceedings. Provisions have been recorded for these disputes in accordance with generally accepted accounting principles in France. To the Company's knowledge, there does not exist any litigation, arbitration or exceptional event which has had or is likely to have a significant impact on the financial situation, results of operations, activity and assets of the Company or the Group.

In 2002, France Télécom brought a proceeding against One.Tel before the Nanterre commercial court asking the court to require One.Tel to terminate comparative advertising in the Lille region. In its complaint, France Télécom sought damages and interest in the amount of €1.5 million and €150,100 to cover the cost of publishing a decision in its favor. France Télécom's claim was dismissed and it has appealed this decision to Versailles Court of Appeals. The Group considers France Télécom's claim to be unfounded. Regardless of the ultimate outcome of this litigation, it is unlikely to have a material adverse impact on the Group's financial situation or the pursuit of its business activities.

4.12.5 Regulation

The Group's business activities are subject to the laws and regulations of the European Community and France governing the electronic communications sector (including telecommunications and Internet access) and an information-based society.

4.12.5.1 Regulation of networks and electronic communication services

The Community regulatory framework on electronic communications

1990 – 2003: regulations reinforced to allow the opening of the markets

Between 1990 and 1997, the Community legislator adopted a series of directives providing for the abolition, as from January 1, 1998, of the national monopolies on the telecommunications market. The Community telecommunications framework also included harmonization measures concerning the rules governing licenses and authorizations, interconnection and access to the network, and universal voice telephony service. These measures were to have been transposed into domestic law prior to January 1, 1998.

The Community regulatory framework has been transposed into French law, in particular by Law No. 96-659 of July 27, 1996 and Order No. 2001-670 of July 25, 2001 modifying the French Post and Telecommunications Code. The progress of the transposition of the regulatory package in the Member States is the subject of an annual report by the European Commission, available at the following address:

http:/www.europa.eu.int/information_society/topics/telecoms/implementation/index_en.htm.

The control and actual implementation of the European regulatory framework is the responsibility of the national regulatory authorities. In France, this is the responsibility of the ART created in January 1977.

Since July 2003: simplified regulations to consolidate the opening of the markets

The European Commission, considering that the first phase of the opening of the market has been achieved, proposed that the Community legislator relax the specific regulations and standardize the rules applicable to all electronic communications networks, taking into account the expected convergence of telecommunications, audio-visual and information technologies.

On July 25, 2003, the former European regulatory framework was replaced by a new regulatory framework (the "2002 Telecoms Package") which was to have been transposed into the national laws of the Member States by that date.

The 2002 Telecoms Package brings all transmission networks and related services under the same regime. The scope is therefore no longer limited solely to telecommunications but covers the whole of the electronic communications sector, including mobile, cable, satellite, telecommunications and broadcasting of radio or audio-visual programs. It does not, however, apply to the content of services provided over electronic communications networks using electronic communications services, such as the radio broadcasting of content (in particular radio or television programs), financial services and certain services specific to an information-based society (see the paragraph below entitled "Regulation of the content of electronic communications") which are subject to other regulations.

The 2002 Telecoms Package includes in particular the following texts:

– Directive 2002/21/EC of March 7, 2002, on a common regulatory framework for electronic communications networks and services ("Framework Directive"), which establishes a harmonized regulatory framework for electronic communications networks and services. The Framework Directive defines the role of the national regulatory authorities ("NRAs") in respect of the management of radio frequencies, numbering, rights of way, co-location and resource sharing, accounting separation, interoperability and the resolution of disputes between operators. It also introduces a new concept concerning the designation of enterprises with significant market power over the relevant market and establishes criteria and procedures aimed at ensuring a coherent assessment of the dominant enterprises throughout the European Union. In this regard, the framework directive is supplemented by (i) the Commission Recommendation of February 11, 2003 (C(2003)497) on the identification of the relevant product and service markets which may require regulatory intervention vis-à-vis operators with significant power on the relevant market, and (ii) the Commission Guidelines of July 11, 2002 (2002/C165/03), the purpose of which is to assist the NRAs with market analysis and the identification of operators with significant power on the relevant markets. The Framework Directive provides that Member States must impose obligations on companies with significant market power proportional to the distortion of competition on the market in question.

– Directive 2002/19/EC of March 7, 2002 on access to and interconnection of electronic communications networks and associated facilities ("Access Directive"). This directive harmonizes the rights and obligations of operators and service providers requesting interconnection or access to electronic communications services or networks. The Access Directive establishes objectives for the NRAs concerning access and interconnection, and determines procedures for ensuring that the obligations imposed by the NRAs are reassessed and possibly withdrawn once the desired targets are actually met.

– Directive 2002/22/EC of March 7, 2002 on universal service and users' rights relating to electronic communications networks and services ("Universal Service Directive"). The purpose of the Universal Service Directive is first to ensure the availability in the Community of quality services accessible to the public through increased competition and choice, and second to deal with circumstances where the market does not satisfactorily address the requirements of end-users. The Directive defines a minimum level of services of a specified quality to be available to all end-users at an affordable price, taking into account specific national conditions and without distorting competition. The Universal Service Directive also determines obligations in terms of the supply of a certain number of mandatory services, such as the retail supply of leased lines or carrier selection (either through carrier preselection or selection on a call-by-call basis).

– Directive 2002/20/EC of March 7, 2002 on the authorization of electronic communications networks and services ("Authorization Directive"). This Directive harmonizes and simplifies the rules and conditions for the authorization to supply electronic communications networks and services. It abrogates the individual license regime in favor of a general authorization regime (*i.e.* one based on a notification procedure). Only the allocation of scarce resources (such as radio frequencies and numbers) may be covered by individual rights of use.

– Directive 2002/77/EC of September 16, 2002 on competition in the markets for electronic communications networks and services. This replaces Directive 90/388/EEC, as amended, and its aim is to extend the scope of the liberalization process to cover all electronic communications. The Directive takes into account the convergence phenomenon and groups under a single definition all services and networks used for the conveyance of signals, thereby restating the principle of the freedom to offer communications services and networks.

– Regulation (EC) 2887/2000 of December 18, 2000 on unbundled access to the local loop. This Regulation, which is directly applicable in all Member States, provides that all operators with significant market power must offer unbundled access to their local loop and associated facilities under transparent, fair and non-discriminatory conditions.

In France, a draft transposition bill was adopted by the Council of Ministers on July 31, 2003 and submitted to Parliament. The draft bill essentially contains amendments to the French Post and Telecommunications Code and Law No. 86-1067 of September 30, 1986 on the freedom of communication. As of November 1, 2003, the draft bill had not been added to the agenda of parliamentary debates. It is therefore unlikely that it will be discussed and adopted before the end of the first half of 2004.

While awaiting the transposition of the 2002 Telecoms Package into French law, on July 17, 2003, the Minister for Industry and the ART issued "guidelines" for all market participants on the regime applicable in the main regulatory areas during the period between July 25, 2003 and the date on which the transposition texts are adopted into domestic law. However, with this transitional regime, it is not possible to predict with certainty how the 2002 Telecoms Package will actually be transposed or what impact it will have on the Group's business activities.

Operation of a public telecommunications network / Provision of public telephone service

Prior to July 25, 2003, the installation and operation of a public telecommunications network (provided for in Article L. 33-1 of the French Post and Telecommunications Code) and the provision of public telephone service (provided for in Article L.34-1 of the same code) required an individual administrative authorization, valid for fifteen years, issued by the Minister for Telecommunications after examination by the ART. According to the guidelines published by the Minister for Industry and the ART on July 17, 2003, existing authorizations are deemed to constitute a notification within the meaning of the 2002 Telecoms Package, in accordance with the principles specified in Article 17 of the Authorization Directive.

The Minister for Telecommunications has issued the following authorizations to the Group companies: L. 33-1/L. 34-1 license granted to Free (Ministerial Order of December 14, 2000, amending the Order of November 9, 1999), L. 34-1 license granted to One.Tel (Order of September 1, 2002 amending the Order of November 21, 2000) and L. 34-1 license granted to Kertel (Order of March 14, 2002).

The holder of an L. 33-1 license (and, as of July 25, 2003, of an electronic communications network declaration) may obtain rights of way in consideration for the payment of a license fee, in order to establish its network infrastructure on public roads or other public property and to benefit, under certain conditions, from easements on private property. The Group benefits from these rights and has developed its network infrastructure mainly on public property.

All licensed operators must pay annual fees, including in particular fees for management and control of licenses and of the numbers allocated to the operator and the annual contributions to the Universal Service fund in proportion to the licensed operator's volume of business activity. These two arrangements have been contested before the French[1] and Community[2] authorities and should be modified in the near future.

Internet access provider business

In the context of the French and Community regulations, the provision of Internet access is free and does not require any authorization.

Prepaid cards

The sale of prepaid phone cards (such as those sold by Kertel) and, more generally, the purchase (and/or resale) of telecom minutes is free and does not as such require an L. 33-1 or L. 34-1 license.

[1] Judgement of June 19, 2003 of the Paris Administrative Tribunal.
[2] Decision C 146(00) of December 6, 2001 of the European Court of Justice (European Commission v. the French Republic).

Interconnection

The provision of regulations governing the access and interconnection of each licensed operator to the incumbent operator's network and those of the other licensed operators is essential for opening the market. Such regulations lower the barrier to entry represented by the high cost to a new entrant of having to build its own network. The ART has consequently focused on interconnection pricing and technical conditions promoting the development of a specific and functional framework.

Community and French access and interconnection regulations set out specific principles for the pricing of interconnection services and the allocation of the cost of universal service requirements, impose specific accounting requirements in order to avoid the artificial support of one activity by another by unfair cross-subsidization, define the principles of access to essential facilities (ducts, conduits, sites and buildings) and the principles of telephone number allocation, define the role of the national regulatory authorities and introduce a common process for settling disputes. The operators designated by national regulatory authorities as having "significant market power over a relevant market" must offer interconnection access to other operators on a reasonable and non-discriminatory basis. Prior to July 25, 2003, four relevant markets had been defined in France: (i) the fixed public telephony market, (ii) the leased-lines market, (iii) the mobile public telephony market and (iv) the national interconnection market. In 2004, following a market definition analysis conducted by the ART, approximately ten markets could replace the four existing markets. For the time being, only those operators of public networks having significant market power on the fixed telephony and leased lines markets are required to publish a document detailing their interconnection pricing and technical conditions in a "Reference Interconnect Offer" document, which is subject to prior approval by the ART. A list of these operators is drawn up each year by the ART, after obtaining the opinion of the French Competition Council. In addition to their obligation to respond to interconnection needs, these operators must also meet justifiable requests for special access and must comply, under objective, transparent and non-discriminatory conditions, with interconnection requests made by any licensed operator. Consequently, France Télécom must offer interconnection to its competitors, including Free and One.Tel, under the same conditions as to other licensed operators (including its subsidiaries). Requests for interconnection may not be refused if they are reasonable, taking into account the needs of the party and the operator's ability to meet such needs. Interconnection requests are the subject of an agreement between the parties, a copy of which is sent to the ART, and must comply with legal and regulatory requirements, including in particular Decree No. 97-1881. The ART has the power, after obtaining the opinion of the Competition Council, to require the modification of an interconnection agreement in order to ensure that both competition and the interoperability of the telecommunications services are maintained. Finally, in the case of a dispute relating to interconnection, either party may submit the dispute to arbitration by the ART, whose decision is binding on the operators, although the operators retain a non-interlocutory right of appeal.

On February 15, 2000 Free signed an interconnection agreement reflecting in operational terms the principles set forth in France Télécom's Reference Interconnect Offer. Amendments were added to this agreement describing not only the implementation of the services introduced in the successive editions of the Reference Interconnect Offer but also the interconnection services supplied by Free to France Télécom, such as call termination on Free's local loop and collection of calls made from Free's local loop to France Télécom's special numbers.

Each year France Télécom publishes a Reference Interconnect Offer, subject to prior approval by the ART, which sets forth the principal interconnection rates, a list of interconnect access points, the terms for connection by third party network operators to these access points, the support services provided by France Télécom, the conditions applying to carrier selection (selection on a call-by-call basis or preselection) and the interconnection of other operators' leased lines, as well as the provision of partial leased lines and interconnect links.

The ART has issued several decisions relating to the successive versions of France Télécom's Reference Interconnect Offer and has imposed a gradual reduction in rates based on the principle of cost-based pricing (see particularly Decision No. 02-1027 of November 5, 2002, in which the ART established long term average incremental costs as a basis for France Télécom's interconnect rates, replacing the previously employed method of projected relevant average booked costs).

As concerns the Group, the ART issued a decision on July 24, 2003 (Decision No. 03-905) on the complaint submitted by the Company on March 28, 2003 requesting the ART's ruling regarding a dispute with France Télécom concerning the form of interconnection used to route telephone calls to the "universal and personal numbers" of its "Freebox" subscribers (08 7B PQ MC DU numbers). The ART decided that following a transitional phase to end no later than July 1, 2004, the parties must implement a direct interconnection arrangement for the routing of calls to the Freebox subscribers' numbers assigned to the Company. However, the ART considered that the unusual circumstances of the dispute between France Télécom and Free merited the immediate, temporary application of the technical and pricing measures of the indirect interconnection offer currently provided by France Télécom to route calls to the special services of third-party operators, at the rate charged by France Télécom to route calls to its "Azur" numbers, thereby allowing the Company to launch its telephony over ADSL offering using the Freebox modem. However, the ART emphasized that the application, by July 1, 2004 at the latest, of direct interconnection for the routing of calls to numbers allocated to Free, depending on the call termination charges billed by Free, could lead to France Télécom applying a different rate than for calls to "Azur" numbers.

Dial-up Internet access

The regulation of dial-up Internet access is based on interconnection regulations.

In France, France Télécom's Reference Interconnect Offer has gradually been amended through numerous opinions and decisions issued by the ART, particularly concerning the settlement of disputes between France Télécom and new market entrants, in order to allow Internet service providers to benefit from operational and pricing conditions enabling them to carry on their business. France Télécom supplies interconnected operators with call collection services at prices based on cost, and bills on behalf of third party operators for traffic generated by customers, retaining 2% of such billed revenues.

France Télécom's interconnect offer was improved during the second half of 2001 by the addition of new pricing conditions for the routing of switched traffic through the introduction of flat-rate Internet interconnection (FII), where rates are based on the network capacity bought by the operator, unlike the traditional offer based on the duration of the connection.

Broadband Internet access and local loop unbundling

The provision of broadband Internet access is based on either (i) physical access to France Télécom's metallic local loop allowing the new operator to operate its own access equipment in order to offer its own differentiated services, or (ii) access to France Télécom's DSLAMs, combined with the collection of subscribers' data traffic and delivery of this traffic to one or more of the supplier's points of presence. The former service provided by France Télécom is called "local loop unbundling" while the latter service is known as "bit stream access", more commonly called "Option 5" or "Option 3" in France.

The Group uses both of these options to provide its customers with broadband Internet access (see paragraph 4.5.1.1 above).

Local loop unbundling

Community Regulation No. 2887/2000 of December 18, 2000 on unbundled access to the local loop requires operators designated as having significant power over the access segment (in France, this means in practice France Télécom) to publish a reference offer for unbundled access, including shared access, to their local loops and related facilities, including information relating to the technical characteristics of the metallic links, the addresses of the main MDFs, the conditions of co-location, etc. As a Regulation, this text is directly applicable in all Member States and therefore does not require any transposition at the national level. In France, however, a Decree dated September 12, 2000, (the "local loop decree") requires dominant operators (*i.e.* France Télécom) to meet reasonable requests for access to their metallic local loop infrastructure as of January 1, 2001. However, it was not until the first half of 2002 that France Télécom's reference offer, amended as requested by the ART, first permitted the effective commencement of local loop unbundling in France.

Access to the local loop can take one of the following two forms:

- the incumbent operator provides access to the metallic part of its network between the main distribution frame and the termination point located on the subscriber's premises (full unbundled access to the local loop); or

- the incumbent operator provides access to the high frequency spectrum on this same part of its network and continues to provide a traditional public telephone service using the low frequencies (shared access to the local loop).

The terms of access to the local loop are determined by a private law agreement that must be communicated to the ART upon its request.

On December 6, 2002, Free signed an agreement for access to France Télécom's local loop reflecting in operational terms the principles set forth in the public reference offer.

In accordance with Community regulations and with the decree relating to the local loop, rates for unbundled access to local loops must be based on cost. In particular, the network elements are valued at their long term average incremental cost. The ART determined that shared access to the local loop should be valued in terms of the specific costs incurred (Decision No. 02-323 of April 16, 2002).

Regulation (EC) 2887/2000 dated December 18, 2000 grants the ART the power to impose changes on the reference offer for unbundled access to France Télécom's local loop. The ART has made use of this power on several occasions and particularly on April 16, 2002. France Télécom then published a new reference offer on June 14, 2002. This new reference offer includes the provisions required by the ART, particularly those concerning the co-location of third party operators' equipment next to that of France Télécom and pricing for leasing unbundled lines by network operators.

Approval process

Access to France Télécom's DSLAMs and the associated collection of bit streams are organized under the terms of a set of contracts (called "IP/ADSL" and "IP/ADSL Collection" contracts) and price changes are now subject to an approval process, following an arbitration decision issued in 1999 by the Minister for Telecommunications (cf. ART Decision No. 99-582 in response to the France Télécom pricing decision No. 99077 E in relation to the new Netissimmo and Turbo IP services).

Numbering and carrier preselection

As of January 17, 2000, subscribers may opt for the automatic preselection of their long distance operator, allowing them to access to such operator's network without having to dial their one- or four-digit prefix. Carrier preselection has been available for calls to mobile phones since November 2000 and for local calls since the beginning of 2002, at the option of the carrier. Since January 1, 1998, any subscriber changing operators for fixed telephone services who does not also change geographical locations may keep his or her telephone number. Number portability has been available for shared-cost services since the second half of 2001 and for shared-revenue services since December 17, 2002. The technical conditions for carrier preselection and number portability are set forth in France Télécom's Reference Interconnect Offer and are included in the interconnection agreements concluded between France Télécom and third party operators.

Directories and provision of subscriber lists

The main Group services affected by the provisions described below are the Minitel (3617 ANNU) and telephone versions of its reverse look-up directory service, ANNU.

Ordinance No. 2001-670 of July 25, 2001, adapting the French Intellectual Property Code and the French Post and Telecommunications Code to Community law, transposed several European directives into French law, including the Directive on the protection of personal data in the telecommunications sector (Directive 97/66/EC) and the Directive of February 26, 1998 on the application of open network provision (ONP) to voice telephony (98/10/EC). The aforementioned Ordinance No. 2001-670 of July 25, 2001 provides that operators are required to supply their subscriber lists when so requested under non-discriminatory conditions and at a price reflecting the actual cost of the service provided, with the aim of publishing a universal directory or providing a directory inquiries service, even if geographically restricted.

The means of obtaining access to these lists are set out in a legal and regulatory framework requiring non-discriminatory access and fees reflecting costs, as well as the protection of personal rights. These provisions have been defined in an implementing decree (No. 2003-752 of August 1, 2003) which determines the conditions for provision of the lists in order to establish truly universal directories and directory services, including for mobile subscribers. In accordance with the 1998 directive mentioned above, these lists must be provided at a price reflecting actual cost.

As concerns the Group's business, the ART issued a decision on September 23, 2003 (Decision No. 03-1038) following a request submitted by the Company for the ART to rule on a dispute with France Télécom concerning the technical and pricing conditions of access to the incumbent operator's subscriber list in order to provide a universal directory service. The ART considered that the structure of France Télécom's pricing offer did not respect the principles of cost-based pricing and non-discrimination and was likely to restrict the development of competition. The ART directed France Télécom to propose to the Company, within a period of 60 days, an offer respecting the principles of cost-based pricing and non-discrimination. On October 23, 2003, France Télécom filed an appeal before the Paris Court of Appeal for the annulment of the September 23, 2003 decision.

This issue of access to France Télécom's subscriber lists also gave rise to a ruling by the French Competition Council on September 12, 2003 (Decision No. 03-D-43). Based on general competition law, the Council, following a complaint by Sonera France and Scoot France, held that France Télécom had failed to comply with the injunctions issued against it by the Paris Court of Appeal in its ruling of June 29, 1999 concerning the operator's failure to comply with the principles of non-discrimination and cost-based pricing of its file management business, and fined France Télécom €40 million for this practice.

Provision of audio-visual services via ADSL

The regulatory framework applicable to the provision of audio-visual services via ADSL has not yet been defined in France. The 2002 Telecoms Package provides that the transmission and broadcast of radio and television services (whatever the means of signal transmission) falls within its scope and is consequently subject to the control of the national regulatory authorities. A draft bill relating to the incorporation into French law of the 2002 Telecoms Package is contemplating extending the authority of the Conseil Supérieur de l'audiovisuel ("CSA") to all radio and television services, whatever their method of transmission and distribution. The draft bill also aims to make the current regime governing the broadcast of radio and television services more flexible by making the distribution of such services on a network not using frequencies allocated by the CSA (and therefore including distribution via ADSL) subject solely to prior declaration to the CSA. Furthermore, discussions are currently under way on the regime to be applied to video-on-demand services and to radio and television services with partially interactive content.

On November 28, 2003, the Company and its principal subsidiary, Free, instituted a proceeding before the French Competition council against France Télécom, TFL and Métropole Télévision (M6) for abuse of dominant market position on the publication of private televised content. The Company presented its complaint to the Competition Council on December 10, 2003. The Groupe believes that this proceeding does not pose any risk to it since a negative outcome would have no impact on its business outlook as described herein.

Government initiatives relating to networks in an information-based society

The growth of the Internet is particularly dependent on the deployment of infrastructures capable of accommodating an increase of services using large amounts of bandwidth. Such infrastructures are already in place or are in the process of being developed, such as optical fiber networks, cable, satellite, radio network (including the 802.11 standard) and, in the near future, UMTS.

In November 2002, the French government launched its RE/SO 2007 initiative (For a digital Republic in an information-based Society) with a view to making up for ground lost by France in the information society. This initiative anticipates an increase in broadband access and aims to achieve a target of ten million broadband Internet subscribers in France within the next five years, and to enable every local district in France to have broadband Internet access by 2007. The plan aims to stimulate supply by creating a favorable environment for the development of infrastructure, content and services while increasing a climate of confidence that will insure the protection of users and contribute to the development of e-commerce. A draft bill for *confidence in the digital economy* adopted by the Council of Ministers on January 15, 2003 is also under discussion in Parliament. This draft bill is intended to adapt French law to accommodate the growth demands of the of the digital economy and to increase confidence in the use of new technologies. The draft bill, which supplements the incorporation into French law of the electronic commerce directive, sets forth the provisions governing the liability of access and hosting providers and covers the domain name addressing system and encryption technology. The draft bill also proposes to amend the current provisions of the General Local Authorities Code in order to facilitate the deployment of telecommunications infrastructures by local authorities.

4.12.5.2 Provisions governing the content of electronic communications

Content of online services and liability of Internet market participants

The provisions currently governing the content of online services make a distinction between private correspondence, whose secrecy is protected, and public communications, whose freedom is guaranteed. While this legal framework is based on the fundamental principle of freedom of communication guaranteed under the French Constitution, the Law of July 29, 1881 on freedom of the press and the Law of September 30, 1986 on freedom of expression, its aim is also to respect fundamental principles of French law such as the protection of privacy, the protection of minors, the prevention of illicit content, the protection of personal image and personal rights, and respect for human dignity.

Directive 2000/31/EC of June 8, 2000 on certain legal aspects of information society services in the domestic market, and particularly those relating to e-commerce as set forth in the "electronic commerce directive", sets forth the responsibilities and obligations of access and hosting providers. This directive was to have been transposed into domestic law no later than January 17, 2002. It was only partially so transposed by the Law of August 1, 2000 amending the law of September 30, 1986 by the addition of a new chapter concerning online communication services other than private correspondence (Articles 43-7 to 43-10 of the Law of September 30, 1986). The main provisions of this chapter are as follows:

- Publishers of online communication services are required to identify themselves directly or indirectly. Pursuant to Article 43-10 of the Law of 1986, as amended, individuals publishing an online communication service on a non-professional basis are required to indicate on their website their name and address or, if they wish to remain anonymous, the name and address of their hosting provider. Legal entities and individuals publishing a website on a professional basis must provide their full details on their website, as well as the name of the director or co-director of the publication and the name and address of the hosting provider. Hosting providers and access providers must supply the publishers of online services with the technical means to meet their identification obligations.

– Access providers and hosting providers are required to retain data that can identify persons who participated in the preparation of the content of the services provided so that such data can be forwarded to the judicial authorities upon request (Article 43-9). This provision should give rise to an implementing decree which will define the data to be retained and the duration and the means of retaining such data. This decree could in particular have an impact on the costs borne by technical service providers for storing and processing such data.

– Pursuant to Article 43-8, hosting providers are neither criminally nor civilly liable for the content of the services that they host, except in circumstances where, having been duly notified by a judicial authority, they have not acted promptly to prevent access to the content in question.

Furthermore, the Law of November 15, 2001 on day-to-day security introduced a new Article L. 32-3-1 into the French Post and Telecommunications Code pursuant to which telecommunications operators and Internet access providers are required to retain the technical connection data necessary to carry out criminal investigations. They may also retain the technical data required for the recovery of their bills. Apart from these two specific cases, these operators must delete or render anonymous all data relating to a communication once it is completed.

The Group conditions access to Free's "pay-as-you-go" offering on customers' furnishing a physical address to which their connection settings are sent by post. Free is therefore in a position to respond to requests for information from the judicial authorities. As the flat-rate and broadband services involve physical access, Free is also in a position to respond to requests from the authorities concerning the subscribers of these services.

The draft bill on *confidence in the digital society* currently under discussion in Parliament completes the partial transposition into French law of the "electronic commerce directive" and specifies the liability regime of access and hosting providers. In this connection, the bill provides that hosting providers can only be held civilly liable for distributing information or activities if they do not act promptly to withdraw this data or make access to it impossible immediately upon becoming aware of the illicit nature of the data or of facts and circumstances making its illicit nature obvious. Furthermore, these same hosting providers may only be held criminally liable if they fail to act promptly to stop the distribution of any information or activity which they know to be illicit or whose nature is such that they must have known it to be illicit.

Processing of personal data and protection of individuals

The framework Directive 95/46/EC of October 24, 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data specifies the elements necessary for effective protection of the rights and freedom of individuals. The purpose of this directive is to harmonize European legislation governing the processing of personal data, to facilitate the circulation of such information (provided that the country of destination of the information offers a satisfactory level of protection) and to ensure the protection of the rights and the freedom of individuals. A draft bill for the incorporation of this framework directive into domestic law, sent to the French National Commission for Information Technology and Freedom (*Commission nationale de l'informatique et des libertés* ("CNIL")) and to the National Consultative Committee on Human Rights (*Commission nationale consultative des droits de l'homme* ("CNCDH")) for their opinion, is currently under discussion in Parliament. The framework directive was completed by sector-specific Directive 97/66/EC of December 15, 1997 concerning the processing of personal data and the protection of privacy in the telecommunications sector. This directive has been repealed and replaced by Directive No. 2002/58/EC of July 12, 2002.

The French privacy protection law, known as the "*informatique et libertés*" law of January 6, 1978, is currently being amended to take into account these Community directives. Its principal protective principles will likely be reaffirmed, *i.e.* the right for any person to be informed of any personal data held in respect of such person, the right to access any such data and to object to it being stored, the right to have such data corrected and the prohibition of the processing of sensitive information. Currently, data processing by operators in the public sector is subject to prior authorization by regulatory act following a reasoned opinion from the CNIL, while data processing by operators in the private sector is subject only to a prior declaration to the CNIL. This distinction between data processing by operators in the public sector and operators in the private sector will likely be removed or relaxed in favor of a general prior declaration regime. The CNIL's subsequent powers of control are also likely to be extended.

The main provisions of the Directive of July 12, 2002 are as follows:

- The use of cookies is permitted on the condition that the subscriber or user concerned is provided with information regarding *inter alia* the purpose for the processing of his or her personal information, and on the condition that the subscriber or user is given the possibility to refuse the cookies. Cookies whose sole purpose is to carry out or facilitate the transmission of a communication, as well as cookies that are strictly necessary to provide a service explicitly requested by the subscriber, are not covered by this provision (Article 5 of the Directive).

- Localization data, other than traffic data, may only be processed when such data are made anonymous or with the consent of the users or subscribers concerned. Localization data may only be processed for the purpose of providing a specific value added-service and only for the duration of the provision of such service. The users or subscribers concerned must be informed of the type of localization data that will be processed, of the purposes and duration of the processing and whether the data will be transmitted to third parties. Users must retain the ability to temporarily or permanently prohibit the processing of such data by means that are simple and free of charge upon each connection to the network or transmission of a communication (Article 9 of the Directive).

- As concerns spamming, direct marketing by electronic mail is only permitted in respect of subscribers who have given their prior consent. For sales of products or services, where a natural or legal person obtains their customers' electronic mail contact details, they may use these contact details for direct marketing of their own similar products or services provided these customers are given the opportunity to object both at the time the information is collected and on the occasion of each such use of the information (Article 13 of the Directive).

- In the case of directories, subscribers must be given the opportunity to decide whether their personal data is to be included in a public directory and, if so, which data is to be included. Subscribers must not be charged in order not to be included in a public subscriber directory, nor must they be charged for any corrections or deletions of information published in such directory. European Union Member States may require the subscriber's consent prior to having their personal data included in a public directory serving any purpose other than basic searches of a person's contact details based on their name (Article 12 of the Directive).

This directive was to have been transposed into domestic law prior to October 31, 2003, and is currently the subject of a draft bill under discussion in Parliament.

In the course of its business, the Group records and processes statistical data, particularly data concerning the number of visitors to its websites. Technical methods identifying customers' main areas of interest and online behavior are also used in order to optimize the Group's services. In offering its services, the Group collects and processes personal data. The essential elements of the Group's databases have been declared to the CNIL.

Intellectual property law and online distribution

The purpose of Directive 2001/29/EC of May 22, 2001 on "the harmonization of certain aspects of copyright and related rights in the information society" is to adapt intellectual property law to the specifics of digital distribution. A draft bill presented to the Council of Ministers on November 12, 2003 for the incorporation of this directive into domestic law will be examined by Parliament during the course of 2004. The transposition into French law of this directive was to have been completed prior to December 2002. In this regard, the European Commission initiated proceedings against France in July 2003 for its failure to do so.

This directive introduces a mandatory exception for technological reproduction, but does not achieve its primary objective of harmonization, as Member States are able to choose whether or not to adopt other optional exceptions, such as the exception for reproduction for private use accompanied by fair compensation.

Legal protection of databases

The principal innovation presented in the directive adopted on March 11, 1996 (Directive 96/9/EC) is the creation of a *sui generis* right to ensure the protection of the investment in obtaining, verifying or presenting the contents of a database for the limited duration of the right, it being specified that this investment may be either financial consist of human capital. This directive was transposed into domestic law by Law No. 98-536 of July 1, 1998 providing for this *sui generis* right of database protection, independent of the protection offered by copyright law.

Article L. 341-1 of the Intellectual Property Code provides that the creator of a database, understood as the person taking the initiative and bearing the risk of the investment relating to its preparation, benefits from protection of the database content "when its compilation, verification or presentation attests to a substantial financial, material or human investment". This protection is independent and does not prevent the exercise of copyright protection or other rights relating to the database or one of its component parts, such as pursuant to Article L. 112-3 of the French Intellectual Property Code.

The producer of the database therefore has the right to prohibit any substantial extraction and re-use of the databases content. Article L. 342-2 of the French Intellectual Property Code also provides that "the producer may also prohibit the repeated and systematic extraction or re-utilization of parts of the database content that are qualitatively or quantitatively not substantial when these operations manifestly exceed the normal conditions of use of the database".

Domain names

Domain names are assigned to the digital addresses of the servers connected to the Internet and constitute Internet addresses. They are used for easier identification of Internet sites and make it easier to remember the addresses of these sites. Domain names therefore are a major marketing advantage for companies conducting all or part of their business on the Internet. The Group has registered a certain number of domain names in France.

Top level domain names can be generic (known as generic top level domain names, or "gTLDs"), such as ".com" for commercial companies, ".net" for companies providing Internet-related services, ".org" for public interest bodies or ".edu" for educational establishments, or they can correspond to a specific geographical area (known as country code top level domain names, or "ccTLDs"), such as ".fr" for France, ".de" for Germany or ".es" for Spain. Second level domain names correspond to subcategories, for example ".asso.fr" for associations. The domain names in the ".com", ".net" and ".org" domains are registered by a certain number of organizations accredited by the Internet Corporation for Assigned Names and Numbers ("ICANN"), an international non-profit organization. Various registrars are responsible for managing extensions, such as Verisign in the case of the ".com" and ".net" extensions. The registration of geographical domain names is supervised in each State by a designated national authority which maintains a central register and accredits private companies as registrars. In general, domain names are allocated on a "first come, first served" basis and most registrars, whether for generic or geographical domain names, consider it the responsibility of the person registering the domain name to ensure that no prior right would be infringed by the registration of a domain name.

Each national authority is, to a certain extent, able to define its own policy for the allocation of domain names, which means that the requirements for registering geographical domain names can differ from those relating to the registration of generic domain names and can also vary from one country to another. Some registrars may, for instance, prove to be stricter than others with respect to registration of a particular domain name which may infringe the intellectual or other property rights of third parties.

In France, the *Association Française pour le Nommage Internet en Coopération* ("AFNIC") is responsible for registering domain names in the ".fr" extension. A certain number of subdomains have been created in the ".fr" extension and several Internet service providers, including Iliad's subsidiary Online, have been accredited by the AFNIC to handle requests for the registration of domain names.

The rules for allocating domain names are set forth in the AFNIC's naming charter. This charter is continually developing and the rules for allocation are subject to change on an ongoing basis. The allocation rules currently in force are as follows:

- the allocation of a domain name in each subdomain in the ".fr" extension is governed by specific rules;
- individuals or legal entities wishing to register a domain name directly in the ".fr" extension or in one of its sub-domains must submit certain specific documents with their registration request;
- those registering domain names must ensure that their registration request is not in breach of prior rights held by third parties, it being specified that the AFNIC does not conduct any verifications of this kind;
- the registration of domain names directly in the ".fr" extension is only available to legal entities;
- the registration of domain names in the ".tm.fr" subdomain is only available to applicants who can produce a trademark registration certificate;
- the ".nom.fr" subdomain is only available to individuals of French nationality or residing on French territory; and
- domain names may be freely registered in the ".com.fr" subdomain without the need to produce supporting documentation, provided these domain names have not already been registered in another subdomain.

Even though the French courts have now held that the use of a term on an Internet site or as a domain name can infringe trademark rights, the outcome of potential disputes in this area is uncertain. This uncertainty is due in particular to the fact that the scope of trademark rights is limited, either geographically or by the type of products and services covered by the trademark registration, while the use of a term on the Internet can result in a risk of confusion or encourage unfair competition far beyond these limits.

4.12.6 Industrial and environmental risks

The sector in which Iliad operates is not a major source of harm to the natural environment, does not require taking any significant samples of the environment surrounding Iliad's activities and does not have any notable impact on the quality of the environment.

4.13 INSURANCE AND RISK COVER

The Group has a policy of obtaining external insurance cover for risks which can be insured at reasonable rates. Insurance currently held by the Group covers property, operating losses and civil liability for the Group pursuant to standard conditions.

The cost of Iliad's insurance cover for all companies of the Group amounted to approximately €380,000 as of September 30, 2003, corresponding to all insurance premiums paid by the Group's companies. In order to obtain the best possible coverage for the Group's companies, Iliad uses the services of its Internet insurance brokerage company, Assunet, which negotiates insurance policies on its behalf. The Group's main policy covers third party liability in case of fire as required by France Télécom in respect of the Group's occupancy of co-location facilities, with maximum cover of €76.2 million. The Group has also subscribed for a specific insurance policy with maximum cover of €7.6 million for bodily injury and €1.5 million for material damage for coverage in connection with the use of the Paris municipal highways for the deployment of Free's metropolitan network. Finally, the Group has subscribed for a general policy to cover property damage and operating losses with maximum cover of €7.62 million, for which the annual premium is €15,134.

Iliad considers that this insurance cover takes into account the nature of the risks incurred by the Group companies and matches the scope of other insurance cover currently available on the market for groups of a similar size and with similar business activities.

CHAPTER 5

ASSETS - FINANCIAL POSITION – RESULTS

5.1 KEY CONSOLIDATED FINANCIAL DATA

	Year ended December 31,			Six months ended June 30,	
	2002	2001	2000	2003	2002
	(in € thousands)			(in € thousands)	
STATEMENT OF INCOME:					
Revenues	160,263	80,807	41,607	125,269	75,748
Other operating revenue	4,838	1,441	72	15,607	714
Operating expenses..	130,004	73,387	60,954	125,083	60,728
Operating income/(loss)	35,097	8,861	(19,275)	15,793	15,734
Net interest expense...	(2,447)	(2,541)	(1,259)	(278)	(1,301)
Operating income/(loss) after interest	32,650	6,320	(20,534)	15,515	14,433
Exceptional items	(2,747)	(1,590)	5,394	(3,625)	156
Amortization of goodwill	95	-	3,005	104	-
Corporate income tax	5,980	(6,216)	(13)	1,179	3,216
Net income/(loss)	**23,828**	**10,946**	**(18,132)**	**10,607**	**11,373**
Earnings before interest, tax, depreciation and amortization (EBITDA)	43,249	14,615	(16,077)	22,085	18,923
BALANCE SHEET:					
Intangible assets	14,413	2,702	970	34,994	10,924
Property, plant and equipment.........................	24,782	21,974	15,810	46,681	19,368
Inventories..	5,411	14	16	10,641	1,832
Trade accounts and notes receivable	30,282	21,890	11,654	37,851	25,207
Other receivables...	10,278	,8,357	10,829	19,093	12,937
Prepaid expenses	4,133	2,545	3,787	3,134	5,156
Deferred tax assets...	9,073	8,876	1,129	9,265	12,163
Cash	15,756	2,123	3,413	28,298	10,392
Total assets	**117,382**	**71,849**	**50,686**	**192,117**	**101,844**
Shareholders' equity	25,638	16,243	4,883	31,957	13,184
Provisions for contingencies and charges.........	5,470	4,060	3,266	9,773	6,970
Borrowings..	15,023	12,410	14,636	26,508	14,049
Trade accounts and notes payable	51,153	25,697	17,152	79,596	43,642
Other liabilities..	16,509	12,276	10,259	33,555	23,205
Deferred income..	718	787	409	6,761	715
Total liabilities..	86,164	51,480	42,457	150,385	81,687
Total liabilities and shareholders' equity	**117,382**	**71,849**	**50,686**	**192,117**	**101,844**
CASH FLOWS:					
Net cash provided (used) by operating activities	48,976	14,191	(7,081)	43,109	26,866
Net cash used by investing activities...............	(25,097)	(13,597)	(12,479)	(42,024)	(7,401)
Net cash (used) provided by financing activities	(11,991)	3,130	15,613	5,492	(15.571)
Change in cash and cash equivalents...............	11,888	3,725	(3,947)	6,577	3,896

Group cash and cash equivalents at June 30, 2003 amounted to €21.3 million.

5.2 REPORT OF THE MANAGEMENT BOARD

5.2.1 Overview

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

- The Internet segment, which includes Internet service provider operations (under Free and related brands) and hosting services (the brands Online and BookMyName);

- The Telephony segment, which includes fixed-line telephony (One.Tel), prepaid phone cards (Kertel) and resale of minutes to operators (Kedra);

- Other Services, which now include phone directory services (mainly the ANNU reverse look-up directory accessible by Minitel, phone, Internet and SMS text messaging) and e-commerce operations (Société.com and Assunet.com).

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

The following changes in the Group's scope of consolidation took place in 2001, 2002 and the first half of fiscal 2003:

- In December 2001, the Group acquired the entire share capital of One.Tel France S.A.S., an alternative fixed-line telephony operator which had been placed in administration after filing for bankruptcy;

- In March 2003, the Group acquired the entire share capital of Kertel S.A., a prepaid phone card operator in France.

Comparisons of half-yearly and annual accounting data are presented both on a published basis and based on a comparable group structure.

This chapter does not include any discussion of accounting data for the year ended December 31, 2000, since at that time the Group was just beginning to roll-out its telecommunications network, and its operating revenues and expenses were significantly different from those for the years discussed below.

5.2.1.1 Breakdown of revenues

5.2.1.1.1. Internet revenues

- **"Pay-as-you-go" access**. For this no-subscription dial-up offer, the customer pays the price of the phone call invoiced by France Télécom. Customers dial the Free access number (08 60 92 20 00) from any fixed line in France, and the call is charged by France Télécom at the local Internet rate. Revenues from the "Pay-as-you-go" offer are therefore directly related to the time customers spend online and to the fee passed on to Free by France Télécom. Free invoices France Télécom on a monthly basis and is paid 45 days after receipt of the invoice. The customer pays France Télécom a connection charge of €0.10 (including tax) and a flat rate of €0.02 per minute (including tax), excluding special offers, 24 hours per day, seven days per week. The fee passed on by France Télécom to Free as the operator of an interconnected network amounts to €0.0217 before tax per minute of use (rate at September 30, 2003). The amount per minute is calculated by France Télécom and approved by the ART. The calculation is provisionally updated during the year, then finalized at the latest by March 31 of the following year.

- **The "50-hour" plan**. Under the "50-hour plan" launched in April 2001, the customer is entitled to 50 hours of dial-up Internet access per month for a flat fee of €14.94 (including tax). The customer connects to the Internet by dialing a toll-free number (08 68 92 20 00). The subscription fee is paid directly to Free by direct debit at the beginning of each month. Any additional dial-up time and charges for incomplete months are invoiced by Free at the local Internet rate. They are debited to the customer at the beginning of the following month but are recognized in revenue for the current month.

- **Unlimited ADSL broadband offer**. Since October 2002, Free has been offering its customers unlimited broadband access for €29.99 per month (including tax), including use of an ADSL modem and without installation fees. This unique offer allows customers to access the Internet at a speed of at least 512 kbits per second and up to 2 Mbits per second (observed) in areas where Free has unbundled the local loop. Free invoices customers by direct debit for their €29.99 monthly subscription. Customers who cancel their subscription are charged a termination fee that decreases based on the length of their subscription period. The maximum termination fee is €99 (including tax).

- **Hosting services**. Revenues from the hosting of websites are invoiced at a flat annual rate by domain name or by site.

- **Marketing of domain names** and **selling of advertising space** on Free's portal.

- **Other Internet-based revenues** corresponding mainly to the sale of switched time to the Telephony segment.

5.2.1.1.2. Telephony revenues

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

- One.Tel's current offer is a no-subscription carrier preselection offer. By signing up with One.Tel, the customer authorizes the company to make a preselection request to France Télécom so that all calls made from the designated fixed line are transferred to One.Tel. This enables the customer to benefit from One.Tel's rates on all local, national and international calls, as well as on calls to mobile phones, including the €0.01 per minute offer for all local and national calls. At the end of each month, the total cost of calls is calculated for each customer and invoiced for payment within two weeks. Since Iliad took over One.Tel, customers have been strongly encouraged to pay by direct debit in order to reduce the risk of non-payment. As of September 30, 2003, nearly 69% of customers had selected this payment method.

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

5.2.1.1.3. Revenues from Other Services

Revenues from the "Other Services" segment mainly come from ANNU, the reverse look-up directory accessible by Minitel, telephone, Internet and SMS text messaging. Minitel access to this service is billed directly by France Télécom on the user's telephone bill, and part of the fee is passed on by France Télécom to the company running the service. For ANNU, the fee passed on by France Télécom amounts to €36.15 per hour. Fee payments are received on a bi-monthly basis.

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

5.2.1.2 Interconnect costs for Option 5 ADSL service (subscribers not on an unbundled line) and Option 1 ADSL (subscribers on an unbundled line)

The Group had three clear financial goals for the roll-out of its network, in addition to the goal of maximizing service quality:

– Increase revenues from "pay-as-you-go" access fees, leveraging Free's status as an operator;

– Minimize interconnect costs for Free's "pay-as-you-go" and "50-hour plan" offers and for the One.Tel and Kertel telephony services;

– Guarantee high margins for the broadband offer by enrolling new subscribers directly under Option 1 as well as by migrating Option 5 subscribers (not unbundled) to Option 1 (unbundled) by ensuring that the Group's network has points of presence at a maximum number of France Télécom exchanges.

Interconnect operating costs

Direct interconnect costs represent the amounts charged by France Télécom to Free as an operator as follows:

– Fixed costs corresponding to the rental cost of primary digital blocks and main switching units in the France Télécom network; and

– Variable costs calculated based on actual connection time in minutes.

Fixed and variable costs are different depending on whether traffic goes through the digital local exchange or the digital main switching unit (see section 4.4.1 above concerning the Group's network). The cost per minute is the same for Free's "pay-as-you-go" and "50-hour plan" offers, as both involve only a single call collection charge. For local and national calls through One.Tel and Kertel, however, the cost per minute is doubled because there is a call termination charge on France Télécom's network in addition to the collection charge.

Since the Group completed the roll-out of its network, the average cost per minute has dropped sharply as shown in the table below. The figures shown include France Télécom charges and other direct costs but exclude the impact of the contribution to the Universal Service Fund:

At June 30, 2001	At Dec. 31, 2001	At June 30, 2002	At Dec. 31, 2002	At June 30, 2003
Base = 100	78.8	64.6	58.4	58.4

Operating costs of broadband offers

Free's ADSL offer involves two types of services:

– Option 5 (subscribers not on an unbundled line), representing a France Télécom group offer marketed by Free;

– Option 1 (subscribers on an unbundled line), corresponding to an offer carried entirely by the Free network (partial unbundling, see section 4.4.1.2 above concerning unbundling).

Under Option 1, direct costs per subscriber and per month, as mentioned in the basic unbundling offer as of September 30, 2003, are as follows:

Operating costs of Option 1

• Rental of the copper pair and the ADSL splitter:	€2.86
• Copper tie cable:	€1.32

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

Operating costs of Option 5

• IP-ADSL service:	€15.50
• Costs of the IP-ADSL collection service:	Variable, based on throughput

Option 1 gross margin and operating margin are significantly higher than Option 5 margins. Free's objective is therefore to maximize the proportion of its subscribers registered under Option 1 by encouraging its Option 5 subscribers to migrate to Option 1 or, when technically feasible, by directly making an Option 1 offer available to new customers living in an area where the local loop has been unbundled.

5.2.1.3 Capital expenditures and depreciation/amortization expense

The Group has rolled out a telecommunications network in metropolitan France (see section 4.4.2.1 above). Most of the underlying optical fiber for this network was obtained under IRU (Indefeasible Right of Use) contracts ranging from 10 to 25 years that involve a single up-front payment when the fiber is made available. These IRU contracts are recognized as intangible assets and are amortized over the life of the contract.

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

In addition to capital expenditures on optical fiber during the network roll-out phase (see section 4.11.2 above), under Option 1 the Group is required to make available a Freebox modem and a Freebox DSLAM and to pay fees to France Télécom for access to unbundling services. The cost of these three items came to approximately €350 per customer in 2003. Management estimates that this amount could fall by nearly 30% in 2004, mostly as a result of lower equipment costs. The cost of access to France Télécom's unbundling services is amortized over three years from the date of customer installation. The cost of the Freebox modem is depreciated over the same period, while the Freebox DSLAM is depreciated over six years, as is all other network equipment.

Under Option 5, total capital expenditure is lower, amounting to approximately €100 per customer. The cost of access to France Télécom unbundling services is amortized over three years, the same period used for the depreciation of the ADSL modem provided to the customer.

5.2.1.4 EBITDA

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

5.2.2 Comparison of results for the six-month periods ended June 30, 2003 and June 30, 2002

The following comments are based on the interim consolidated financial statements for the six months ended June 30, 2003 and June 30, 2002. The main change in the scope of consolidation between the two periods concerned the inclusion of the prepaid phone cards business in the Telephony segment. This business is conducted by Kertel S.A. acquired in March 2003 and has been consolidated by Iliad as from April 1, 2003. In the following table, Group results based on a comparable group structure are shown in the column entitled "Excluding Kertel – Six months ended June 30, 2003."

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

Consolidated revenues and operating expenses disclosed in the financial statements do not match the sum of the segment revenues and expenses in the section below, due to adjustments for inter-segment transactions. The bulk of these intercompany and inter-segment transactions concerns the resale to the Telephony segment of telecommunications services provided within the network operated by Free, for a total amount of €14.1 million for the six months ended June 30, 2003 and €3.7 million for the six months ended June 30, 2002.

	Excluding Kertel		**Published**		
(in € thousands)	***Six months ended June 30, 2003***	***% change[(1)]***	**Six months ended June 30, 2003**	**Six months ended June 30, 2002**	**% change[(1)]**
Net revenues	***120,829***	***59.5***	**125,269**	**75,748**	**65.4,**
Other operating revenue	*15,383*	*NM*	15,607	714	NM
Purchases used in production and other operating expenses	*104,747*	*106.8*	108,341	50,646	113.9
Payroll costs	*5,627*	*(2.6)*	6,469	5,779	11.9
Taxes other than on income	*729*	*4.6*	820	697	17.7
Additions to provisions	*3,004*	*214.2*	3,161	417	658.0
EBITDA	***22,105***	***16.8***	**22,085**	**18,923**	**16.7**
Depreciation and amortization	*6,174*	*133.0*	6,292	3,189	97.3
Operating income	***15,931***	***1.3***	**15,793**	**15,734**	**0.4**
Net interest expense	*(287)*	*(77.9)*	(278)	(1,301)	(78.6)
Operating income after interest	***15,644***	***8.4***	**15,515**	**14,433**	**7.5**
Exceptional items	*(3,605)*	*NM*	(3,625)	156	NM
Corporate income tax	*1,179*	*(63.3)*	1,179	3,216	(63.3)
Net income of fully consolidated companies	***10,860***	***(4.5)***	**10,711**	**11,373**	**(5.8)**
Goodwill amortization	*0*	*NM*	104	0	NM
Net income before minority interests	***10,860***	***(4.5)***	**10,607**	**11,373**	**(6.7)**

(1) The changes presented are based on published data for the six months ended June 30, 2002.

Revenues

Revenues for the first half of fiscal 2003 increased more than 65% compared to the same period in 2002. Growth was driven by: (i) increased revenues from Internet access, particularly ADSL broadband access, (ii) higher revenues in the Telephony segment following the success of One.Tel's €0.01 per minute offer and (iii) to a lesser extent, the acquisition of Kertel and the launch of offers for other licensed operators during the summer of 2002. Based on a comparable group structure, excluding Kertel, revenues increased nearly 60%. Other operating revenues also rose significantly in the first half of fiscal 2003 compared to the prior period, mainly reflecting capitalized production costs for modems and Freebox DSLAMs. In accordance with French accounting principles, these costs are initially recorded in the income statement and are then transferred to the balance sheet by recording a contra entry under "Other operating revenues".

Operating expenses

The Group believes that its operating expense trends are in line with its business plan forecasts. These expenses have increased faster than revenues, which is largely due to start-up costs for ADSL operations, and in particular to the large proportion of subscribers registered under Option 5 (not unbundled). Costs not directly related to ADSL such as network maintenance and operation costs, communication and marketing, and Group payroll remain in line with revenue growth. Based on a comparable group structure, excluding Kertel, payroll costs fell 2.6%, mainly as a result of management restructuring at One.Tel.

Operating income

Operating income remained stable compared to the prior period at €15.8 million. This stability was the result of the following offsetting developments:

- On the one hand, improved profitability in the Telephony segment following the restructuring of One.Tel completed in 2002; and

- On the other hand, (i) a temporary decrease in profitability of Internet operations due to start-up costs of the ADSL offer and (ii) reduced margins in the ANNU business.

Stable operating income combined with higher revenues had the effect of reducing the operating margin, which fell to 12.6% for the first half of fiscal 2003 from 20.7% for the comparable period in 2002. This margin decrease was primarily attributable to start-up costs of the ADSL offer and is not expected to continue as the proportion of Option 1 subscribers (unbundled) in relation to Option 5 subscribers (not unbundled) is rising. Based on a comparable group structure, operating income amounted to €15.9 million.

EBITDA

Group EBITDA totaled €22.1 million for the first half of fiscal 2003 (with and without Kertel), rising 16.7% compared to the first half of fiscal 2002. This growth in EBITDA at a time of expanding broadband access sets Iliad apart from other Internet service providers in Europe, and is primarily attributable to the Group's sound management of its network in terms of both dial-up access and telephony offers.

Net interest expense

For the six months ended June 30, 2003, net interest expense amounted to €0.3 million, corresponding primarily to interest on borrowings and on lease financing obtained by Free, partly offset by exchange rate gains. For the six months ended June 30, 2002, net interest expense totaled €1.3 million, including a € 0.9 million write-down of the Group's minority interest in Mandrakesoft.

Exceptional items

Exceptional items for the first half of fiscal 2003 mainly included a €2.8 million addition to the provision recorded to cover the Group's 2002 contribution to the Universal Service Fund (see section 4.3.1.1 above).

Net income

Group net income amounted to €10.6 million for the first half of fiscal 2003, compared to €11.4 million for the first half of fiscal 2002. The Group is one of the few European Internet service providers to have posted a profit in both fiscal 2002 and the first half of fiscal 2003.

5.2.2.1 Analysis of results for the Internet segment

The Internet segment includes the following operations:

- Internet Service Provider (ISP) operations, both through the switched telephone network and via ADSL, marketed under the Free, Free haut débit, Free Telecom and FreeBox brands; and
- Hosting and domain-name creation services, marketed under the Online and BookMyName brands.

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

(in € thousands)	**Six months ended June 30, 2003**	**Six months ended June 30, 2002**	**% change**
Net revenues	**88,725**	**45,584**	**94.6**
Other operating revenue	15,286	393	NM
Purchases used in production and other operating expenses	86,545	32,164	169.1
Payroll costs	3,773	2,740	37.7
Taxes other than on income	443	372	19.1
Additions to provisions	2,265	151	NM
EBITDA	**10,985**	**10,550**	**4.1**
Depreciation and amortization	5,812	2,651	119.2
Operating income	**5,173**	**7,899**	**(34.5)**

Revenues

The following table shows the breakdown by category of consolidated revenues for the Internet segment for the six-month periods ended June 30, 2003 and June 30, 2002, as well as the percentage change between these two periods.

(in € thousands)	**Six months ended June 30, 2003**	**Six months ended June 30, 2002**	**% change**
ISP revenues *(Pay-as-you-go, 50-hour plan, ADSL)*	75,247	41,778	80.1
Hosting and advertising revenues	2,567	1,427	79.9
Inter-segment and other revenues	10,911	2,379	NM
Total revenues	**88,725**	**45,584**	**94.6**

Internet-segment revenues for the first half of fiscal 2003 grew by €43.1 million or 94.6% compared to the first half of fiscal 2002, mainly due to the success of Free's ADSL broadband offer.

ISP revenues

ISP revenues (Free, Free Telecom and Free haut débit), through both the switched telephone network and ADSL, totaled €75.2 million for the six months ended June 30, 2003.

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

- **Success of the broadband offer and sustained performance of the "50-hour plan"**. At June 30, 2003, the number of subscribers billed directly by the Group (under the "50-hour plan" and ADSL offers) had reached 520,000, a 156% increase from 203,000 at June 30, 2002. This growth was mostly generated by Free's ADSL broadband offer launched in October 2002, which raised the average revenue per user (ARPU) to approximately €19.3 at June 30, 2003, up from €13.9 at June 30, 2002;

- **Slight decrease in the "pay-as-you-go" offer**. Call minutes generated by the pay-as-you-go offer declined 15% to 1.1 billion minutes for the first half of fiscal 2003 from 1.3 billion minutes for the comparable period in 2002, but this was partly offset by a 5.3% increase in the fees passed on by the incumbent operator, to €0.0217 per minute from €0.0206, due to the decreased use of special rate options by Free customers.

Hosting and advertising revenues

The marketing of domain names in France, value-added hosting services and the sale of advertising space on Free's portal generated revenues of €2.6 million for the six months ended June 30, 2003. The €1.1 million increase compared with the six months ended June 30, 2002 was driven by a 25% growth in hosting revenues and a 160% increase in advertising revenues following a revival of online advertising, which had fallen out of favor in 2001 and 2002 after the collapse of the Internet "bubble".

Inter-segment and other revenues

Inter-segment and other revenues correspond primarily to the resale to the Telephony segment of call minutes on Free's directly-operated network. The period-on-period increase in the first half of fiscal 2003 resulted mainly from the migration of One.Tel traffic to the Group's directly operated network during the first half of fiscal 2002.

Purchases used in production and other operating expenses

Purchases used in production and other operating expenses (net of other operating revenue) were 123.5% higher for the first half of fiscal 2003 than for the prior period. Although greater than the increase in revenues, this rise is in line with the strategy outlined by the Group for the start-up phase of ADSL operations, and corresponds to the high costs generated by Option 5 subscribers. These higher costs should be temporary, as they are directly linked to the initial low proportion of Option 1 subscribers among the total number of ADSL customers (Option 1 and Option 5): Option 1 contracts accounted for 3.3% of such total at January 1, 2003, 4.6% at March 31, 2003 and 16.6% at June 30, 2003.

Payroll costs

The increase in payroll costs was a direct result of the recruitments carried out at Centrapel to handle the surge in demand for the ADSL broadband offer. Centrapel payroll costs rose to €2.1 million for the six months ended June 30, 2003 from €1.2 million for the six months ended June 30, 2002. Centrapel had 165 employees at June 30, 2003, compared to 110 employees at June 30, 2002.

Additions to provisions

The significant increase in provisions at June 30, 2003 was due to the recording of a provision for the contribution to the Universal Service Fund, the final amount of which was not known at June 30, 2003.

The Ministerial Order of July 2, 2003 setting the final amount of the contributions payable by operators to the Universal Service Fund for 2001 was published on July 20, 2003. This Order specifies a contribution of €1.5 million for Free (formerly Free Telecom), an amount that is very close to the provision that had been recorded in this respect.

Contributions to the Universal Service Fund are determined through a complex calculation based on the number of minutes used by the various operators. For example, the 2001 contribution was initially estimated in January 2001. Successive revised estimates were issued in 2001 but it was not until July 2003 that the final amount was known.

During 2002, certain statements made by the ART, as well as a ruling in a case brought before the European Court of Justice, suggested that Free's contribution for 2002 would be significantly lower or even cancelled. Based on the information available at that time, Free recorded a provision of €0.8 million.

Once the final contribution amount for 2001 and the related calculation method were known, the Group used the same method to estimate its 2003 contribution. Based on this estimate, a provision of €1.8 million was recorded for the six months ended June 30, 2003.

An additional exceptional provision was also recorded for the revaluation of the 2002 contribution (see the sub-paragraph entitled "exceptional items" in this paragraph 5.2.2).

EBITDA and operating income

Despite strong revenue growth, Internet segment EBITDA for the first half of fiscal 2003 increased 4.1% compared to the first half of fiscal 2002. The EBITDA margin, however, fell to 12.4% from 23.1% as a result of the start-up phase of the ADSL business, which focused on capturing the largest possible number of subscribers, most of them initially in the less profitable Option 5 category (not unbundled).

Group management considers that this decrease in EBITDA margin is temporary. The gradual migration of subscribers from Option 5 (not unbundled) to Option 1 (unbundled) in addition to signing up new ADSL subscribers directly under Option 1 (unbundled) should significantly increase Internet segment margins.

During the first half of fiscal 2003, the number of unbundled lines rose significantly to 46,000 at June 30, 2003 from 3,300 at December 31, 2002. This increase took place mainly in May and June 2003, when technical unbundling processes were applied in a more systematic manner. The growth in the number of Option 1 subscribers confirms management's estimates concerning EBITDA trends.

For informational purposes, excluding inter-segment transactions, the EBITDA margin for the Internet segment for the first half of fiscal 2003 stood at nearly 14%.

Operating income for the six months ended June 30, 2003 amounted to approximately €5.2 million. The €2.7 million decrease compared with the first half of fiscal 2002 was mainly due to the two-fold increase in depreciation and amortization expense (amortization of service access costs and depreciation of modems and DSLAM equipment) following the success of the ADSL offer (see section 5.2.1.3 above).

5.2.2.2 Analysis of results for the Telephony segment

The Telephony segment includes the following operations:

– Fixed-line telephony and prepaid phone card operations under the One.Tel and Kertel brands;

– Telephony services provided to operators by Kedra.

The consolidation of Kertel in the first half of 2003 had a direct impact on the Telephony segment. The following table therefore shows both published data and pro forma data excluding Kertel for the six months ended June 30, 2003.

	Excluding Kertel		Published		
(in € thousands)	***Six months ended June 30, 2003***	***% change(1)***	**Six months ended June 30, 2003**	**Six months ended June 30, 2002**	**% change(1)**
Net revenues	***30,961***	***50.6***	**38,035**	**20,559**	**85.0**
Other operating revenue	*85*	*NM*	311	251	23.9
Purchases used in production and other operating expenses	*21,102*	*52.9*	27,333	13,797	98.1
Payroll costs	*729*	*(63.4)*	1,571	1,992	125.0
Taxes other than on income	*155*	*(32.6)*	246	203	21.2
Additions to provision	*739*	*193.3*	896	252	NM
EBITDA	***8,321***	***82.2***	**8,300**	**4,566**	**81.8**
Depreciation and amortization	*241*	*(24.0)*	357	317	12.6
Operating income	***8,080***	***90.2***	**7,943**	**4,249**	**86.9**

(1) The changes presented are based on published data for the six months ended June 30, 2002.

Revenues

The following table shows the breakdown by category of consolidated revenues for the Telephony segment for the six-month periods ended June 30, 2003 and June 30, 2002, as well as the percentage change between these two periods.

	Excluding Kertel		Published		
(in € thousands)	***Six months ended June 30, 2003***	***% change(1)***	**Six months ended June 30, 2003**	**Six months ended June 30, 2002**	**% change(1)**
Fixed telephony and prepaid phone card revenues	*22,581*	*11.1*	29,865	20,410	46.3
Revenues from services to operators	*8,380*	*NM*	8,170	149	NM
Total revenues	***30,961***	***50.6***	**38,035**	**20,559**	**85.0**

(1) The changes presented are based on published data for the six months ended June 30, 2002.

Revenues for the Telephony segment for the first half of fiscal 2003 rose €17.5 million, or 85%, compared to the same period in 2002. Based on a comparable group structure, excluding Kertel, the growth in revenues was nearly 51%.

Fixed telephony and prepaid phone card revenues

Revenues from fixed telephony and prepaid phone cards, generated primarily by One.Tel and Kertel, amounted to € 29.9 million for the six months ended June 30, 2003.

Revenue growth resulted from the combination of the following three factors:

- **Growth in the number of One.Tel customers since the first half of fiscal 2002**. In June 2001, One.Tel was unable to pay its debts and filed for bankruptcy. As part of the bankruptcy proceedings, the Group acquired 100% of the share capital and voting rights of One.Tel and implemented a reorganization, the details of which are presented in section 5.2.4 below. During this period of uncertainty, One.Tel suspended all advertising and marketing expenditures. The freeze on advertising spending continued in the first half of 2002 while One.Tel underwent a major restructuring. In September 2002, however, One.Tel launched an advertising campaign that allowed it to raise its number of customers to approximately 169,000 at June 30, 2003, compared to approximately 138,000 a year earlier.

- **A 15% decline in the average revenue per user (ARPU) due to the new pricing policy aimed at increasing the number of subscribers.** To win new customers, One.Tel launched a very attractive offer of calls for €0.01 per minute, at the same time that it took proactive steps to steer its customers towards carrier preselection. Before Iliad's takeover of One.Tel, customers could benefit from One.Tel's rates either through carrier preselection or on a call-by-call basis by dialing a selection code. By making preselection mandatory, One.Tel likely lost a number of occasional users of its services, but it believes that it has at the same time established a more stable and valuable subscriber base, since all of its customers' calls go through One.Tel.

- **Acquisition of Kertel**. The Group acquired Kertel in March 2003 from the Pinault-Printemps-Redoute group which wished to divest itself of one of its non-strategic businesses. Kertel's revenues have been consolidated in Iliad's financial statements as from April 1, 2003.

Revenues from services to operators

These services, launched in the first half of 2002 to meet the needs of One.Tel, were opened up to other licensed operators beginning in the summer of 2002, leading to an increase in revenues.

Purchases used in production and other operating expenses

Purchases used in production and other operating expenses (net of other operating revenue) increased 99.5% in the first half of fiscal 2003 compared to the prior period, while revenues increased 85%.

This overall decrease in Telephony margins masks the benefits of One.Tel's restructuring. One.Tel's purchases used in production and other operating expenses fell 8.4% while revenues rose 9.4% as a result of the migration of customer calls to the Group's network.

Payroll costs

The decrease in Telephony segment payroll costs is a direct consequence of the restructuring undertaken immediately following the acquisition of One.Tel, particularly in network-related operations, marketing and administrative and management functions, which were redundant within the Group.

EBITDA and operating income

Excluding Kertel, the Telephony segment's EBITDA margin rose sharply to 27% for the first half of fiscal 2003, from 22% for the comparable period in 2002. This margin rate is high compared to those of other fixed-line telephony providers, reflecting the benefits of running a shared network, particularly for One.Tel's operations. In addition, with the exception of Kertel, this segment mostly sells its services directly to the customer and receives payments by direct debit. However, management feels that the distribution methods specific to prepaid phone card business weigh on the profitability of the Telephony segment as a whole.

Excluding Kertel, the segment posted operating income of €8 million for the six months ended June 30, 2003, due to the low level of capital expenditure required as a result of the leveraging of Free's existing network.

5.2.2.3 Analysis of results for the Other Services segment

The Other Services segment includes:

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

(in € thousands)	Six months ended June 30, 2003	Six months ended June 30, 2002	% change
Net revenues	**12,652**	**13,310**	**(4.9)**
Other operating revenue	10	70	NM
Purchases used in production and other operating expenses	8,606	8,390	2.6
Payroll costs	1,125	1,047	7.4
Taxes other than on income	131	122	7.4
Additions to provisions	0	14	NM
EBITDA	**2,800**	**3,807**	**(26.5)**
Depreciation and amortization	123	221	(44.3)
Operating income	**2,677**	**3,586**	**(27.6)**

Revenues

Revenues from Other Services decreased nearly 4.9% for the first half of fiscal 2003 compared to the prior period, mainly due to the lower use of the Minitel service in France.

Since 1998, use of the Minitel has been experiencing a slow but steady decline in France. Even though directory services have generally held up better than leisure or other non-work-related Minitel services, the Group has clearly felt the impact of this decline since the end of 2001. On a month-for-month basis, volumes and revenues decreased by over 15% for the first half of fiscal 2003 compared to the same period in 2002, and growth in e-commerce revenues has not been sufficient to offset these lost revenues.

Purchases used in production and other operating expenses

In the first half of fiscal 2003, the cost of using France Télécom's directory database was recorded in the accounts based on an annual fee of €3.35 million. This fee, which represents the main operating expense for the Other Services segment, has not been confirmed by the Ministry overseeing France Télécom and it may be adjusted in the course of the second half of fiscal 2003. Two rulings issued in September by the French competition authorities and by the ART called on France Télécom to review its fees for the use of its directory database (see section 4.5.3.1 above).

Group management is ensuring that marketing expenses for the promotion of the ANNU service are reduced in line with the expected decline in revenues from this business.

EBITDA and operating income

Despite decreasing revenues, the Group's reverse look-up directory services remain profitable, contributing to the Other Services segment's EBITDA of €2.8 million and operating income of nearly €2.7 million for the first half of fiscal 2003.

5.2.3 Comparison of results for the years ended December 31, 2002 and December 31, 2001

The following comments are based on the consolidated financial statements for the years ended December 31, 2002 and December 31, 2001. The main difference in the scope of consolidation between these two periods resulted from the December 2001 acquisition of One.Tel SAS, which had filed for bankruptcy (the reorganization is described in section 5.2.4 below). The acquisition of One.Tel played a key role in creating the Group's Telephony segment. In the table below, Group results are also presented based on a comparable group structure (which concerns only the Telephony segment), in the column entitled "Excluding One.Tel – year ended December 31, 2002".

The year 2002 was also marked by the rationalization of certain Group participations. The Group sold five small non-strategic subsidiaries during 2002. The combined revenues of these subsidiaries totaled €0.9 million in 2001 (€0.2 million in 2002) and their combined net fixed assets at December 31, 2001 amounted to €0.6 million.

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

Consolidated revenues and operating expenses disclosed in the financial statements do not match the sum of the segment revenues and expenses in the section below, due to adjustments for inter-segment transactions. The bulk of these inter-segment transactions correspond to the resale to the Telephony segment of telecommunications services provided over the network operated by Free, for a total amount of €11.9 million in 2002 and €6.4 million in 2001.

	Excluding One.Tel		**Published**		
(in € thousands)	***Year ended December 31, 2002***	***% change(1)***	**Year ended Dec. 31, 2002**	**Year ended Dec. 31, 2001**	**% change(1)**
Net revenues	***129,915***	***60.8***	**160,263**	**80,807**	**98.3**
Other operating revenue	*4,722*	*227.7*	4,838	1,441	235.7
Purchases used in production and other operating expenses	*91,760*	*59.5*	107,078	57,526	86.1
Payroll costs	*7,923*	*(5.6)*	10,595	8,396	26.2
Taxes other than on income	*1,157*	*95.4*	1,738	592	193.6
Additions to provisions	*1,907*	*70.4*	2,441	1,119	118.1
EBITDA	***31,890***	***118.2***	**43,249**	**14,615**	**195.9**
Depreciation and amortization	*7,586*	*31.8*	8,152	5,754	41.7
Operating income	*24,304*	*174.3*	35,097	8,861	296.1
Net interest expense	*(2,277)*	*(10.4)*	(2,447)	(2,541)	(3.7)
Operating income after interest	***22,027***	***248.5***	**32,650**	**6,320**	**416.6**
Exceptional items	*(2,377)*	*49.5*	(2,747)	(1,590)	72.8
Corporate income tax	*5,643*	*NM*	5,980	(6,216)	NM
Net income of fully consolidated companies	***14,007***	***28.0***	**23,923**	**10,946**	**118.6**
Goodwill amortization	*95*	*NM*	95	0	NM
Net income before minority interests	***13,912***	***27.1***	**23,828**	**10,946**	**117.6**

(1) The changes presented are based on published data for the year ended December 31, 2001.

Revenues

Revenues for the year ended December 31, 2002 increased nearly 100% compared to the year ended December 31, 2001. This exceptionally strong growth was attributable to (i) increased ISP revenues, which resulted primarily from the success of the "50-hour plan" launched in April 2001; (ii) the Group's acquisition of One.Tel; and (iii) the impact, over six months, of the summer 2002 launching of offers for other licensed operators. Based on a comparable group structure, excluding One.Tel, revenues increased more than 60%.

Operating income

The Group's fiscal 2002 operating income increased nearly four times compared to fiscal 2001. This resulted largely from the completion of the nationwide roll-out of the Group's network in April 2001, followed by efficient use of this network through dial-up Internet access offers. These developments reduced operating expenses for the Internet business segment in 2002. Completion of the network roll-out also helped to reduce operating costs of the new Telephony segment for which a restructuring was implemented in the first half of 2002.

Based on a comparable group structure excluding One.Tel, consolidated operating income for the year ended December 31, 2002 was nearly three times higher than for the year ended December 31, 2001.

Newly acquired One.Tel achieved the targets set by Group management in terms of both revenues and operating income. The growth in voice traffic made possible by the network roll-out not only contributed to increased Group revenues, as rates for voice traffic far exceed those for Internet communications, but also resulted in increased operating income due to the high gross margin achieved on voice traffic with less capital expenditure and thus less depreciation expense for the Group.

Net interest expense

In both fiscal 2001 and fiscal 2002, this item included, in addition to interest expense on borrowings and finance leases, write-downs of the Group's minority interest in Mandrakesoft.

Exceptional items

On a published group structure basis, net exceptional expense amounted to nearly €2.4 million in fiscal 2002, up from €1.6 million in fiscal 2001. The increase resulted from restructuring and fixed asset retirement costs.

Net income

Net income amounted to €23.8 million for the year ended December 31, 2002 (€13.9 million on a comparable group structure basis), compared to €10.9 million for the year ended December 31, 2001.

5.2.3.1 Analysis of results for the Internet segment

The Internet segment includes the following operations:

- Internet Service Provider (ISP) operations, both through the switched telephone network and via ADSL, marketed under the Free, Free haut débit, Free Telecom and FreeBox brands;

- Hosting and domain-name creation services, marketed under the Online and BookMyName brands.

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

(in € thousands)	**Year ended December 31, 2002**	**Year ended December 31, 2001**	**% change**
Net revenues	**101,656**	**56,777**	**79.0**
Other operating revenue	3,942	228	NM
Purchases used in production and other operating expenses	75,607	45,132	67.5
Payroll costs	5,648	4,442	27.1
Taxes other than on income	855	321	166.4
Additions to provisions	1,862	905	105.7
EBITDA	**21,626**	**6,205**	**248.5**
Depreciation and amortization	7,062	4,950	42.7
Operating income	**14,564**	**1,255**	**NM**

Revenues

The following table shows the breakdown by category of consolidated revenues for the Internet segment for the years ended December 31, 2002 and December 31, 2001, as well as the percentage change between these two periods.

(in € thousands)	Year ended December 31, 2002	Year ended December 31, 2001	% change
ISP revenues *(Pay-as-you-go, 50-hour plan, ADSL)*	89,904	50,908	76.6
Hosting and advertising revenues	2,783	3,352	(17.0)
Inter-segment and other revenues	8,969	2,517	NM
Total revenues	**101,656**	**56,777**	**79.0%**

Internet segment revenues for the year ended December 31, 2002 increased by €44.9 million, or 79.0%, compared to the year ended December 31, 2001.

ISP revenues

ISP revenues (Free, Free Telecom and Free haut débit), through both the switched telephone network and ADSL, totaled €89.9 million for the year ended December 31, 2002.

The increase in revenues in the ISP business resulted from the following factors:

– **Increase in the number of customers billed directly by Free** under the "50-hour plan" and ADSL offers. The success of the "50-hour plan" and the launch of the ADSL offer in October led to a 211% increase in the number of directly-billed customers, from 104,000 at December 31, 2001 to 324,000 at December 31, 2002.

– **Increased strength of ADSL**. Half of the increase in the number of subscribers was attributable to Free's ADSL broadband offer, which had 99,100 subscribers at December 31, 2002. Revenue per ADSL subscriber amounted at €25.08 per month, compared to €13.90 per subscriber under the 50-hour plan.

– **Increase in the number of minutes on the Group's network under the "pay-as-you-go" offer in 2002**. The number of minutes used by "pay-as-you-go" customers rose to nearly 2.4 billion minutes in 2002, from 2.0 billion minutes in 2001, reflecting the full-year impact in 2002 of the interconnection of the Group's network with the France Télécom network. The positive effect of this 26% increase in minutes was marginally offset by a 1.4% reduction in the fee passed on by France Télécom, to €0.0206 per minute from €0.0209 per minute, related to the discontinuing of the distinction between peak and off-peak hours in the fee calculation.

Hosting and advertising revenues

Value-added hosting services and sales of advertising space on Free's portal generated revenues of €2.9 million for the year ended December 31, 2002. This represented a decline of €0.6 million compared to the year ended December 31, 2001, following a decrease of more than 50% in advertising revenues due to the decision by several regular advertisers to discontinue their Internet campaigns.

Inter-segment and other revenues

Inter-segment and other revenues correspond mainly to the resale to the Telephony segment of minutes on Free's directly-operated network, following the migration of One.Tel's local and national traffic to the Group network in summer 2002. In 2001, these revenues were essentially derived from advertising for the Group's other services on Free's portal.

Purchases used in production and other operating expenses

Purchases used in production and other operating expenses (net of other operating revenue) rose moderately compared to revenue growth, due principally of the following factors: (i) completion in April 2001 of the roll-out of the Group, which allowed Free to route all its Internet traffic through its own network from May 2001 onwards; (ii) a nearly 26% decrease in production cost per minute in fiscal 2002 compared to fiscal 2001, due to stronger interconnection capabilities through digital local exchanges and the use of flat-rate primary digital blocks under the FRIACO (flat-rate Internet access call origination) system; and (iii) the success of Free Telecom's 50-hour plan, which led to a sharp increase in minutes on the Group's network to 6.4 billion minutes in fiscal 2002 from 2.6 billion minutes the previous fiscal year, reducing fixed costs per minute produced.

Payroll costs

The increase in Internet segment payroll costs resulted from the opening of a new billing department to handle the 50-hour plan and the recruitment of additional staff to process new applications for broadband service. Centrapel's total payroll thus increased to €2.3 million in fiscal 2002 from €1.5 million for fiscal 2001.

Free also had to dedicate greater staff resources to the roll-out and maintenance of its network, leading to an increase in its payroll costs to €2.8 million in fiscal 2002 from €2.3 million in fiscal 2001.

EBITDA and operating income

The EBITDA margin for the Internet segment rose to over 21.3% for 2002 from 10.9% in 2001. The substantial increase reflected the 79% rise in revenues, while purchases used in production and other operating expenses (net of other operating revenue) increased 67%. This performance was a direct result of completing the interconnection between the Group's network and the France Télécom network and of using flat-rate internet access call origination for the "50-hour plan".

Operating income rose sharply to nearly €14.6 million for fiscal 2002 up from €1.3 million for fiscal 2001, as a result of the highly successful "50-hour plan" and ADSL launch. Revenue gains offset the higher amortization expense following implementation of IRU agreements on optical fibers in metropolitan France.

Excluding inter-segment transactions, Internet segment EBITDA margin in fiscal 2002 amounted to nearly 23.3%.

5.2.3.1.1. Analysis of results for the Telephony segment

The Telephony segment includes the following operations:

- Fixed-line telephony operated under the One.Tel brand;
- Telephony services provided to operators by Kedra.

One.Tel accounts for the largest share of the Group's telephony operations and its consolidation in 2002 therefore had a very significant impact on the segment's results for that year.

	Excluding One.Tel		Published		
(in € thousands)	*Year ended December 31, 2002*	*% change(1)*	**Year ended December 31, 2002**	**Year ended December 31, 2001**	**% change(1)**
Net revenues	***7,236***	***NM***	**44,546**	**227**	**NM**
Other operating revenue	*646*	*NM*	762	149	NM
Purchases used in production and other operating expenses	*6,119*	*NM*	28,399	498	NM
Payroll costs	*257*	*NM*	2,929	132	NM
Taxes other than on income	*9*	*NM*	590	1	NM
Additions to provisions	*28*	*NM*	562	4	NM
EBITDA	***1,469***	***NM***	**12,828**	**(259)**	**NM**
Depreciation and amortization	*158*	*NM*	724	9	NM
Operating income	***1,311***	***NM***	**12,104**	**(268)**	**NM**

(1) The changes presented are based on published data for the year ended December 31, 2001.

Revenues

The table below shows the breakdown by category of consolidated revenues for the Telephony segment for the years ended December 31, 2002 and December 31, 2001, as well as the percentage change between these two periods.

	Excluding One.Tel		Published		
(in € thousands)	*Year ended December 31, 2002*	*% change(1)*	**Year ended December 31, 2002**	**Year ended December 31, 2001**	**% change(1)**
Fixed-line telephony revenues	811	*257.3*	40,089	227	NM
Revenues from services to operators	6,425	*NM*	4,457	0	NM
Total revenues	**7,236**	***NM***	**44,546**	**227**	**NM**

(1) The changes presented are based on published data for the year ended December 31, 2001.

Fixed-line telephony revenues

In June 2001, One.Tel was unable to pay its debts and filed for bankruptcy. As part of the bankruptcy proceedings, Iliad acquired 100% of the share capital and voting rights of One.Tel and implemented a reorganization, the details of which are presented in section 5.2.4 below.

Revenues from fixed-line telephony amounted to €44.5 million for the year ended December 31, 2002, of which One.Tel contributed €40.1 million. In 2002, the Group focused on restructuring One.Tel. No advertising was carried out in the first part of the year and more rigorous steps were taken to recover receivables, leading to a fall in the subscriber base to 153,000 at December 31, 2002 from 169,000 at December 31, 2001. However, the impact of a diminished subscriber base was partially offset by the growth in traffic following the suppression of local call sorting which enabled One.Tel to route local calls.

Revenues from services to operators

These services were launched in the first half of fiscal 2002 to meet the needs of One.Tel. They were opened up to other licensed operators beginning in the summer of 2002, leading to an increase in revenues.

Purchases used in production and other operating expenses

This item mainly corresponds to the cost of domestic and international traffic for One.Tel and Kedra.

Payroll costs

The number of One.Tel employees fell to 39 at December 31, 2002 from 102 at January 31, 2002. This reflects the transfer of employees to other Group companies, particularly Centrapel for customer support positions, as well as the departure of the management team.

EBITDA and operating income

Telephony segment EBITDA margin amounted to 28.8% for fiscal 2002, and the operating margin for this segment was only slightly lower, at 27.2%. At the time of the filing of the One.Tel reorganization plan with the bankruptcy court, Group management believed that there were opportunities for significant synergies through the shared use of the Group's network resources. One.Tel's migration onto Free's network confirmed this assessment, making One.Tel's operations very profitable as demonstrated by its 2002 results. Furthermore, the use of existing network resources meant that integrating One.Tel required very little capital expenditure, which explains the low level of depreciation expense and consequently the high operating margin.

5.2.3.1.2. Analysis of results for the Other Services segment

The Other Services segment includes:

– Reverse look-up directory operations, one of the Group's historic businesses, marketed under the names 3617 ANNU and Annu.com and acessible via Minitel, telephone, Internet and SMS text messaging;

– E-commerce operations, including Assunet.com, an online insurance broker, and Société.com, an online provider of financial information; and

– Subsidiaries that were wound up in 2002: Immobilier.com, Emploi.com, FOM, Fermatel and FranceTrade.

(in € thousands)	Year ended December 31, 2002	Year ended December 31, 2001	% change
Net revenues	**26,018**	**30,239**	**(14.0)**
Other operating revenue	134	1,064	(87.4)
Purchases used in production and other operating expenses	15,029	18,332	(18.0)
Payroll costs	2,018	3,822	(47.2)
Taxes other than on income	293	270	8.5
Additions to provisions	17	210	(91.9)
EBITDA	**8,795**	**8,669**	**1.4**
Depreciation and amortization	366	795	(54.0)
Operating income	**8,429**	**7,874**	**7.0**

Revenues

The decline in revenues in 2002 was attributable to a 12.6% decrease in fees passed on by France Télécom due to the fall in Minitel usage in France and, to a lesser degree, the winding up of non-strategic subsidiaries.

These lost revenues were partly offset by growth in e-commerce revenues from new online services offered by Société.com (by subscription or via Minitel) and from higher sales of insurance policies through Assunet, in addition to renewals of existing policies.

The fall in Other operating revenue was mostly due to the winding up of non-strategic subsidiaries in 2002.

Purchases used in production and other operating expenses

The ratio of operating expenses to revenues remained fairly stable at 58% for fiscal 2002 compared to 61% for fiscal 2001. This was mostly the result of a pro-active policy on the part of Group management to keep advertising expenses for ANNU in line with its revenue-generating potential.

Payroll costs

The fall in payroll costs was a direct result of the winding up non-strategic subsidiaries in 2002.

5.2.4 Liquidity and capital resources

(in € thousands)	Six months ended June 30,	Year ended December 31,		
	2003	2002	2001	2000
CASH FLOWS:				
Cash flows from operating activities	43,109	48,976	14,191	(7,081)
Cash flows from investing activities	(42,024)	(25,097)	(13,597)	(12,479)
Cash flows from financing activities	5,492	(11,991)	3,130	15,613
Change in cash and cash equivalents	6,577	11,888	3,725	(3,947)

The Group's main source of financing is cash provided by operating activities, which covered the Group's entire financing needs for fiscal years 2001 and 2002 as well as for the first half of fiscal 2003. Financing needs for fiscal 2000 were covered mainly by a share capital increase of Free reserved for investment funds controlled by Goldman Sachs.

Net cash provided by operations has increased rapidly, from €14.2 million in fiscal 2001 to €49.0 million in fiscal 2002 and €43.1 million in the first half of fiscal 2003. In 2001, the bulk of cash flows from operating activities came from the ANNU business and "pay-as-you-go" access fees. In fiscal 2002 and the first half of fiscal 2003, these cash flows were increased by cash generated from the 50-hour plan and the ADSL broadband Internet access offer, as well as the fixed telephony business.

Capital expenditure is entirely internally financed by cash flows and working capital which represents a source of funds because revenues for Free's dial-up and ADSL access, One.Tel fixed telephony services and prepaid phone cards are collected before the related expenses are paid.

Net cash provided by operations was used to finance the roll-out of the Group's network and, in fiscal 2002 and the first half of fiscal 2003, the increasing variable capital expenditure required to expand the Group's ADSL broadband Internet access offer (ADSL modems, DSLAM and service access fees). In fiscal 2002, the Group generated sufficient free cash flow to finance a share buyback program in the amount of nearly €10 million and payment of the 2001 dividend as decided by the Company at the shareholders' meeting called to approve the accounts for the year ended December 31, 2001.

The Group estimates that its capital expenditure for the full year 2003 will amount to more than €75 million.

As evidenced by the figures for the first half of fiscal 2003, the Group has continued to add to its cash and cash equivalents, despite increased capital expenditure.

5.2.5 Off-balance sheet commitments

The table below analyzes the Group's commitments under non-cancelable leases at June 30, 2003 by type of asset and by maturity. See also the information provided in the notes to the consolidated financial statements.

Type of leased assets	Within 1 year	In 1 to 2 years	In 2 to 3 years	In 3 to 4 years	In 4 to 5 years	Beyond 5 years	TOTAL
				(in € thousands)			
Real estate	3,988	3,969	3,862	3,586	3,485	3,464	22,354
Vehicles	29	19	17	0	0	0	65
Equipment	146	113	43	0	0	0	302
Other	185	5	3	0	0	0	193
TOTAL	**4,348**	**4,106**	**3,925**	**3,586**	**3,485**	**3,464**	**22,914**

The above table does not take into account rent paid in respect of a lease entered into on December 11, 2003 for premises leased by the Group at Bezons. This nine-year lease provides for annual rental payments in the amount of €585,000.

5.2.6 Long and short-term debt

Due to serious financial difficulties experienced by Internet service providers since early 2000, the Group has borrowed very sparingly and only for short periods at a time.

At September 30, 2003, the breakdown of the Group's debt was as follows:

Lender and purpose of loan	Borrower	Annual interest rate	Inception of loan	Total amount (in €)	Due	Hedging instruments	Outstanding principal at Sept. 30, 2003
San Paolo real estate loan: *Acquisition of the rue Ricquet building in Paris*	Free	Euribor + 150 bps	April 27, 2001	2,286,73	2013	None	1,842,092
CEPME 2001 loan: *ADM/Cirpack acquisition*	Free	6%	Nov. 29, 2001	1,228,00	2004	None	614,002
BFCC 2001 loan: *ADM/Cirpack acquisition*	Free	6 %	December 3, 2001	1,228,00	2004	None	511,666
CEPME 2003 loan: *Completion of local network*	Free	Euribor + 150 bps	December 18, 2002	2,000,00	2004	None	1,517,125
Fortis 2003 loan: *Completion of local network*	Free	5.5%	February 10, 2003	3,000,00	2005	None	1,913,398
Ecureuil 2003 loan: *Completion of local network*	Free	Euribor + 100 bps	April 25, 2003	1,700,00	2005	None	1,494,520
CEPME loan: *Long Distance*	Free	Euribor + 150 bps	June 10, 2003	4,000,00	2006	None	4,000,000
CNCE loan: *Long Distance*	Free	Euribor + 150 bps	June 27, 2003	4,000,00	2006	None	4,000,000

Outstanding borrowings at September 30, 2003 totaled €15.9 million.

The Group is not subject to any liquidity risk as a result of prepayment clauses undertaken by Group companies nor as a result of non-compliance with financial covenants (ratios, targets, etc.).

The Group's obligations under finance leases at September 30, 2003 amounted to €5.7 million.

5.2.7 Other information

Pro forma data including Kertel

The following table show pro forma key figures for fiscal 2002 including Kertel as from January 1, 2002:

	Fiscal 2002 consolidated data	
(in € thousands)	Pro forma, including Kertel	Published
Fixed assets	48,176	39,870
Revenues	182,925	160,263
EBITDA	41,244	43,249
Operating income	30,476	35,097

The Group acquired control of Kertel on April 1, 2003. Group management considers that Kertel's historical performance is not representative of its future potential.

Consequences of the One.Tel bankruptcy

In June 2001, One.Tel was unable to pay its debts and filed for bankruptcy. As part of the bankruptcy proceedings, the Group acquired 100% of the share capital and voting rights of One.Tel and implemented a reorganization. The terms of the reorganization are summarized below:

Creditor ranking	Total accepted claims	Amount to be repaid under the plan	Balance outstanding at September 30, 2003	Repayment period
Preferred creditors with a super priority	€782,770	€782,770	€0	From Oct. 31, 2001 to Oct. 31, 2003 in 24 monthly installments
Preferred creditors	€1,195,829	€1,195,829	€1,142,017	From December 30, 2001 to December 30, 2010 in 10 progressive annual installments
Special preferred creditors	€19,345	€1,935	€0	From Oct. 31, 2001 to June 30, 2003 in 21 monthly installments
Unsecured creditors	€13,216,891	€1,321,689	€0	From Oct. 31, 2001 to June 30, 2003 in 21 monthly installments
Unsecured creditors	€5,725,718	€5,725,718*	€1,544,921	From December 30, 2001 to December 30, 2010 in 10 progressive annual installments
Total outstanding balance			€2,686,938	

* Including €4.1 million due to a creditor that agreed to be repaid only 10% of the total amount due prior to the court ruling on the reorganization.

5.3 FINANCIAL STATEMENTS

5.3.1 Consolidated financial statements

For the purposes of this document, the notes to the consolidated financial statements are presented as follows:

- summary of significant accounting policies
- notes to the interim consolidated financial statements for the six months ended June 30, 2003
- notes to the consolidated financial statements for the years ended December 31, 2002 and December 31, 2001

This presentation differs from that of the consolidated financial statements on which the Statutory Auditors issued their reports, as explained below:

- accounting policies are only presented once as the same policies were applied in all of the periods presented; and
- the notes to the consolidated financial statements for the years ended December 31, 2002 and 2001 have been combined; the changes made to produce the combined notes are not material.

STATUTORY AUDITORS' LIMITED REVIEW REPORT ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(for the six months ended June 30, 2003)

Translated from the original French language report

PricewaterhouseCoopers Audit Tour AIG34, place des Corolles 92908 Paris La Défense 2 France	**Boissière Expertise Audit** Represented by Tita A. Zeïtoun 57, rue Boissière75016 Paris France

ILIAD
8, rue de La Ville L'Evêque
75008 Paris

As requested by the Company, and in our capacity as Statutory Auditors of Iliad SA, we have performed a limited review of the accompanying interim consolidated financial statements of Iliad SA and its subsidiaries for the period from January 1, 2003 to June 30, 2003.

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

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

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements, in order to present fairly the results of operations for the six months ended June 30, 2003 and the financial position and assets of Iliad SA and its subsidiaries at that date, in accordance with French accounting standards and regulations.

Paris, September 4, 2003

The Statutory Auditors

PricewaterhouseCoopers Audit	**Boissière Expertise Audit**
Xavier Cauchois	Tita A. Zeïtoun

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

(Year ended December 31, 2002)

Translated from the original French language report

PricewaterhouseCoopers Audit	**Boissière Expertise Audit**
Tour AIG34, place des Corolles	Represented by Tita A. Zeïtoun
92908 Paris La Défense 2	57, rue Boissière75016 Paris
France	France

To the shareholders of Iliad SA:

In compliance with the assignment entrusted to us by the annual general shareholders' meeting, we have audited the accompanying consolidated financial statements of Iliad SA and its subsidiaries for the year ended December 31, 2002.

The consolidated financial statements have been approved by the management board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Iliad SA and its subsidiaries and their assets and liabilities at December 31, 2002, and of the results of operations for the year then ended, in accordance with French accounting standards and regulations.

We have also reviewed the information given in the Report of the Management Board. We have no comments as to its fair presentation and its conformity with the consolidated financial statements.

Paris, April 18, 2003

The Statutory Auditors

BEFEC – Price Waterhouse	**Boissière Expertise Audit**
Member of PricewaterhouseCoopers	
Xavier Cauchois	Tita A. Zeïtoun

CONSOLIDATED BALANCE SHEETS

ASSETS	Note(1)	At December 31, 2002	2001	2000	Note(2)	At June 30, 2003	2002
		(in € thousands)				(in € thousands)	
Fixed assets							
Goodwill	*3.1*	0	0	0	*3.2*	4,078	0
Intangible assets	*3.1*	14,413	2,703	970		30,916	10,924
Property, plan and equipment	*3.2*	24,782	21,974	15,810		46,681	19,368
Long-term investments	*3.3*	676	1,534			1,621	931
					3.1	**83,296**	**31,223**
Current assets							
Inventories and work in progress	*3.4*	5,411	14	16		10,641	1,832
Trade accounts and notes receivable	*3.4*	30,282	21,889	11,654		37,851	25,207
Other receivable and accruals	*3.6*	26,062	21,612	16,438		32,081	33,191
Marketable securities		2,788	114	177		11,768	3,458
Cash		12,968	2,009	3,236		16,480	6,933
Total assets		**117,832**	**71,489**	**50,686**		**192,117**	**101,844**

LIABILITIES AND SHAREHOLDERS' EQUITY	Note(1)	At December 31, 2002	2001	2000	Note(2)	At June 30, 2003	2002
		(in € thousands)				(in € thousands)	
Shareholders' Equity							
Capital stock		1000	10,990	10,471		1000	1000
Additional paid-in capital		1,126	25	25		1,126	1,126
Retained earnings		23,512	4,631	(5,803)		29,831	11,058
Cumulative translation adjustment		0	596	190		0	0
Total shareholders' equity		*25,638*	*16,242*	*4,883*		**31,957**	**13,184**
Minority interests		0	2	80		1	0
Provisions for contingencies and charges	*3.7*	5,470	4,060	3,266		9,773	6,970
Liabilities							
Borrowings	*3.8*	15,023	12,411	14,637		26,508	14,049
Trade accounts and notes payable	*3.8*	51,153	25,697	17,152		79,596	43,642
Other payable and accruals	*3.8*	20,098	13,437	10,668		44,282	23,999
Total liabilities and shareholders' equity		**117,382**	**71,849**	**50,686**		**192,117**	**101,844**

(1) These notes are found in paragraph 3 (notes to the balance sheet and income statement) of the notes to the consolidated financial statements for the years ended December 31, 2002 and December 31, 2001 (see pages 137 to 153 hereof).

(2) These notes are found in paragraph 3 (notes to the balance sheet and income statement at June 30, 2003) of the notes to the interim consolidated financial statements for the six months ended June 30, 2003 (see pages 123 to 128 hereof).

CONSOLIDATED STATEMENTS OF INCOME

	Note(1)	Year ended December 31			Note(2)	Six months ended June 30,	
		2002	2001	2000		2003	2002
		(in € thousands)				(in € thousands)	
Net revenues		**160,263**	**80,807**	**41,607**		**125,269**	**75,748**
Other operating revenue		4,838	1,441	72		15,607	714
Purchases used in production		103,066	54,094	47,724		90,055	30,100
Payroll costs		10,595	8,396	6,899		6,469	5,779
Other operating expenses		4,012	3,432	2,626		18,288	20,546
Taxes other than on income		*1,738*	*592*	*452*		820	697
Depreciation, amortization and provisions		10,593	6,873	3,253		9,451	3,606
Operating income/(loss)		**35,097**	**8,861**	**(19,275)**		**15,793**	**15,734**
Net interest expense	*3.11*	(2,447)	(2,541)	(1,260)	*3.9*	(278)	(1,301)
Operating income/(loss) after interest		**32,650**	**6,320**	**(20,534)**		**15,515**	**14,433**
Exceptional items	*3.12*	(2,747)	(1,590)	5,394	*3.10*	(3,625)	56
	3.13	5,980	(6,216)	(13)	*3.11*	1,179	3,216
Net income/(loss) of fully consolidated companies		**23,923**	**10,946**	**(15,127)**		**10,711**	**11,373**
Income from companies accounted for by the equity method							
Goodwill amortization	*3.1*	95		3,005		104	0
Net income/(loss) before minority interests		**23,828**	**10,946**	**(18,132)**		**10,607**	**11,373**
Minority interests		1	(7)	7		1	0
Net income/(loss)		**23,827**	**10,953**	**(18,139)**		**10,606**	**11,373**
Basic earnings per share	*3.14*	5.0	0.1	0.1		2.2	2.4
Diluted earnings per share	*3.14*	4.6	0.1		*3.12*	2.1	2.3

(1) These notes are found in paragraph 3 (notes to the balance sheet and income statement) of the notes to the consolidated financial statements for the years ended December 31, 2002 and December 31, 2001 (see pages 137 to 153 hereof).

(2) These notes are found in paragraph 3 (notes to the balance sheet and income statement at June 30, 2003) of the notes to the interim consolidated financial statements for the six months ended June 30, 2003 (see pages 123 to 128 hereof).

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in € thousands)	Capital stock	Additional paid-in capital	Retained earnings	Net income/ (loss) for the period	Other				Total share-holders' equity
					Cumulative translation adjustment	Revaluation reserve	Treasury stock	Total	
Shareholders' equity at January 1, 2000	9,147	0	5,720	(6,722)	(111)	/	/	(111)	8,034
Movements in 2000									
- Issuance of shares	1,324	25							1,349
- Appropriation of 1999 net loss			(6,722)	6,722					0
- Net loss for the year				(18,139)					(18,139)
- Translation adjustments					301			301	301
- Other issue premiums			13,338						13,338
Shareholders' equity at December 31, 2000	**10,471**	**25**	**12,336**	**(18,139)**	**190**	**/**	**/**	**190**	**4,883**
Movements in 2001									
- Issuance of shares	519		(519)						0
- Appropriation of 2000 net loss			(18,139)	18,139					
- Net income for the year				10,953					10,953
- Translation adjustments					406			406	406
Shareholders' equity at December 31, 2001	**10,990**	**25**	**(6,322)**	**10,953**	**596**	**/**	**/**	**596**	**16,242**
Movements in 2002									
- Reduction in capital	(9,990)	1,101	(946)						(9,835)
- Appropriation of 2001 net income			10,953	(10,953)					0
- Dividends paid			(4,000)						(4,000)
- Net income for the year				23,827					23,827
- Translation adjustments					(596)			(596)	(596)
Shareholders' equity at December 31, 2002	**1,000**	**1,126**	**(315)**	**23,827**	**0**	**/**	**/**	**0**	**25,638**
Movements in 2003									
- Issuance of shares									
- Appropriation of 2002 net income			23,827	(23,827)					0
- Dividends paid			(4,287)						(4,287)
- Net income for the period				10,606					10,606
- Translation adjustments									
Shareholders' equity at June 30, 2003	**1,000**	**1,126**	**19,225**	**10,606**	**0**	**/**	**/**	**0**	**31,957**

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in € thousands)	Year ended December 31			Six months ended June 30	
	2002[2]	2001	2000	2003	2002
Cash flows from operating activities					
Net income/(loss) before minority interests	**23,828**	**10,946**	**(18,132)**	**10,607**	**11,373**
Adjustments to reconcile net income/(loss) to net cash provided/(used) by operations:					
- Depreciation, amortization and provisions [1]	11,411	6,431	6,472	11,619	3,250
- Changes in deferred taxes	4,115	(6,862)	(1,178)	(528)	1,506
- (Gains)/losses on disposals of fixed assets, net of tax	(430)	56	(1,206)	(59)	(415)
Income from companies accounted for by the equity method					
Cash flow of fully consolidated companies	**38,924**	**10,571**	**(14,044)**	**21,639**	**15,714**
Dividends received from companies accounted for by the equity method	0	0	0	0	0
Changes in working capital	10,052	3,620	6,963	21,470	11,153
Net cash provided/(used) by operations	**48,976**	**14,191**	**(7,081)**	**43,109**	**26,867**
Cash flows from investing activities					
Acquisitions of fixed assets	(25,912)	(14,706)	(16,280)	(45,334)	(7,964)
Disposals of fixed assets, net of tax	738	1,126	4,325	705	586
Effect of changes in Group structure	77	(17)	(525)	2,605	(23)
Net cash used by investing activities	**(25,097)**	**(13,597)**	**(12,480)**	**(42,024)**	**(7,401)**
Cash flows from financing activities					
Iliad SA capital reduction	(9,835)	0	0	0	(9,835)
Dividends paid to parent company shareholders	(4,000)	0	0	0	(4,000)
Dividends paid to minority shareholders of consolidated companies	0	(69)	0		
Issuance of shares		0	12,139		
New borrowings	6,309	5,926	5,582	9,163	0
Repayments of borrowings	(4,465)	(2,727)	(2,108)	(3,671)	(1,735)
Net cash provided/(used) by financing activities	**(11,991)**	**3,130**	**15,613**	**5,492**	**(15,571)**
Change in cash and cash equivalents	**11,888**	**3,725**	**(3,947)**	**6,577**	**3,895**
Cash and cash equivalents at beginning of period	2,832	(5,320)	(1,730)	14,720	2,855
Cash and cash equivalents at period-end	14,720	(1,245)	(5,380)	21,297	6,750
Effect of exchange rate changes on cash and cash equivalents		(410)	(297)		
Change in cash and cash equivalents	11,888	3,725	(3,947)	6,577	3,895

(1) Excluding provisions against current assets.

(2) The cash flow statement for the year ended December 31, 2002 has been prepared based on pro forma data at January 1, 2002 including One.Tel at that date.

Explanatory notes to the statement of cash flows for the six months ended June 30, 2003

1) Changes in working capital

Breakdown:

Inventories	(5,230)
Trade accounts and notes receivable, net of customer prepayments	(6,365)
Other receivables	(7,809)
Trade accounts and notes payable, net of prepayments to suppliers	41,035
Other liabilities	7,364
Working capital – Kertel acquisition	(7,525)
Net change during the period	21,470

2) Acquisitions of fixed assets:

Breakdown of cash flows relating to the acquisition of fixed assets:

Amounts due to suppliers of fixed assets, excl. VAT, at December 31, 2002	8,871
Acquisitions of fixed assets during the period	46,053
Amounts due to suppliers of fixed assets, excl. VAT, at June 30, 2003	(9,590)
Net acquisitions of fixed assets	45,334

3) Dividends paid to parent company shareholders

The general shareholders' meeting called to approve the 2002 accounts decided to pay a total dividend of €4,286,181. The dividend had not been paid out at June 30, 2003.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. ACCOUNTING PRINCIPLES

1.1 Overview

The consolidated financial statements have been prepared on a going concern basis, in accordance with the principle of prudence and using the historical cost convention. Accounting policies have been applied consistently from one year to the next. Valuation methods comply with the French Commercial Code and the *loi sur les sociétés commerciales*.

1.2 Accounting standards

The consolidated financial statements have been prepared in compliance with applicable French generally accepted accounting principles, including standard CRC 99-02. They are presented in thousands of euros, unless otherwise specified.

2. BASIS OF CONSOLIDATION

2.1 Consolidation methods

All material companies that are controlled by the Group are fully consolidated.

Companies in which the Group exercises joint control are proportionally consolidated. This is the case for Telecom.

Companies in which the Group exercises significant influence over management and financial strategy are accounted for by the equity method. No companies were accounted for by the equity method at December 31, 2002.

2.2 Goodwill

Goodwill represents the difference between the cost of shares in consolidated companies and the Group's equity in the fair value of the underlying net assets at the date of acquisition. Fair value adjustments may be made up to the end of the year following the accounting period in which the acquisition takes place. Minority interests are also valued using the fair value method.

Positive goodwill is recorded under the "Goodwill" caption on the assets side of the balance sheet.

Negative goodwill is recorded under "Provisions for contingencies and charges" on the liabilities side.

Goodwill is generally amortized over five to ten years, except when a shorter period is considered justified based on the assumptions used and objectives set at the time of acquisition, or based on the circumstances of the transaction.

Goodwill recognized prior to the entry in force of standard CRC 99-02 has not been restated.

2.3 Foreign currency translation

No foreign subsidiaries were included in the scope of consolidation at December 31, 2002.

The financial statements of former foreign subsidiaries were translated into euros based on:

- period-end rates for balance sheet items, excluding shareholders' equity;
- historical rates for shareholders' equity;

- period-end rates for income statement items.

The reasons for using this method were as follows:

- the subsidiaries concerned were managed on a relatively autonomous basis;
- their businesses were different from that of the parent company;
- all staff were employed locally and materials and supplies were purchased from local suppliers, apart from specific equipment acquired through the Company.

The use of this method led to the recognition of translation gains and losses, representing the difference between the period-end rate and the historical rate.

These gains and losses were recorded as a separate component of shareholders' equity under "Cumulative translation adjustment", with minority interests shown separately.

2.4 Fiscal year-end

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

3. ACCOUNTING POLICIES

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

3.1 Intangible assets

Organization expenses are expensed as incurred.

Development costs related to the design of new equipment are included in assets on the consolidated balance sheet and are amortized over two years.

Registered codes, names, client files and trademarks are amortized over one to ten years depending on the estimated period of use.

Software is amortized on a straight-line basis over one to three years.

Purchased goodwill is not amortized but is written down when the fair value is less than the book value.

3.2 Property, plant and equipment

Property, plant and equipment are recorded on the balance sheet at the acquisition cost, including transaction expenses, or at production cost.

Depreciation is calculated by the straight-line or reducing balance method, as follows:

–	Buildings	20 to 30 years	Straight line
–	Technical equipment	3 to 14 years	Straight line or reducing balance
–	General equipment	10 years	Straight line
–	Computer equipment	3 to 5 years	Straight line or reducing balance
–	Office furniture and equipment	2 to 10 years	Straight line or reducing balance

The above depreciation periods are applied consistently by all Group companies and are considered to reflect actual depreciation.

3.3 Inventories

Inventories are valued by the weighted average cost method.

Where appropriate, inventories are written down to probable realizable value. In this case, the amount of the provision includes the estimated costs remaining to be incurred up to the date of sale.

3.4 Accounts receivable

Accounts receivable are recorded on the balance sheet at nominal value. A provision is recorded for doubtful accounts based on the estimated risk of non-recovery.

3.5 Marketable securities

Marketable securities are recorded on the balance sheet at cost, excluding transaction expenses. Unrealized gains on marketable securities are added back to taxable income. A provision is booked for unrealized losses.

3.6 Consolidation adjustments

These primarily concern intercompany eliminations and adjustments to the accounts of subsidiaries to comply with Group accounting policies.

3.7 Deferred taxes

Deferred taxes are computed by the liability method on:

- all timing differences between the recognition of income and expenses for financial reporting and tax purposes,

- tax loss carryforwards that are expected to be utilized in the near future,

- consolidation adjustments and eliminations which have an impact on the tax base for future periods.

The liability method consists of adjusting deferred taxes at the end of each period, based on the latest known tax rate.

3.8 Retirement benefits

No provision has been made in the consolidated financial statements for retirement benefits, due to the low average age of the Group employees.

3.9 Foreign currency transactions

Income and expenses in foreign currencies are converted at the exchange rate on the date of the transaction.

Balance sheet items are converted at the period-end rate.

Unrealized exchange gains and losses are included in earnings for the period concerned.

3.10 Finance leases

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

In such cases:

- The assets acquired are recorded in the balance sheet at their value at the inception of the lease or at fair value for leases in progress when a subsidiary is consolidated for the first time. They are depreciated over their probable useful lives.

- The related obligation is recorded under short- and long-term debt, based on the lease terms.

- Lease payments are allocated between the repayment of the obligation and interest expense.

3.11 Research and development costs

Research and development costs are recorded under operating expenses, except for the cost of developing specific equipment (or prototypes), which is capitalized.

3.12 Shares in non-consolidated companies

Shares held in companies which do not fulfill the Group's consolidation criteria are recorded in the balance sheet at the lower of cost and fair value to the Group. Cost does not include transaction expenses.

Fair value to the Group is determined based on the net assets of the company concerned and its projected future earnings.

3.13 Provisions for contingencies and charges

Provisions for contingencies include provisions for claims and litigation in progress as well as for tax and employee-related risks.

At the period-end, provisions are also booked for potential or unrealized losses and expenses.

3.14 Exceptional items

Exceptional income and expense include both exceptional items relating to ordinary activities and extraordinary items.

Exceptional items relating to ordinary activities correspond to items that are unusual in terms of their size or impact or which arise from events that occur rarely.

3.15 Use of estimates

The preparation of the financial statements in accordance with accounting principles generally accepted in France involves the use of estimates and assumptions which may have an impact on the reported amounts in the financial statements and accompanying notes. Actual amounts may differ from these estimations.

3.16 Earnings per share

Basic earnings per share are calculated based on the number of shares outstanding at the period-end.

Diluted earnings per share are calculated based on the number of shares outstanding at the period-end plus the additional ordinary shares which would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

II. NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2003

1. SCOPE OF CONSOLIDATION

1.1 Consolidation methods

All companies over which the Group exercises either direct or indirect control are consolidated, except for the following:

– Four non-strategic companies which no longer have any material activity, and which have not been consolidated since 2000,

– The company IH, created in 2002, and which has been dormant since its incorporation.

1.2 List of consolidated companies

The following companies are consolidated:

	Registration number	Registered offices	Percentage voting rights at June 30, 2003	Percentage voting rights at Dec. 31, 2002	Percentage ownership at June 30, 2003	Percentage ownership at Dec. 31, 2002	Consolidation method
ILIAD	B 342376332	Paris	100.00%	100.00%	100.00%	100.00%	Full
ASSUNET	B 421259797	Paris	89.84%	89.84%	89.84%	89.84%	Full
TELECOM	B 428969141	Paris	50.00%	50.00%	50.00%	50.00%	Proportional
FREE	B 421938861	Paris	100.00%	100.00%	100.00%	100.00%	Full
SOCIETE	B 428116065	Paris	95.20%	95.20%	95.20%	95.20%	Full
CENTRAPEL	B 434130860	Paris	99.98%	99.98%	99.98%	99.98%	Full
FREEBOX	B 433910616	Paris	99.98%	99.98%	99.98%	99.98%	Full
ONLINE	B 437916935	Paris	99.98%	99.98%	99.98%	99.98%	Full
KEDRA	B 439597857	Paris	99.98%	99.98%	99.98%	99.98%	Full
ONE.TEL	B 419392931	Paris	100.00%	100.00%	100.00%	100.00%	Full
BOOKMYNAME	B 433115904	Paris	100.00%	100.00%	99.98%	99.98%	Full
KERTEL	422 135 459	Paris	100.00%	–	100.00%	–	Full

1.3 Changes in the scope of consolidation

	Percentage voting rights at Dec. 31, 2002	Consolidation method at Dec. 31, 2002	Date of acquisition	Percentage voting rights at June 30, 2003	Consolidation method at June 30, 2003
ILIAD	Parent company	Full		100.00%	Full
ASSUNET	89.84%	Full	Dec. 29, 1998	89.84%	Full
TELECOM	50.00%	Proportional	Dec. 31, 1999	50.00%	Proportional
FREE	100.00%	Full	Feb. 1, 1999	100.00%	Full
SOCIETE	95.20%	Full	Jan. 1, 1999	95.20%	Full
CENTRAPEL	99.98%	Full	Dec. 1, 2000	99.98%	Full
FREEBOX	99.98%	Full	Dec. 1, 2000	99.98%	Full
ON LINE	99.98%	Full	May 10, 2001	99.98%	Full
KEDRA	99.98%	Full	Oct. 1, 2001	99.98%	Full
ONE.TEL	100.00%	Full	Jan. 1, 2002	100.00%	Full
BOOKMYNAME	100.00%	Full	July 1, 2002	100.00%	Full
KERTEL	–	–	March 15, 2003	100.00%	Full

1.4 Newly consolidated company

In March 2003, Iliad acquired Kertel, a company specializing in the sale and top up of prepaid telephone cards.

This business line opens up a new avenue of growth for the Group.

2. PERIOD-ON-PERIOD COMPARISONS

Kertel’s second-quarter 2003 revenues, in an amount of €7.284 million, have been included in the Group’s consolidated revenues for the first half of 2003.

The impact of the acquisition on the Group's cash and cash equivalents breaks down as follows:

– Amount paid by the Group to acquire the company	€800,000
– Cash and cash equivalents acquired from Kertel	€3,405,000
– Impact of the acquisition on consolidated cash and cash equivalents	€2,605,000

The acquisition had virtually no impact on operating income for the period.

3. NOTES TO THE BALANCE SHEET AND INCOME STATEMENT AT JUNE 30, 2003

3.1 Fixed assets

Movements in the first half of fiscal 2003

(in € thousands)	Movements in the six months ended June 30, 2003					
	At Dec. 31, 2002	Increases	Decreases	Changes in the scope of consolidation		At June 30, 2003
				Newly consolidated companies	Deconsolidated companies	
Intangible assets						
- Goodwill	**2,667**	–	–	4,182	–	6,849
- Other	**15,698**	18,216	632	690	–	33,972
Property, plant and equipment	**40,845**	26,962	14	435	–	68,228
Long-term investments	**2,429**	875	4	73	–	3,373
Fixed assets at cost	**61,639**	46,053	650	5,380	–	112,422
Depreciation, amortization and provisions	**21,768**	7,362	4	–	–	29,126
FIXED ASSETS, NET	**39,871**	38,691	646	5,380	–	83,296

3.2 Goodwill

Movements in goodwill can be analyzed as follows:

(in € thousands)	Movements in the six months ended June 30, 2003			
	At Dec. 31, 2002	Increases	Decreases	At June 30, 2003
Goodwill, at cost	2,667	4,182	–	6,849
Amortization	(2,667)	(104)	–	2,771
Goodwill, net	**0**	**4,078**	**–**	**4,078**

Goodwill arising from the Kertel acquisition

Goodwill arising from the acquisition of Kertel was calculated based on the fair value of the company's assets and liabilities at March 31, 2003.

The following principles were applied:

- Organization expenses were deemed to have no value;
- Other assets and liabilities were valued based on their net book value at March 31, 2003, which corresponds to their fair value;
- A provision was recorded for restructuring costs.

Based on these valuations, goodwill arising from the Kertel acquisition amounted to €4.19 million. It will be amortized over a period of 10 years.

Other intangible assets

The main amounts capitalized during the period were as follows:

- Indefeasible Rights of Use (IRU), in an amount of €6.32 million;
- service access costs, primarily related to the development of a high-speed Internet service, in an amount of €11.55 million.

Property, plant and equipment

The main acquisitions during the period were as follows:

– ADSL distribution equipment	€18,514,000
– fiber optic lighting equipment	€2,916,000
– fittings and equipment for technical premises required for the Internet business	€2,420,000

3.3 DEFERRED TAX ASSETS

Breakdown of deferred tax assets by category

Amounts recorded under "Deferred tax assets" correspond to future tax benefits.

The only movements in deferred tax assets for the period ended June 30, 2003 correspond to the utilization of tax losses carried forward from prior periods, or the recognition of additional deferred tax assets for tax loss carryforwards previously wholly or partially unrecognized. These additional deferred tax assets have been recorded as their future recovery is now probable based on the projected future earnings of the companies concerned.

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 for the period up to the expiry dates of the tax losses.

At June 30, 2003, tax loss carryforwards for which no deferred tax assets have been recognized amounted to €30.26 million.

3.4 Provisions for contingencies and charges

Developments during the first half of fiscal 2003

Movements in provisions for contingencies and charges break down as follows for the six months ended June 30, 2003:

(in € thousands)	At Dec. 31, 2002	Increases 2003	Decreases (provisions used) 2003	Decreases (surplus provisions) 2003	Impact of changes in Group structure	At June 30, 2003
Provisions for contingencies	3,237	233	70	–	135	3,535
Provisions for charges	1,267	4,701	454	–	247	5,761
Provisions for investments accounted for under the equity method	966	–	–	489	–	477
TOTAL	**5,470**	**4,934**	**524**	**489**	**382**	**9,773**

Information relating to material movements

The final contributions for 2001 payable by telecoms operators to the Universal Service Fund (*"fonds de Service Universel"*) were set by government order dated July 2, 2003 and published in the *Journal Officiel de la République française* on July 20, 2003. The contribution due by Free (formerly Free Telecom) totals €1.47 million, corresponding approximately to the amount provided for in the Company's accounts.

In order to determine contributions due to the Universal Service Fund, the ART performs a complex calculation based on minutes used by the various operators. In view of the complexity of the calculations, it takes a significant amount of time to determine the contributions due from each operator. For example, the 2001 contribution was initially estimated in January 2001. Successive revised estimates were issued in 2001 but it was not until July 2003 – two years after the year to which the contribution relates – that the final amount of the contribution was known.

During 2002, certain statements made by the ART, as well as a ruling in a case brought before the European Court of Justice, led the Group to believe that Free's contribution for 2002 would be much lower or even cancelled.

Based on the information available at the time, Free recorded a provision of €0.8 million.

Once the final contribution amount for 2001 and the related calculation method were known, the Group used this same method to estimate its 2002 contribution. Based on this estimate, the Group recorded an additional provision of €2.8 million.

The same calculation method was also applied to estimate the 2003 contribution, for which a provision of €1.8 million has been recorded.

The Group contests the calculation and allocation methods used to determine its contribution and intends to defend its position to the fullest extent of the law.

3.5 Borrowings

Borrowings at June 30, 2003 can be analyzed as follows:

(in € thousands)	At June 30, 2003	At December 31, 2002
Bank borrowings	7,614	3,971
Obligations under finance leases	2,781	4,151
Other	0	0
Long-term borrowings	**10,395**	**8,122**
Bank borrowings	5,331	1,757
Obligations under finance leases	3,693	4,108
Other	7,089	1,036
Short-term borrowings	**16,113**	**6,901**
TOTAL	**26,508**	**15,023**

Other borrowings primarily represent short-term bank facilities used to cover temporary cash shortfalls.

3.6 Financial Commitments

Guarantees given

The Company has given various guarantees to third parties on behalf of newly consolidated companies.

Commitments given by the Company break down as follows:

Company whose commitments are given	Beneficiary of guarantee	Amount of guarantee (in € thousands)	Purpose of guarantee
Free	Leasetec France	8,742	Finance leases
Free	–	18,290	Investments required under the application for L. 33-1 and L. 34-1 licenses filed with the Telecommunications Regulation Authority
Free	BFCC	1,228	Loan
Free	CEPME	1,228	Loan
Free	CEPME	2,000	Loan
Free	FORTIS	3,000	Loan
Free	CEPME	4,000	Loan
Free	CNCE	4,000	Loan
Free	Caisse d'Epargne d’Ile de France	1,700	Loan
Free	Dell Newcourt	175	IT equipment lease
Free	ING Lease	6,837	Financing of equipment purchased under six finance leases.
One.Tel	Crédit Lyonnais	235	In exchange for this guarantee, Crédit Lyonnais in turn provided a guarantee, in the same amount, on behalf of One.Tel to the

Company whose commitments are given	Beneficiary of guarantee	Amount of guarantee (in € thousands)	Purpose of guarantee
			owner of premises used by the One.Tel in the La Défense business area of Paris.
Kedra	Bouygues Telecom	508	12 month guarantee; the amount at June 30, 2003 has been calculated based on transactions in progress at that date.
Freebox	MEMEC France SAS	–	Guarantee for financial commitments made by Freebox
Iliad	SITA (Suez Environnement)	1,700	Guarantee relating to premises at rue de la Ville l'Evêque

Collateralized debts

None of the property belonging to the Group has been used as collateral to secure any debt.

3.7 Number of employees

At June 30, 2003, the Group had 340 employees.

Employees	At June 30, 2003	At Dec. 31, 2002
• Management	92	73
• Other	248	188
Total	**340**	**261**

The increase in the number of employees resulted primarily from the acquisition of Kertel.

3.8 Research and development

Research and development costs include the cost of developing new products, tailoring existing products to the Internet, research and development of databases for new applications and marketing developments for new products.

R & D costs as % of revenues	
2003	**2002**
1%	**2%**

Research and development expenditures remained unchanged over the above two periods. The reduction in percentage terms reflects the sharp increase in revenues during the first half of fiscal 2003.

3.9 Net interest expense

(in € thousands)	Six months ended June 30, 2003	Year ended December 31, 2002
Net interest expense	**(278)**	**(2,447)**

The decrease in this item resulted primarily from the fact that during the first half of fiscal 2003 no additions were made to provisions for impairment in the value of shares held in non-consolidated companies and marketable securities.

3.10 Exceptional items

Exceptional items break down as follows:

(in € thousands)	Six months ended June 30, 2003	Year ended December 31, 2002
Revenue transactions	(201)	(1,062)
Capital transactions	606	541
Net additions to provisions	(4,030)	(2,226)
Net exceptional expense	**(3,625)**	**(2,747)**

Additions to provisions for the six months ended June 30, 2003 primarily correspond to the increase in the provision for the contribution to the Universal Service Fund for 2002.

3.11 Corporate income tax

The tax charge for the six months ended June 30, 2003 has been calculated by applying to pre-tax income the estimated average effective tax rate for the full year, taking into account expected changes in deferred taxes.

On this basis, corporate income tax for the six months ended June 30, 2003 breaks down as follows:

- Current taxes: €1,679,000
- Deferred taxes: €(500,000)

3.12 Earnings per share

At June 30, 2003, the Company’s share capital was made up of 4,762,423 shares.

Based on net income for the period ended June 30, 2003 of €10,606,034, earnings per share for the period amounted to €2.23.

As a result of the issuance of 629,440 founders' share subscription warrants (*bons de souscription de parts de créateur d'entreprise*, or BSPCE) authorized by the general shareholders' meetings held on June 28, 2001 and August 12, 2002, as well as the occurrence of transactions involving the Company's share capital during the fiscal year 2002, a total of 265,401 additional shares may be issued. If these additional shares were to be issued, it would have a dilutive impact on earnings per share.

For the six months ended June 30, 2003, diluted earnings per share amounted to €2.11.

The information in the preceding paragraph cancels and replaces the information provided in the notes to the interim consolidated financial statements for the period ended June 30, 2003. The authorization to issue shares given in 2001 expired in June 2003 and has not been renewed. This explains the change in diluted earnings per share for the period ended June 30, 2003.

4. ADDITIONAL INFORMATION

4.1 Segment information

4.1.1 By business segment

The Group has four reportable business segments:

- directory services,
- Internet and telecommunications operator business,

– telephony,

– other services.

The table below sets out the key figures for each business segment:

(in € thousands)	Total reported in consolidated financial statements	Directory services	Internet and telecom operator business	Telephony	Other Services
Revenues[1]					
First-half 2003	125,269	8,959	77,935	37,780	595
Full-year 2002	160,263	21,438	93,347	44,425	1,053
Operating income					
First-half 2003	15,793	2,638	5,174	7,943	38
Full-year 2002	35,097	8,699	14,567	12,102	(271)

(1) After eliminating intercompany and inter-segment transactions.

4.1.2 By geographical area

The Group's operations are essentially carried out in France.

4.2 Subsequent events

No material events have occurred since June 30, 2003.

III. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2002 AND DECEMBER 31, 2001

1. SCOPE OF CONSOLIDATION

1.1 Consolidation methods

All companies either directly or indirectly controlled by the Group are consolidated, except for the following:

- Four non-strategic companies which have not been consolidated since 2000,
- IH, created in May 2002, and which has been dormant since its incorporation.

1.2 List of consolidated companies

The list of consolidated companies at December 31, 2002 and 2001 is provided in paragraph 6, together with details of changes in the scope of consolidation and in the Group's percentage interest in consolidated companies.

1.2.1 Changes in the scope of consolidation in 2002

1.2.1.1 Newly-consolidated companies

One.Tel

One.Tel, a company specializing in the sale of telephone services, filed for bankruptcy with the Nanterre Commercial Court following difficulties encountered by its Australian parent company.

One.Tel's business represents a good strategic fit with several of the Group's subsidiaries.

The acquisition of One.Tel has enabled the Group to:

- increase the utilization rate of Free's telephone network capacity,
- achieve significant economies of scale for One.Tel, which returned to profit in 2002.

The Company made an offer to purchase One.Tel accompanied by a debt repayment plan. The offer was accepted by the Nanterre Commercial Court in mid-December 2001. In 2002, the final acquisition price was set at a nominal one euro based on an expert's report.

One.Tel was not included in the consolidated financial statements for the year ended December 31, 2001. Various reasons were behind this decision, including the fact that it was impossible to obtain One.Tel's accounts early enough for the preparation of the Group's financial statements (see paragraph 1.2.2.1 below).

As the only impact of the acquisition would have been on the balance sheet, a consolidated pro forma balance sheet has been prepared for 2001 including One.Tel and is presented in paragraph 2.2.1.

BookMyName

BookMyName is a "Registrar", *i.e.* a company authorized to issue domain names and register them with I.C.A.N.N., the organization that manages the issuance and protection of domain names on a worldwide basis.

The company's business represents a good strategic fit with that of Online, which acquired the entire share capital of BookMyName for a nominal one euro at the beginning of July 2002.

1.2.1.2 Divestments

As the Group had already ceased its other business operations in Madagascar, in 2002 it decided to dispose of its stake in Fermatel, a licensed telephone operator in that country.

During January 2002, Iliad sold its entire interest in Fermatel to a third party. In view of the timing of this sale and the company's extremely low 2002 revenues, Fermatel did not contribute to Iliad's consolidated net income for the year ended December 31, 2002.

1.2.1.3 Liquidations of subsidiaries

SA Immobilier.com

Immobilier.com, a provider of property transaction services on the Internet, ceased its business operations during the third quarter of fiscal 2001. It was placed in liquidation at the beginning of 2002 and the liquidation was completed on December 16 of that year.

Immobilier.com was therefore deconsolidated as from that date.

Immobilier.com's results for 2002 were derived exclusively from transactions carried out during the liquidation process. They are therefore included in full under exceptional items in the consolidated income statement for the year ended December 31, 2002.

SA Emploi.com

Emploi.com provided an Internet recruitment service. Due to the weak outlook for this sector, the company ceased operations during the third quarter of fiscal 2002 and the liquidation process was completed on December 16, 2002.

As from July 2002, the company's results were derived exclusively from transactions carried out during the liquidation process. They are therefore recorded in full under exceptional items in the consolidated income statement for the year ended December 31, 2002.

SA Fermic Online Malagasy

This Madagascar-based company was placed in liquidation in December 2001.

However, due to the political crisis in Madagascar in the first half of fiscal 2002, the process was not completed until October 2002. In addition, the Group was not able to obtain accounting information for 2002. All costs related to the liquidation were provided for in full in 2001 and the Group did not incur any additional charges in 2002.

In view of these circumstances and the company's limited impact on the consolidated financial statements, Fermic Online Malagasy has been deconsolidated as from January 1, 2002.

SA France-Trade

France-Trade was a 50/50 joint venture created with the ETNA Finance Group in 2000 to run an online brokerage service called Finaction.com.

Further to the two groups' decision to withdraw from this business in 2002, France-Trade sold its operations to a third party and was liquidated in September 2002.

As the company's 2002 revenues were not material, its 2002 results have been recorded in full under exceptional items in the consolidated income statement.

1.2.1.4 Mergers

Two mergers of the Company's subsidiaries were carried out during 2002:

- Free and Salanga on November 25, 2002,
- Free and Free Telecom on December 26, 2002.

As the three companies had been fully consolidated since their incorporation, the mergers had no impact on the consolidated financial statements for 2002 or on prior period comparisons.

The impact of the mergers in the individual accounts of the companies concerned has been neutralized in consolidation.

1.2.1.5 Subsidiaries excluded from the scope of consolidation

1.2.1.5.1 Non-material companies

Since 2001, four companies which are virtually dormant and are intended to be wound up have not been consolidated. Shares in these companies are carried in the consolidated balance sheet at an amount corresponding to the Group's equity in their net assets at December 31, 2000, their last date of consolidation, as follows:

- either on the assets side under "Investments accounted for by the equity method" (companies with a positive net worth):
  - Company concerned: SASAM (formerly SARLES): €40,000
- or on the liabilities side under "Provisions for investments accounted for by the equity method" (companies with a negative net worth):
  - Companies concerned: SASAM, XEM and Toutcom: €966,000

1.2.1.5.2 Dormant companies

IH was set up in May 2002 and is over 99%-owned by the Company.

It has been dormant since its incorporation and has not been included in the scope of consolidation at December 31, 2002.

1.2.2 Changes in scope of consolidation in 2001

1.2.2.1 Newly-consolidated companies

The Group set up two new companies during the year, Online and Kedra:

- in May 2001, Online acquired Free's Internet domain name reservation and management business and has operated this business since that date.
- Kedra was set up at the end of the year to become a wholesale trader of telephone traffic.

Note

The Group acquired One.Tel at the end of 2001.

The Company filed with the bankruptcy court an offer to purchase One.Tel, accompanied by a debt repayment plan. The offer was accepted by the bankruptcy court in mid-December 2001.

However, for several reasons, One.Tel could not be included in the scope of consolidation in 2001:

One.Tel's fiscal year-end was June 30. The financial statements for the year ended June 30, 2001 were approved behind schedule by the company's former management, and the statutory auditors were therefore unable to complete their audit on time. The annual general shareholders' meeting held at the end of December 2001 noted that the accounts for the year ended June 30, 2001 were not yet available and resolved to postpone final approval of the financial statements. Under these circumstances, it was impossible to produce One.Tel accounts for the period ended December 31, 2001 early enough to comply with the planned deadline for the closing of the Group's consolidated accounts.

All of the persons responsible for the management of One.Tel left the company either under the termination plan decided by the bankruptcy court prior to the sale, or on an individual basis shortly after the Group purchased the company. Therefore, although the Group had appointed a new management team by mid-December, the new managers could not take over until their predecessors had left. This led to further delays in closing the accounts.

Lastly, although the Group acquired One.Tel in mid-December 2001, the bankruptcy court did not issue a final ruling on certain financial terms of the deal until the first half of 2002.

1.2.2.2 Divestments

During the year, the Company decided to withdraw from certain Internet service companies whose earnings outlook was unsatisfactory.

In line with this decision, at the end of 2001, Iliad sold its entire interest in DVD, a company created to sell DVDs via the Internet.

DVD's results for 2001 were included in the Group's consolidated statement of income.

1.2.2.3 Liquidation of subsidiaries

SA Immobilier.com

For the same reasons as stated above, Immoblier.com, a provider of property transaction services on the Internet, ceased trading during the third quarter of fiscal 2001. It is in the process of being liquidated.

Immobilier.com was consolidated in 2001.

However, the decision the wind up the business was made in June 2001 and all transactions carried out by Immobilier.com during the second half of 2001 related to the termination of outstanding contracts. Therefore, the €994 thousand net loss generated by the company in the second half of 2001 was reclassified from operating expense to exceptional items in the consolidated financial statements.

2. PERIOD-ON-PERIOD COMPARISONS

2.1 Changes in accounting methods

There have been no changes in the consolidation principles and methods applied.

2.2 Impact of changes in Group structure on period-on-period comparisons

For various reasons it was impossible to include One.Tel in the consolidated financial statements for the year ended December 31, 2001. As this company was acquired by the Group in mid-December 2001, its exclusion from the scope of consolidation had no impact on consolidated results.

In order to facilitate year-on-year comparisons between 2001 and 2002, a pro forma consolidated balance sheet has been prepared for 2001 including One.Tel.

This pro forma balance sheet is set out below, along with comparitive figures from:

– the balance sheet at December 31, 2002

– the balance sheet at December 31, 2001 (excluding One.Tel)

The other acquisitions, divestments and liquidations that took place during 2002 and 2001 did not have a material impact on the consolidated financial statements and thus did not require the preparation of pro forma accounts.

2.2.1 Pro forma balance sheet including One.Tel at December 31, 2001 – Assets (in € thousands)

ASSETS	Net, at Dec. 31, 2002	Net, at Dec. 31, 2001 Pro forma	Net, at Dec. 31, 2001 (excl. One.Tel)
INTANGIBLE ASSETS			
Organization expenses			
Development costs	579	96	96
Licenses, patents and trademarks	7,264	1,366	1,366
Leasehold rights			
Goodwill			
Other intangible assets	1,308	96	96
Prepayments	5,262	1,144	1,144
PROPERTY, PLANT AND EQUIPMENT			
Land	420	420	420
Buildings	2,510	2,610	2,610
Technical equipment	665	83	83
Other property, plant and equipment	20,803	14,825	13,125
Fixed assets under construction	132	3,904	3,904
Prepayments	252	1,832	1,832
LONG-TERM INVESTMENTS			
Shares in non-consolidated companies			
Shares in companies accounted for by the equity method	40	40	40
Loans and advances to proportionally consolidated companies	284	276	276
Other investment securities	52	646	890
Other long-term investments	300	657	329
TOTAL FIXED ASSETS	**39,871**	**27,995**	**26,211**
Inventories			
Raw materials	3,402	14	14
Work-in-progress	962		
Semi-finished and finished products	1,047		
Goods for resale			
Prepayments to suppliers	2,558	2,350	1,798
Trade accounts and notes receivable	30,282	28,913	21,890
Deferred tax assets	9,073	13,677	8,876
Other receivables	10,278	10,359	8,357
Marketable securities	2,789	114	114
Cash	12,968	6,127	2,009
Prepaid expenses	4,132	2,825	2,545
TOTAL CURRENT ASSETS	**77,491**	**64,379**	**45,603**
ACCRUALS			
Discounting adjustments to liabilities		2,458	
Conversion losses	20	35	35
TOTAL ASSETS	**117,382**	**94,867**	**71,849**

2.2.2 Pro forma balance sheet including One.Tel at December 31, 2001 – Liabilities and shareholders' equity (in € thousands)

LIABILITIES AND SHAREHOLDERS' EQUITY	At Dec. 31, 2002	At Dec. 31, 2001 Pro forma	At Dec. 31, 2001 (excl. One.Tel)
Capital stock	1,000	10,989	10,989
Additional paid-in capital	1,126	25	25
Legal reserve	100	1,047	1,047
Untaxed reserves	2,654	2,654	2,654
Consolidated reserves	(8,201)	(10,334)	(10,334)
Cumulative translation adjustment		596	596
Retained earnings	5,132	311	311
Net income for the year	23,827	10,953	10,953
SHAREHOLDERS' EQUITY	**25,638**	**16,241**	**16,241**
Minority interests in reserves	(1)	9	9
Minority interests in net income/(losses) of subsidiaries	1	(7)	(7)
MINORITY INTERESTS	**0**	**2**	**2**
QUASI EQUITY		**0**	**0**
Negative goodwill	966	966	966
Provisions for contingencies	3,237	3,723	1,019
Provisions for charges	801	1,916	1,120
Deferred tax liabilities	466	955	955
TOTAL PROVISIONS	**5,470**	**7,560**	**4,060**
Convertible bonds			
Other bonds			
Bank borrowings	6,764	8,035	8,016
Other borrowings (obligations under finance leases)	8,259	7,494	4,394
Customer prepayments	2,761	310	310
Trade accounts and notes payable	51,153	38,105	25,697
Accrued taxes and payroll costs	12,284	15,272	11,314
Due to suppliers of fixed assets			
Other liabilities	4,225	994	962
Deferred income	718	787	787
TOTAL LIABILITIES AND ACCRUALS	**86,164**	**70,998**	**51,480**
Conversion gains	110	66	66
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**117,382**	**94,867**	**71,849**

3. NOTES TO THE BALANCE SHEET AND INCOME STATEMENT

3.1 Intangible assets

Movements in 2002

Movements in intangible assets in 2002 can be analyzed as follows (in € thousands):

	Cost at Dec. 31, 2001	Increases 2002	Impact of changes in Group structure	Decreases 2002	Cost at Dec. 31, 2002	Amort. at Dec. 31, 2002	Net at Dec. 31, 2002
Organization expenses	1	–	(1)	–	0	0	0
Development costs	133	651	(133)	–	651	72	579
Licenses, patents and trademarks	1,660	7,112	(99)	230	8,443	1,179	7,264
Leasehold rights	nm	–	–	–			nm
Other intangible assets	99	1,243	–	–	1,342	34	1,308
Prepayments	1,144	5,262	–	1,144	5,262	0	5,262
Goodwill	2,572	–	95	–	2,667	2,667	0
TOTAL	**5,609**	**14,268**	**(138)**	**1,374**	**18,365**	**3,952**	**14,413**

Development costs

During the year Freebox incurred €606,000 in costs for the development of prototypes for two new types of equipment necessary in the operation of its business:

– The "Freebox" which will be installed directly in the customer’s office or home. Initially, the box will provide customers with high-speed Internet access (ADSL), to be followed by access to higher value-added services.

– DSLAM equipment which will be installed in telephone exchanges for data transmission purposes.

Kedra incurred €45,000 in costs for the development of specific equipment required for its telephone communications wholesale trading business.

These development costs are being amortized over a period of two years.

Software

Software is recorded on the balance sheet at cost and amortized over one to three years from its acquisition date.

Trademarks

The Group still owns numerous registered trademarks which it either uses directly or licenses to other companies.

Indefeasible Rights of Use (IRU)

Free invested heavily to build up a telephone network covering most of France and the country's main towns and cities.

For this purpose, Free entered into long-term IRU contracts for dark optical fibers covering periods of between 10 and 15 years. The company then made the necessary investments to light the optical fibers (see property, plant and equipment).

These investments totaled:

- €5.85 million for networks commissioned in 2002;
- €5.26 million in prepayments for future networks.

Other intangible assets

As part of its local loop unbundling operations, Free installs its own equipment in premises provided by the local loop operator, in this case France Télécom.

For each co-location space used, France Télécom bills Free a variable amount in access fees for the co-location service.

These non-recurring costs are capitalized and amortized over ten years in accordance with industry practice.

Movements in 2001

Movements in intangible assets in 2001 can be analyzed as follows (in € thousands):

	Cost at Dec. 31, 2000	Increases in 2001	Decreases in 2001	Decreases due to companies deconsolidated or divested in 2001	Cost at Dec. 31, 2001	Amort. at Dec. 31, 2001	Net at Dec. 31, 2001
Organization expenses	1		nm		1	1	0
Development costs		133			133	37	96
Licenses, patents and trademarks	790	890		21	1,660	294	1,366
Leasehold rights	351		351		nm	0	nm
Other intangible assets	0	99			99	2	97
Prepayments		1,144			1,144	0	1,144
Goodwill	2,572				2,572	2,572	0
TOTAL	**3,714**	**2,266**	**351**	**21**	**5,609**	**2,906**	**2,703**

Leasehold rights

During 2001, Free sold the leasehold rights relating to premises at quai de Jemmapes, Paris which formerly housed certain of the company's administrative departments.

Indefeasible Rights of Use

Investments in IRU contracts totaled:

- €795,000 for networks in service at December 31, 2001;
- €1.14 million in prepayments for future networks.

Goodwill

Movements in goodwill break down as follows:

	Cost	Amortization	Net
At December 31, 2000	2,572	2,572	**0**
Increases			
Decreases			
At December 31, 2001	2,572	2,572	**0**
Increases	95	95	0
Decreases	–	–	–
At December 31, 2002	**2,667**	**2,667**	**0**

The Group increased its ownership interest in Free from 91.01% at December 31, 1999 to 100% at December 31, 2000. Free was already consolidated and goodwill on the transaction was therefore calculated based on the additional equity in net assets acquired (including income for the year), as determined at the transaction date, *i.e.* December 30, 2000.

This goodwill primarily arose from the acquisition of an additional stake in Free's net income for the period and was therefore written off in full in 2000, due to the difficulty of determining an appropriate amortization period.

In 1997, the Group acquired SCI Crimée, a company which has since been merged into Iliad. Out of the total €33,000 in fair value adjustments recorded in 1997, €8,000 were allocated to land and €25,000 to buildings.

Negative goodwill arising on the One.Tel acquisition

Goodwill arising on the acquisition of One.Tel was calculated based on the fair value of the company's assets and liabilities at December 31, 2001.

The following principles were applied:

- Intangible assets and property, plant and equipment were valued internally based on fair value to the Group at their date of acquisition. The total value calculated on this basis amounted to €1.7 million.
- Conversion gains and losses and deferred charges were not included in the calculation.
- Current account advances from former shareholders in an amount of €10,133,131 were also excluded from the calculation despite the fact that they were reported as liabilities to the bankruptcy court. The advances were purchased separately by Iliad from the former shareholders with the intention of granting a debt waiver to the company. The debts were formally waived in 2002.
- The fair value of other pre-bankruptcy debts was taken as representing the amount that will be paid by One.Tel under its debt repayment plan. As the repayments are scheduled over 10 years, these debts have been discounted at a rate of 5%.

They are carried in the balance sheet at their discounted value.

– In 2000 and 2001 One.Tel entered into several finance leases for equipment which the company no longer requires following its integration into the Iliad Group. This equipment was therefore deemed to be without value for the purposes of the acquisition. The corresponding obligations under the finance leases have been recorded in the balance sheet under "Other borrowings (obligations under finance leases)".

– Other assets and liabilities were valued based on their net book value at December 31, 2001, which corresponds to fair value.

– Lastly, the company recorded a deferred tax asset of €4,800 thousand in respect of One.Tel's forecast losses for the 18 months following its acquisition by the Group.

Based on these valuations, negative goodwill arising on the One.Tel acquisition amounted to €1,696. As the amount concerned was not material, it was written off to the income statement in 2002.

Goodwill arising on the BookMyName acquisition

Goodwill arising on the acquisition of BookMyName was calculated based on the fair value of the company's assets and liabilities at July 1, 2002.

The following principles were applied:

– The fair value of the company's assets was deemed to be zero, except for software used to operate the technical hub, the fair value of which was considered as being equal to its net book value.

– Pre-paid expenses and deferred income were not included in the calculation.

– Other assets and liabilities were valued based on their net book value at July 1, 2002, which corresponds to fair value.

– A restructuring provision was booked in an amount of €95,000, corresponding to severance costs. This restructuring took place during the second half of fiscal 2002.

Based on these valuations, goodwill arising on the BookMyName acquisition amounted to €95,000.

In view of the amount concerned and BookMyName's poor earnings outlook, the Group decided to write off this goodwill in 2002.

3.2 Property, plant and equipment

Movements in 2002 (in € thousands)

	Cost at Dec. 31, 2001	**Increases 2002**	**Effect of changes in Group structure**	**Decreases 2002**	**Cost at Dec. 31, 2002**	**Depr. at Dec. 31, 2002**	**Net at Dec. 31, 2002**
Land	420	–	–	–	420	–	420
Buildings	2,829	–	–	–	2,829	319	2,510
Technical equipment	94	728	–	4	818	153	665
Other property, plant and equipment[1]	22,379	17,004	1,393	4,382	36,394	15,591	20,803
Fixed assets under construction	3,904	132	–	3,904	132	–	132
Prepayments to suppliers of fixed assets	1,832	252	–	1,832	252	–	252
TOTAL	**31,458**	**18,116**	**1,393**	**10,122**	**40,845**	**16,063**	**24,782**
[1] including assets purchased under finance leases	9,141	4,293	–	0	13,434	9,984	3,450

Land and buildings

During 2001, Free acquired premises at rue Riquet in Paris to be used by certain technical departments.

However, since that date, Free has found a more suitable location and intends to sell the rue Riquet premises.

Other property, plant and equipment

The main acquisitions during the year were as follows:

– Equipment and infrastructure required by Free’s operations:

- fixtures and fittings €302,000
- switching system (additional equipment) €5,097,000
- network infrastructure €335,000
- shared co-location facilities (France Télécom) €915,000
- ADSL distribution equipment €4,785,000

– Specific equipment for Freebox (€99,000) and Kedra (€611,000)

– IT equipment, in an amount of €1.1 million

– Equipment used for Free’s operations (modem boxes), acquired under finance leases, in an amount of €4.29 million.

The main reductions in property, plant and equipment during the year related to:

- fixed assets under construction at year end 2001 and subsequently commissioned €3,904,000
- prepayments made in 2001 and subsequently used €1,832,000
- retired IT and switching equipment €4,122,000

Movements in 2001 (in € thousands)

	Value at Dec. 31, 2000	Increases 2001	Decreases 2001	Effect of changes in Group structure	Cost at Dec. 31, 2001	Depr. at Dec. 31, 2001	Net at Dec. 31, 2001
Land	203	229	12		420	0	420
Buildings	881	2,058	110		2,829	219	2,610
Technical equipment	3,088	88	3,083		93	10	83
Other property, plant and equipment	16,419	7,611	1,604	47	22,379	9,254	13,125
Fixed assets under construction	17	3,904	17		3,904	0	3,904
Prepayments to suppliers of fixed assets	280	1,832	280		1,832	0	1,832
TOTAL	**20,888**	**15,722**	**5,106**	**47**	**31,457**	**9,483**	**21,974**

Land and buildings

During 2001, Free acquired premises at rue Riquet in Paris intended for use by certain technical services, at a cost of €2.29 million.

The Company sold a building in Amiens which it no longer required.

Other property, plant and equipment

The main acquisitions during the year were as follows (in thousands of euros):

- Equipment and infrastructures required by Free Telecom's operations:
    - switching system (additional equipment) €1,700,000
    - network infrastructure €300,000
- Assets required for Free's development:
    - fixtures and fittings €300,000
    - IT equipment €900,000
    - specific equipment acquired under finance leases €1,000,000
    - fixed assets under construction €3,600,000

– Prototypes in progress for equipment relating to Freebox and Kedra's operations, in an amount of €200,000 for each of the two companies.

3.3 Long-term investments

Movements in 2002 and net book values at December 31, 2001 (in € thousands)

	Cost at Dec. 31, 2001	Increases 2002	Effect of changes in Group structure	Decreases 2002	Cost at Dec. 31, 2002	Net at Dec. 31, 2002	Net at Dec. 31, 2001
Investments accounted for by the equity method	40	–	–	–	40	40	40
Loans and advances to proportionally consolidated companies	276	8	–	–	284	284	276
Other investment securities	1,766	39	–	–	1,805	52	889
Guarantee deposits	329	28	172	229	300	300	329
TOTAL	**2,411**	**75**	**172**	**229**	**2,429**	**676**	**1,534**

Investments accounted for by the equity method

This item represents shares in subsidiaries deconsolidated in 2000.

Loans and advances to proportionally consolidated companies

This item corresponds to the balance after eliminations of loans and advances to proportionally consolidated companies.

Other investment securities

The sole acquisition during the year was the Group's ownership interest in IH.

The Group holds a stake of less than 5% in Mandrakesoft, valued at cost at €1.75 million. In view of the company's poor outlook these shares were written down by 50% in 2001 and written down in full in 2002.

Guarantee deposits

This item is essentially made up of deposits paid at the inception of leases relating to the Group's operating facilities.

3.4 Other assets

Inventories

Inventories at December 31, 2002 (in € thousands)

	Cost at Dec. 31, 2002	Provisions at Dec. 31, 2002	Net at Dec. 31, 2002	Net at Dec. 31, 2001
Raw materials	3,407	5	3,402	14
Work in progress	962	–	962	–
Finished products	2,427	1,380	1,047	–
Total	**6,796**	**1,385**	**5,411**	**14**

Raw materials inventories primarily comprise electronic components intended for the production of "Freeboxes" and DSLAM equipment.

Work-in-progress and finished product inventories are exclusively made up of "Freeboxes".

Provisions for impairment in the value of inventories

Due to an assembly problem, Free has a batch of "Freeboxes" which are unusable in their present condition.

The inventories concerned have been written down by €1.38 million. The provision was calculated based on an estimate of the costs to be incurred in 2003 in order to restore the "Freeboxes" to their proper operating condition.

Inventories at December 31, 2001

Total inventories amounted to €14,000 at December 31, 2001, representing €5,000 in mobile phones and accessories marketed by Telecom and €9,000 in various components intended for the future production of equipment marketed by Freebox.

3.5 Analysis of receivables by maturity

The Group's receivables break down as follows:

	At December 31, 2002	At December 31, 2001
Long-term		
Loans and advances to proportionally consolidated companies	284	276
Other long-term investments	300	329
Short-term		
Prepayments to suppliers	2,558	1,798
Trade accounts and notes receivable	31,447	22,158
Other receivables	12,409	10,499
Deferred tax assets	9,073	8,876
Prepaid expenses	4,132	2,545
TOTAL	**60,203**	**46,481**

All of the Group's receivables are due within one year, except for guarantee deposits which amounted to €300,000 at December 31, 2002 and €329,000 at December 31, 2001.

Other receivables

"Other receivables" can be analyzed as follows (in € thousands):

	2002	***2001***
Recoverable VAT and other taxes	10,084	7,969
Employee advances and prepaid payroll taxes	1	29
Miscellaneous receivables	2,324	2,501
TOTAL	12,409	10,499

TRADE AND OTHER NET RECEIVABLES [1]		
	December 31, 2002	***December 31, 2001***
Trade receivables		
- Cost	*31,447*	*22,158*
- Provisions	*1,165*	*268*
- Net	*30,282*	*21,890*
Other receivables		
- Cost	*28,193*	*23,754*
- Provisions	*2,131*	*2,142*
- Net	*26,062*	*21,612*

[1] *This information is in addition to that provided in the notes to the consolidated financial statements for the years ended December 31, 2002 and 2001.*

Deferred tax assets

Breakdown of deferred tax assets by category

Amounts recorded under "Deferred tax assets" correspond to future tax benefits arising from:

– consolidation adjustments and eliminations,
– timing differences between the recognition of income and expenses for financial reporting and tax purposes,
– tax loss carryforwards.

Deferred taxes can be analyzed as follows (in € thousands):

	2002	***2001***
consolidation adjustments and eliminations	(96)	146
timing differences	196	30
tax loss carryforwards	8,973	8,700
TOTAL	9,073	8,876

Deferred tax assets arising from tax loss carryforwards concern the tax losses of Free incurred in 2001, of which approximately €4 million were utilized in 2002, and those of One.Tel. The principles governing the recognition of these deferred tax assets are described below.

Unrecognized deferred tax assets

Several companies created since 1999 have reported tax losses since their formation. As these companies' businesses are still in the start-up phase, no deferred tax assets have been recognized for their tax loss carryforwards, because the assets are not expected to be recovered in the foreseeable future. This concerns three companies. Deferred tax assets have been recognized, however, for those companies that joined the Iliad tax group in 2002.

Unrecognized deferred tax assets break down as follows at December 31, 2002 (excluding One.Tel. – see below):

	(in € thousands)
consolidation adjustments and eliminations	(103)
tax loss carryforwards	1,371
TOTAL	1,268

One.Tel tax loss carryforwards

One.Tel reported losses in each year of operation up to December 31, 2001. At that date the company had total tax loss carryforwards of over €53 million. €8 million of this amount will be set off against the company's taxable income for 2002. The balance primarily corresponds to tax loss carryforwards expiring in 2004 (€17 million) and 2005 (€26 million).

In view of these expiry dates, the company will not be able to utilize all of its remaining tax loss carryforwards.

Based on the expected developments in the sector, both in terms of technological advances and competition, recognized deferred tax assets have been capped at an amount corresponding to 18 months of forecast net income.

3.6 Marketable securities

Marketable securities can be analyzed as follows at December 31, 2002 (in € thousands):

	Cost at Dec. 31, 2002	Net at Dec. 31, 2002	Provisions at Dec. 31, 2002
- Listed securities	1,066	87	979
- Money market mutual funds	2,702	2,702	0
TOTAL	3,768	2,789	979

At December 31, 2001, marketable securities consisted solely of listed securities in an amount of €1.07 million (unchanged in 2002). A €952,000 provision was recorded in respect of these securities.

3.7 Provisions for contingencies and charges

Provisions for contingencies and charges break down as follows (in € thousands):

	At Dec. 31, 2001	**Increases 2002**	**Decreases (utilizations) 2002**	**Decreases (surplus provisions) 2002**	**Impact of changes in Group structure**	**At Dec. 31, 2002**
Provisions for claims and litigation and general contingencies	1,019	2,026	737	2,882	2,703	2,129
Provisions for restructuring costs	205	1,108	621	–	416	1,108
Provisions for contributions to the Universal Service Fund	780	–	–	–	–	780
Provisions for deferred taxes	955	–	489	–	–	466
Provisions for pre-selection costs	–	–	–	420	420	0
Other	135	1	31	–	(84)	21
Provisions for investments accounted for by the equity method	966	–	–	–	–	966
TOTAL	**4,060**	**3,135**	**1,878**	**3,302**	**3,455**	**5,470**

Impact of movements in provisions for claims and litigation (net of charges incurred)[(1)]	***Increase in 2002***	***Decreases (utilizations) 2002***	***Decreases (surplus provisions) 2002***	***At Dec. 31, 2002***
Operating income	*(3,133)*	-	-	*(3,133)*
Income from investments	-	-	-	*0*
Exceptional items	*(1)*	-	*3,302*	*3,301*

(1) Information in addition to that provided in the notes to the consolidated financial statements for the year ended December 31, 2002.

– For the year ended December 31, 2001, provisions for contingencies and charges were increased to €4.06 million from €3.27 million in the prior period.

Provisions for claims and litigation and general contingencies

These provisions are intended to cover the various risks incurred by Group companies.

The Group wrote back €2.6 million from these provisions during the year following the favorable outcome of a dispute.

Provisions for restructuring costs

These provisions concern the costs of closing subsidiaries estimated and recorded at the end of 2001 and used during 2002, as well as the impact of the decision taken by the Group to rationalize its facilities.

The Group has several facilities in the Paris area. With the development of the business, these facilities have become too small. In May 2002, the Group started looking for new, more suitable facilities capable of housing substantially all employees under the same roof.

A lease was signed at the beginning of 2003 on a building located in the eighth *arrondissement* of Paris. The various teams will move into the new premises under a phased process during 2003. Some of the leases on the Group's other facilities have three-year non-cancelable periods and cannot be terminated immediately.

Therefore, a provision has been recorded to cover the rent payable under these leases until their termination.

Provision for contributions to the Universal Service Fund

In 2001, Free made a €595,000 down payment on its total €1.38 million contribution to the Universal Service Fund for the year.

The company is challenging the €780,000 balance. A provision for this amount was booked in 2001 and the provision has been maintained in 2002.

In light of recent developments, the contribution due for 2002 has been directly recorded as an operating liability.

Provisions for deferred taxes

This item primarily corresponds to the impact of consolidation adjustments and timing differences for the profitable companies in the Group.

Movements in provisions for contingencies and charges in 2001

Movements in this item in 2001 break down as follows:

	(in € thousands)
At January 1, 2001	3,266
write-backs primarily relating to subsidiaries liquidated or in the process of liquidation (net of a €205,000 charge)	(880)
provision for employee-related risks	105
provision for Universal Service Fund contribution	870
provisions for deferred taxes	885
other (net)	(186)
At December 31, 2001	4,060

3.8 Other liabilities

None of the Group's liabilities are unusual in nature or significantly past due.

At December 31, 2002, liabilities can be analyzed as follows by maturity (in € thousands):

	Amount	Due within one year	Due between one and five years	Due beyond five years
Bank borrowings	6,764	2,793	2,955	1,016
Other borrowings (obligations under finance leases)	8,259	4,108	4,151	0
Customer prepayments	2,761	2,761	0	0
Trade accounts and notes payable	51,153	45,418	2,943	2,792
Accrued taxes and payroll costs	12,284	12,284	0	0
Other liabilities	4,225	3,182	535	508
Deferred income	718	718	0	0
TOTAL	**86,164**	**71,264**	**10,584**	**4,316**

"Other liabilities" include the following:

	(in € thousands)
shareholder advances	2,147
loans and advances from non-consolidated companies	580
miscellaneous liabilities	287
bankruptcy debts – One.Tel	1,211
TOTAL	4,225

At December 31, 2001, liabilities broke down as follows by maturity:

	Amount at cost	Due within one year	Between one and five years	Due beyond five years
Bank borrowings	8,016	4,244	2,311	1,461
Other borrowings (obligations under finance leases)	4,394	1,975	2,419	
Customer prepayments	310	310		
Trade accounts and notes payable	25,697	25,697		
Accrued taxes and payroll costs	11,314	11,314		
Other liabilities	962	962		
Deferred income	787	787		
TOTAL	**51,480**	**45,289**	**4,730**	**1,461**

"Other liabilities" include the following:

	(in € thousands)
shareholder advances	77
loans and advances from non-consolidated companies	578
accrued expenses	23
miscellaneous liabilities	284
TOTAL	962

3.9 Financial commitments at December 31, 2002

Guarantees given

The Company has given various guarantees on behalf of Group subsidiaries.

Commitments break down as follows at December 31, 2002:

– Guarantee given to Leasetec France as security for lease financing granted to Free. The amount guaranteed by Iliad totaled €9,378,482 at December 31, 2002.

– Iliad has undertaken to provide Free with financing of up to €18.29 million out of Iliad's shareholders' equity, in order to enable Free to make the necessary investments in connection with its application for an L. 33-1 and L. 34-1 license, filed with the ART.

– Iliad has given guarantees on behalf of Free in relation to four loans granted by different banks:

- BFCC – guarantee of €1,228,000
- CEPME – guarantee of €1,228,000
- CEPME – guarantee of €2,000,000
- Fortis – guarantee of €3,000,000 (loan released in 2003)

– Iliad has also given a guarantee to Dell Newcourt on behalf of Free relating to two lease agreements for IT equipment:

- April 24, 2002 – €140,000
- October 24, 2002 – €35,042

– In addition, when the Group acquired One.Tel, it undertook to cover One.Tel's cash flow requirements through to June 30, 2003. Iliad has also given a guarantee to Crédit Lyonnais on behalf of One.Tel in an amount of €235,957.79. In return, Crédit Lyonnais has provided a guarantee on behalf of One.Tel in the same amount to the owner of One.Tel's head office.

– Iliad has given a €5,423,951.40 guarantee on behalf of Free to ING Lease as security for lease financing for the purchase of Cisco equipment under four finance leases.

– Over a period of 12 months, Iliad systematically acted as a guarantor for payments due by Kedra to Bouygues Telecom in relation to intensive user telephone packages, at an average of €442 per package. At December 31, 2002, 1,100 such packages had been sold.

– Iliad has guaranteed the payments due by Freebox for equipment and components purchased from WBC France. The guarantee is capped at €960,000 and will expire on June 20, 2003.

– Iliad has provided a guarantee in respect of Freebox's financial commitments towards MEMEC France SAS.

Collateralized debts

None of the property belonging to the Group has been used as collateral for any debt.

3.10 Other information

Number of employees

The number of Group employees can be analyzed as follows:

Employees	At Dec. 31, 2002	At Dec. 31, 2001	At Dec. 31, 2000
Management	73	61	82
Other	188	162	620
Total	**261**	**223**	**702**

The increase in the number of employees in 2002 is primarily a result of the acquisition of One.Tel.

The reduction in the number of employees in 2001 was principally due to the closure of Fermic On line Malagasy.

Research and development

Research and development costs include the cost of developing new products, tailoring existing products to the Internet, research and development of databases for new applications and marketing developments for new products.

Research and development costs as a percentage of revenues are as follows:

– 2002……………………………………………………………………………………2%

– 2001……………………………………………………………………………………4%

– 2000……………………………………………………………………………………4%

3.11 Net interest expense (in € thousands)

Years ended:	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2000
Interest expense, net of interest income	(1,729)	(1,145)	(375)
Exchange gains/(losses)	72	(30)	(85)
Net gains on the sale of marketable securities	109	12	274
Additions to provisions, net of write-backs	(899)	(1,378)	(1,074)
Net interest expense	**(2,447)**	**(2,541)**	**(1,260)**

Interest expense increased during the year, primarily due to the recognition of interest on finance leases.

Additions to provisions over the last two years reflect the impairment in value of marketable securities and of the Mandrakesoft shares held by the Group.

3.12 Exceptional items

Exceptional items break down as follows (in € thousands):

Years ended:	**Dec. 31, 2002**	**Dec. 31, 2001**	**Dec. 31, 2000**
Gains/(losses) on fixed asset disposals	539	(104)	2,220
Net additions to provisions	(2,226)	1,123	(90)
Restructuring costs	(1,182)	(2,190)	
Adjustment of One.Tel's bankruptcy debts	196		
Write-off of goodwill arising on the buyout of minority interests in Free			3,380
Other exceptional expense, net of exceptional income	(74)	(419)	(116)
Net exceptional income/(expense)	**(2,747)**	**(1,590)**	**5,394**

Exceptional items in 2000 reflect the sale of shares in non-consolidated companies as well as the goodwill arising on the buyout of minority interests in Free, corresponding essentially to additional equity in Free's net income, that was written off directly to the income statement.

In 2001 exceptional items primarily included the costs relating to the closure of certain Group subsidiaries.

In 2002, certain fixed assets were retired resulting in exceptional charges to provisions for impairment in value. In addition, following the Group's decision to transfer all employees to a single site, rents due under non-cancelable leases on existing premises were recorded as exceptional costs.

3.13 2002 Tax proof

The table below reconciles:

– on the one hand, the Group's theoretical tax charge calculated by applying the income tax rate in effect in 2002 to consolidated income before tax,

– on the other hand, the actual tax charge recorded in the consolidated statement of income.

	Amount (in € thousands)	**%**
Consolidated income before tax	29,808	
Theoretical tax rate for the parent company		35.43
Theoretical tax charge	10,560	35.43
Impact of changes in Group structure on consolidated results	(1,553)	(5.21)
Net impact of permanent differences	(2)	(0.01)
Net impact of the recognition of deferred taxes for tax loss carryforwards	(3,296)	(11.06)
Impact of loss-making companies outside the tax group	263	0.88
Impact of unrecognized tax assets	(8)	(0.04)
Impact of tax credits	(142)	(0.48)
Impact of changes in tax rates	(4)	(0.01)
Net impact of the 3.3% surtax	(51)	(0.16)
Other	213	0.71
Effective tax and tax rate	5,980	20.06

3.14 Earnings per share

At December 31, 2002, the Company's share capital was made up of 4,762,423 shares. Further to a share capital reduction in May 2002, the number of shares decreased from 109,895,888 at December 31, 2001 to 4,762,423 at December 31, 2002.

Based on 2002 net income of €23,826,975, earnings per share for the year amounted to €5.0.

As a result of (i) the authorization to increase the share capital given at the general shareholders' meeting on June 28, 2001 and (ii) the authorization to issue founders share subscription warrants (BSPCE) given at the general shareholders' meetings held on June 28, 2001 and August 12, 2002, and after taking into account transactions involving the Company's share capital which took place in 2002, the total number of shares which may be issued is 377,985.

If these authorizations were utilized, they would have a dilutive impact on earnings per share. For the year ended December 31, 2002, diluted earnings per share amounted to €4.64.

For the year ended December 31, 2001, basic earnings per share amounted to €0.087 and diluted earnings per share amounted to €0.085.

The above three paragraphs cancel and replace the information provided in the note "Earnings per share" in the notes to the consolidated financial statements for the years ended December 31, 2001 and December 31, 2002.

4. OTHER INFORMATION

4.1 Segment information

4.1.1 By business segment

The Group has four reportable business segments:

- directory services,
- Internet services,
- other services,
- fixed telephony.

The table below sets out the key figures for each business segment:

(in € millions)	Total reported in consolidated financial statements	Directory services	Internet services	Other services	Fixed telephony
Revenues					
2002	160.26	21.44	96.20	2.62	39.16
2001	80.81	24.65	54.04	2.12	–
2000	41.60	28.70	12.49	0.41	–
Operating income/(loss)					
2002	34.25	7.23	11.56	(3.88)	19.34
2001	8.86	12.26	0.82	(4.22)	–
2000	(19.31)	10.10	(29.98)	(6.43)	–
Allocated fixed assets (at cost)					
2002	58.65	3.36	53.78	1.09	0.42
2001	36.59	4.79	30.93	0.87	–
2000	22.40	3.74	18.15	0.51	–

4.2 Subsequent events

- In March 2003, the Group signed a lease for premises in the 8th *arrondissement* in Paris, which will eventually be used to house all of the Group's operations.

- In March 2003, Iliad acquired Kertel, a company specializing in the sale and top up of telephone cards. Kertel reported revenues of €22.6 million in 2002 and employed 56 people.

5. CONSOLIDATED COMPANIES

5.1 List of consolidated companies at December 31, 2002

The following companies are consolidated:

	Registration number	Head office	Percentage voting rights at Dec. 31, 2002	Percentage interest at Dec. 31, 2002	Percentage interest at Dec. 31, 2001	Consolidation method
Iliad	B 342376332	Paris	100.00%	100.00%	100.00%	Full
Assunet	B 421259797	Paris	89.84%	89.84%	89.84%	Full
Telecom	B 428969141	Paris	50.00%	50.00%	50.00%	Proportional
Free	B 421938861	Paris	100.00%	100.00%	100.00%	Full
Société	B 428116065	Paris	95.20%	95.20%	95.20%	Full
Centrapel	B 434130860	Paris	99.98%	99.98%	99.98%	Full
Freebox	B 4 33910616	Paris	99.98%	99.98%	99.98%	Full
Online	B 437916935	Paris	99.98%	99.98%	99.98%	Full
Kedra	B 439597857	Paris	99.98%	99.98%	99.98%	Full
One.Tel	B 419392931	La Défense	100.00%	100.00%	–	Full
BookMyName	B 433,115,904	Paris	100.00%	99.98%	–	Full

5.2 Changes in the scope of consolidation at December 31, 2002 compared to December 31, 2001

	Percentage voting rights at Dec. 31, 2001	Consolidation method at Dec. 31, 2002	Date of acquisition	Percentage voting rights at Dec. 31, 2002	Consolidation method
Iliad	Parent company	Full		100.00%	Full
Fermic On line Malagasy	99.00%	Full	Jan. 19, 1998	–	Non-consolidated.
Assunte	89.84%	Full	Dec. 29, 1998	89.84%	Full
Emploi	66.68%	Full	Nov. 22, 1999	–	Non-consolidated.
Telecom	50.00%	Proportional	Dec. 31, 1999	50.00%	Proportional
Free (formerly Free Telecom)	100.00%	Full	Feb. 1, 1999	100.00%	Full
Free	100.00%	Full	Feb. 1, 1999	–	Non-consolidated.
Fermatel	100.00%	Full	Jan. 1, 1999	–	Non-consolidated.
Société	95.20%	Full	Jan. 1, 1999	95.20%	Full
Centrapel	99.98%	Full	Dec. 1, 2000	99.98%	Full
Freebox	99.98%	Full	Dec. 1, 2000	99.98%	Full
Salanga	94.99%	Full	July 1, 2000	–	Non-consolidated.
Immobilier.com	94.98%	Full	July 1, 2000	–	Non-consolidated.
France-Trade	50.00%	Proportional	July 1, 2000	–	Non-consolidated.
Ondine	99.98%	Full	May 10, 2001	99.98%	Full
Kedra	99.98%	Full	Oct. 1, 2001	99.98%	Full
One.Tel	–	Non-consolidated.	Jan. 1, 2002	100.00%	Full
BookMyName	–	Non-consolidated.	July 1, 2002	100.00%	Full

5.3 List of consolidated companies at December 31, 2001

	Registration number	Head office	Percentage voting rights at Dec. 31, 2001	Percentage interest at Dec. 31, 2000	Percentage interest at Dec. 31, 2001	Consolidation method
Iliad	B 342376332	Paris	100.00%	100.00%	100.00%	Full
Assunet	B 421259797	Paris	89.84%	89.88%	89.84%	Full
Emploi	B 428101935	Montigny Le Bretonneux	66.68%	66.68%	66.68%	Full
Telecom (formerly GSM)	B 428969141	Paris	50.00%	50.00%	50.00%	Proportional
Free Telecom	B 421938861	Paris	100.00%	100.00%	100.00%	Full
Free	B 421894213	Paris	100.00%	100.00%	100.00%	Full
Société	B 428116065	Paris	95.20%	95.20%	95.20%	Full
Fermatel	–	Antananarivo (Madagascar)	100.00%	99.65%	99.65%	Full
Fermic Online Malagasy	–	Antananarivo (Madagascar)	99.00%	99.00%	99.00%	Full
Centrapel	B 434130860	Paris	99.98%	99.98%	99.98%	Full
Free Box	B 433910616	Paris	99.98%	99.98%	99.98%	Full
Salanga	B 432577542	Paris	94.99%	76.15%	94.65%	Full
Immobilier.com	B 432706562	Boulogne-Billancourt	94.98%	94.98%	94.98%	Full
France-Trade	B 430118281	Paris	50.00%	50.00%	50.00%	Proportional
Online	B 437916935	Paris	99.98%	–	99.98%	Full
Kedra	B 439597857	Paris	99.98%	–	99.98%	Full

5.4 Changes in the scope of consolidation at December 31, 2001 compared to December 31, 2000

	Percentage voting rights at Dec. 31, 2000	Consolidation method 2000	Date of acquisition	Percentage voting rights at Dec. 31, 2001	Consolidation method 2001
Iliad SA	Parent company			Parent company	
Assunet	89.88%	Full	Dec. 29, 1998	89.84%	Full
Fermic Online Malagasy	99.00%	Full	Jan. 19, 1998	99.00%	Full
Free Telecom	100.00%	Full	Feb. 1, 1999	100.00%	Full
Free	100.00%	Full	Feb. 1, 1999	100.00%	Full
Fermatel	100.00%	Full	Jan. 1, 1999	100.00%	Full
Société	95.20%	Full	Jan. 1, 1999	95.20%	Full
Emploi	66.68%	Full	Nov. 22, 1999	66.68%	Full
Telecom (formerly GSM)	50.00%	Proportional	Dec. 31, 1999	50.00%	Proportional
Centrapel	99.98%	Full	Dec. 1, 2000	99.98%	Full
Free Box	99.98%	Full	Dec. 1, 2000	99.98%	Full
DVD	48.80%	Proportional	July 1, 2000	–	Non-consolidated
Valanga	76.15%	Full	July 1, 2000	94.99%	Full
Immobilier.com	94.98%	Full	July 1, 2000	94.98%	Full
France-Trade	50.00%	Proportional	July 1, 2000	50.00%	Proportional
Online	–	–	May 10, 2001	99.98%	Full
Kedra	–	–	Oct. 1, 2001	99.98%	Full

5.3.2 Summary financial statements of the Company

The full financial statements of Iliad S.A. as well as the accompanying notes are available on request from the Company. The attached Statutory Auditors' reports refer to the full financial statements of the Company.

STATUTORY AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS

Free translation of the original report in French

(Year ended December 31, 2002)

PricewaterhouseCoopers Audit
Tour AIG
34, place des Corolles
92908 Paris La Défense 2
France

Boissière Expertise Audit
Represented by Tita A. Zeïtoun
57, rue Boissière
75016 Paris
France

To the shareholders of Iliad SA,

In compliance with the assignment entrusted to us by the general shareholders' meetings, we hereby report to you, for the year ended December 31, 2002, on:

– the audit of the accompanying financial statements of Iliad SA,

– the specific verifications and information required by law.

The financial statements have been approved by the management board. Our responsibility is to express an opinion on these financial statements based on our audit.

I – OPINION ON THE FINANCIAL STATEMENTS

We conducted our audit in accordance with the professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the Company's financial position and its assets and liabilities as of December 31, 2002 and of the results of its operations for the year then ended, in accordance with French accounting principles and regulations.

II – SPECIFIC VERIFICATIONS AND INFORMATION

We have also performed the specific verifications required by law in accordance with the professional standards applicable in France.

We have no comments as to the fair presentation and the conformity with the financial statements of the information given in the Report of the Management Board and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Paris, April 18, 2003

BEFEC – Price Waterhouse
Member of PricewaterhouseCoopers

Xavier Cauchois

BOISSIÈRE EXPERTISE AUDIT

Tita A. Zeïtoun

BALANCE SHEET

ASSETS (in € thousands)	At Dec. 31, 2002	At Dec. 31, 2001
Fixed assets		
Intangible assets	105	103
Property, plant and equipment	663	1,037
Long-term investments	49,452	19,913
Current assets		
Trade accounts and notes receivable	11,697	19,619
Other receivables and accruals	972	3,094
Marketable securities	87	114
Cash	3,166	1,488
Total assets	**66,142**	**45,368**

LIABILITIES AND SHAREHOLDERS' EQUITY (in € thousands)	At Dec. 31, 2002	At Dec. 31, 2001
Capital stock	1,000	10,990
Additional paid-in capital	1,126	25
Retained earnings	7,888	4,012
Net income for the period	26,058	8,822
Total shareholders' equity	36,072	23,849
Provisions for contingencies and charges	123	1,219
Liabilities		
Borrowings	206	223
Trade accounts and notes payable	2,659	5,336
Other payables and accruals	27,082	14,741
Total liabilities and shareholders' equity	**66,142**	**45,368**

STATEMENT OF INCOME

Years ended December 31, (in € thousands)	**2002**	**2001**
Net revenues	**24,766**	**28,932**
Other operating revenue	124	51
Purchases of goods for resale	2,981	4,124
Other purchases and external charges	11,217	11,954
Taxes other than on income	256	207
Payroll costs	1,333	1,117
Depreciation, amortization and provisions	1,187	562
Operating income	**7,916**	**11,019**
Net interest income/(expense)	**(1,015)**	**1,264**
Operating income after interest	**6,901**	**12,283**
Net exceptional income/(expense)	**21,287**	**(1,492)**
Corporate income tax	**2,130**	**1,969**
Net income	**26,058**	**8,822**

STATEMENT OF MOVEMENTS IN SHAREHOLDERS' EQUITY

(in € thousands)	Capital stock	Additional paid-in capital	Net income for the year	Other	Total share-holders' equity
Shareholders' equity at January 1, 2001	**10,471**	**25**	**1,906**	**2,625**	**15,027**
<u>Movements in 2001</u>					
Issuance of shares	519			(519)	
Appropriation of 2000 net income			(1,906)	1,906	
Dividends paid					
Net income for the year			8,822		8,822
Shareholders' equity at December 31, 2001	**10,990**	**25**	**8,822**	**4,012**	**23,849**
<u>Movements in 2002</u>					
Reduction in share capital	(9,990)	1,101		(946)	(9,835)
Appropriation of 2001 net income			(4,822)	4,822	
Dividends paid			(4,000)		(4,000)
Net income for the year			26,058		26,058
Shareholders' equity at December 31, 2002	**1,000**	**1,126**	**26,058**	**7,888**	36,072

LIST OF SUBSIDIARIES AND AFFILIATES

	Capital stock	Retained earnings/deficit	% ownership interest	Last published net income/(loss)	Value of shares (at cost)	Value of shares (net)	Loans and advances granted	Guarantees given	Last published revenues	Dividends received
ASSUNET SA	38,112	(2,215,020)	89.84	(417,388)	34,240	0	2,392,386	–	373,256	0
CENTRAPEL SA	38,112	95,289	99.97	(527,287)	38,103	38,103	1,789,627	–	2,262,273	0
FREE BOX SA	38,112	(203,710)	99.97	(1,842,538)	38,103	38,103	5,642,862	960,000	157	0
FREE SAS (formerly FREE TELECOM)	3,020,600	23,979,400	100.00	11,449,977	27,000,000	27,000,000	14,120,542	21,433,475	99,822,250	0
IH SA	39,000	0	99.97	(14,435)	38,994	38,994	–	–	0	0
KEDRA SA	39,000	(31,040)	99.97	903,018	38,994	38,994	–	486,200	6,467,827	0
ON LINE SA	39,000	21,100	99.97	525,182	38,994	38,994	–	–	1,585,754	0
ONE.TEL SAS	510,540	(19,567,773)	100.00	21,517,734	1	1	–	235,957	39,277,899	0
SASAM SARL (formerly SARLES)	914	36,777	96.66	15,578	194,524	0	–	–	0	0
SNDM SARL (formerly AA EDITIONS)	1,524	(409,440)	100.00	9,045	297,275	0	–	–	9,091	0
SOCIETE SA	38,112	(3,773,861)	95.20	(60,359)	36,282	0	2,996,262	–	1,051,642	0
TELECOM SA	38,112	(720,393)	50.00	(172,195)	19,056	19,056	567,023	–	1,621,080	0
TOUTCOM SARL	7,622	(29,683)	99.94	(47,401)	274,865	0	27,705	–	0	0
XEM SARL	7,622	(298,841)	100.00	281,528	419,234	0	–	–	0	0

STATUTORY AUDITORS' SPECIAL REPORT ON AGREEMENTS SUBJECT TO THE PRIOR APPROVAL OF THE SUPERVISORY BOARD *(CONVENTIONS REGLEMENTEES)*

Translated from the original French language report

PricewaterhouseCoopers Audit
Tour AIG
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France

Boissière Expertise Audit
Represented by Tita A. Zeïtoun
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Iliad S.A.
24, rue Emile Ménier
75116 Paris

To the shareholders of Iliad SA,

In our capacity as Statutory Auditors of Iliad S.A., we present below our report on agreements subject to the prior approval of the supervisory board (*conventions réglementées*).

Agreements entered into during the fiscal year

Under the provisions of section L. 225-88 of the French Commercial Code, we have been informed of those agreements approved in advance by the supervisory board.

Our responsibility does not include identifying any undisclosed agreements. We are required to report to shareholders, based on the information provided, about the main terms and conditions of agreements that have been disclosed to us, without commenting on their relevance or substance. Under the provisions of article 117 of the March 23, 1967 decree, it is the responsibility of the shareholders to determine whether the agreements are appropriate and should be approved.

We conducted our review in accordance with the professional standards applicable in France. Those standards require that we carry out the necessary procedures to verify the consistency of the information disclosed to us with the primary source documents.

Agreement entered into with Immobilier.com

On December 2, 2002 the supervisory board authorized the Company to waive a €574,793 debt owed by Immobilier.com.

Members of the management board concerned: Cyril Poidatz.

Agreement entered into with Emploi.com

On December 2, 2002 the supervisory board authorized the Company to waive a €3,356,274 debt owed by Emploi.com.

Members of the management board concerned: Cyril Poidatz.

Agreements entered into with One.Tel

On December 2, 2002 the supervisory board authorized the Company to waive a €243,918 debt owed by One.Tel SA. On December 12, 2002, the supervisory board authorized the Company to enter into a cash pooling agreement with One.Tel SA.

At December 31, 2002 the Company had a current account advance of €12,394,940 from One.Tel SA. Interest invoiced to the Company on this account during the year amounted to €264,646.

Members of the management board concerned: Cyril Poidatz.

Agreement entered into with Online

On December 12, 2002 the supervisory board authorized the Company to enter into a cash pooling agreement with Online SA.

At December 31, 2002, the Company had a current account advance of €98,855 from One.Tel SA. Interest invoiced to the Company on this account during the year amounted to €3,715.

Members of the management board concerned: Cyril Poidatz and Michaël Boukobza.

Agreement entered into with IH

On December 12, 2002 the supervisory board authorized the Company to enter into a cash pooling agreement with IH.

At December 31, 2002, the Company had a current account advance of €20,155 from IH. The Company invoiced interest of €3,051 on this account during the year.

Members of the management board concerned: Cyril Poidatz, Michaël Boukobza and Olivier Rosenfeld.

Agreements entered into in prior years which remained in force during the year

In application of the decree of March 23, 1967, we were advised of the following agreements entered into in prior years which remained in force during the last fiscal year.

Agreement entered into with Kedra

On December 12, 2001 the supervisory board authorized the Company to enter into a cash pooling agreement with Kedra.

At December 31, 2002, the Company had a current account advance of €1,398,107 from Kedra. Interest invoiced to the Company on this account during the year amounted to €1,705. The Company also invoiced an amount of €4,424 to Kedra during 2002.

Agreement entered into with Telecom (formerly GSM)

On December 12, 2001 the supervisory board authorized the Company to enter into a cash pooling agreement with Telecom.

At December 31, 2002, the Company had granted a current account advance of €567,023 to Telecom. Interest of €22,130 was invoiced by the Company to Telecom on this account during the year.

Agreement entered into with Freebox

On December 12, 2001 the supervisory board authorized the Company to enter into a cash pooling agreement with Freebox.

At December 31, 2002, the Company had granted a current account advance of €5,642,862 to Freebox. Interest of €104,185 was invoiced by the Company to Freebox on this account during the year.

Agreement entered into with Centrapel

On December 12, 2001 the supervisory board authorized the Company to enter into a cash pooling agreement with Centrapel.

At December 31, 2002, the Company had granted a current account advance of €1,789,627 to Centrapel. Interest of €96,814 was invoiced by the Company to Centrapel on this account during the year.

Agreement entered into with Société S.A.

The cash pooling agreement with Société authorized by the supervisory board on July 12, 2000 remained in force in 2002.

At December 31, 2002, the Company had granted a current account advance of €2,996,262 to Société. Interest of €115,151 was invoiced by the Company to Société on this account during the year.

Agreement entered into with Assunet S.A.

The cash pooling agreement with Assunet authorized by the supervisory board on July 12, 2000 remained in force in 2002.

At December 31, 2002, the Company had granted a current account advance of €2,392,386 to Assunet. Interest of €87,769 was invoiced by the Company to Assunet on this account during the year.

Agreement entered into with Toutcom

The cash pooling agreement entered into with Toutcom remained in force during the year.

At December 31, 2002, the balance of Toutcom's current account amounted to €27,705. Interest of €835 was invoiced by the Company to Toutcom on this account during the year.

Agreements entered into with Free SAS (formerly Free Telecom)

The cash pooling agreement entered into with Free SAS remained in force during the year. Free SA and Salanga SA were merged into Free SAS (formerly Free Telecom) during 2002, with retroactive effect from January 1 of that year.

At December 31, 2002 the balance of Free SAS's current account amounted to €14,120,542. Interest invoiced to the Company on this account during the year amounted to €164,610. In addition, the Company invoiced an amount of €617,522 to Free SAS during the year.

The Company has undertaken to provide Free SAS with a maximum of 120 million FF in financing over five years in order to enable Free SAS to incur the capital expenditure required under its license application filed with the *Authorité de regulations des télécommunications.*

Agreement entered into with Immobilier.com

The cash pooling agreement with Immobilier.com authorized by the supervisory board on July 12, 2000 remained in force in 2002.

The Company invoiced interest of €16,494 to Immoblier.com during the year.

Agreement entered into with Emploi.com

The cash pooling agreement with Emploi.com authorized by the supervisory board on July 12, 2000 remained in force in 2002.

The Company invoiced interest of €92,582 to Emploi.com during the year.

The Statutory Auditors

Paris, April 18, 2003

PricewaterhouseCoopers Audit	Boissière Expertise Audit
Xavier Cauchois	Tita A. Zeïtoun

5.4 FEES PAID BY THE GROUP TO THE STATUTORY AUDITORS AND MEMBERS OF THEIR NETWORKS

	PricewaterhouseCoopers Audit				Boissière Expertise Audit			
	Amount		%		Amount		%	
(in € thousands)	2002	2001	2002	2001	2002	2001	2002	2001
Audit								
– Statutory audit and contractual audits	55	53	100%	100%	66	60	100	100
– Other engagements	-	-			-	-		
Sub-total	***55***	***53***			***66***	***60***		
Other services					-	-		
– Legal and tax advisory services	-	-			-	-		
– IT	-	-			-	-		
– Internal audit	-	-			-	-		
– Other	-	-			-	-		
Sub-total	-	-			-	-		
TOTAL	**55**	**53**	**100%**	**100%**	**66**	**60**	**100%**	**100%**

CHAPTER 6

CORPORATE GOVERNANCE

The extraordinary general shareholders' meeting held on December 12, 2003 voted to change the company's management structure and adopted a form governed by a board of directors.

6.1 COMPOSITION AND FUNCTIONING OF MANAGEMENT BODIES

6.1.1 Functioning of management bodies

6.1.1.1 Board of directors

6.1.1.1.1. Members – Nomination (Articles 13 to 15 of the bylaws)

Unless otherwise provided by applicable law, the board of directors consists of no fewer than three and no more than eighteen members appointed by the ordinary general shareholders' meeting.

Each director must hold at least 100 shares in the Company. If a director does not hold the required number of shares on the date of his or her nomination, or ceases to hold this number of shares while in office, such director must comply with the share ownership requirements within three months of the irregularity or is deemed to have resigned.

In the event of a vacancy due to the death or resignation of one or more directors, the board of directors may, in between two general shareholders' meetings, replace directors whose positions were vacated prior to the expiration of their term of office.

However, if the number of directors holding office falls below the legally required minimum, the board of directors, or, failing which, the Company's statutory auditors, must immediately convene an ordinary general shareholders' meeting in order to bring the number of board members to the legally required level.

Provisional appointments made by the board of directors are subject to ratification by the next general shareholders' meeting.

If provisional appointments are not ratified by the general shareholders' meeting, all decisions made and actions taken or effected by provisionally appointed directors or with their participation remain valid.

A director appointed to replace another director will serve only for the remainder of the term of office of the director being replaced.

6.1.1.1.2. Term of office for directors (Article 16 of the bylaws)

The term of office for directors is six years.

A director's duties terminate at the end of the ordinary general shareholders' meeting called to approve the accounts for the prior fiscal year and which is held during the year in which such director's term of office expires.

Outgoing directors may always be reelected.

6.1.1.1.3. Organization, meetings and decisions of the board of directors (Article 17 of the bylaws)

Chairman

The board of directors elects a chairman from among its members who are natural persons, and determines the chairman's remuneration.

The chairman is appointed for a term of office which may not exceed his or her term as a director. The chairman may be reelected. The board of directors may dismiss the chairman at any time.

In the event of the temporary inability to serve or the death of the chairman, the board of directors may appoint a director to serve as chairman. In the event of the temporary inability to serve, this appointment is for a limited duration and is renewable. In the case of death, the appointment lasts until a new chairman is elected.

The chairman represents the board of directors and is responsible for organizing and directing the work of the board of directors, reporting on such work to the general shareholders' meeting and implementing the board's decisions. The chairman is responsible for the smooth functioning of the Company's corporate bodies and ensures the directors are qualified to perform their tasks.

Board meetings

The board of directors meets as often as is required by the interests of the Company and is convened by its chairman. In addition, whenever the board has not met for a period longer than two months, directors representing at least one third of the board of directors may call a meeting by presenting an agenda for the meeting.

Whenever the duties of the Company's general management are assumed by a general manager, the general manager may also request that the chairman call a meeting of the board for a specific agenda.

Requests made pursuant to the conditions set forth in the previous two paragraphs are binding on the chairman.

Meetings are convened by all means of written communication (letter, fax, telex, or email). Other than for urgent matters, the convocation notice must be delivered at least two days prior to the meeting. For urgent matters, the convocation notice must be delivered no later than the day prior to the meeting using any means whatsoever. In any event, a meeting may be called verbally and without notice if such convocation is consented to by all board members.

An attendance register is maintained and signed by directors attending meetings of the board of directors.

Quorum and majority

Decisions of the board of directors are valid only when at least half of the directors are present. Decisions require a majority vote of the directors present or represented. In the event of a tie, the chairman casts the deciding vote.

Directors who participate in the meeting via videoconference or any other means of telecommunication in accordance with the limits and conditions of applicable law are deemed to be present for the calculation of the quorum and majority.

Representation

A director may use any type of written communication to authorize another director to represent him or her at a meeting of the board of directors. Each director may grant only one such proxy per meeting.

These provisions apply to the permanent representative of a director that is a legal entity.

Confidentiality obligation

Directors, as well as all other persons called to attend meetings of the board of directors, are bound by an obligation of confidentiality concerning information of a confidential nature and presented as such by the chairman.

Board Minutes

Minutes of the meetings of the board of directors are recorded in a special register, listed and initialed, and kept at the Company's registered offices in accordance with regulatory requirements.

Minutes of meetings of the board of directors include the names of the directors present, excused or absent. They also record the presence or absence of individuals called to the meeting of the board of directors pursuant to a legal requirement as well as the presence of all others who may have attended all or part of the meeting. Minutes are signed by the chairman of the meeting and at least one director. In the event that the chairman is unable to act, the minutes are signed by at least two directors.

Copies or excerpts of these minutes are certified in conformity with applicable regulatory requirements.

6.1.1.1.4. Powers of the board of directors (Article 18 of the bylaws)

Principles

The board of directors determines the direction the Company's activities and oversees the implementation thereof.

Subject to the powers specifically granted to the shareholders' meetings and within the limits of the corporate purpose, the board addresses all matters concerning the Company's proper functioning and governs the Company through its decisions in respect of these matters.

In dealings with third parties, the Company is bound by the actions of the board of directors even if such actions fall outside the corporate purpose, unless the Company can prove that a third party was aware that such action was beyond such purpose or that such third party must have been so aware under the circumstances. Mere publication of the Company's bylaws does not in itself constitute such proof.

The board of directors conducts inspections and verifications as it deems advisable.

Each director must be provided with all information necessary to carry out his or her duties and may obtain any documents he or she deems useful from the general management.

Subject to limits imposed by applicable law, the board of directors may grant full powers to its chairman, with or without the option of substitution, and to all representatives that the chairman may choose, without the need for such representatives to be shareholders.

6.1.1.1.5. Internal regulations of the board of directors and the directors' charter

The functioning of the Company's board of directors is organized by a set of internal regulations adopted following the meeting of the board of directors held on December 12, 2003.

The internal regulations of the board of directors contain a directors' charter which defines the duties and responsibilities of the directors.

Composition of the board of directors

The board of directors is made up of directors chosen for their abilities and experience in the Company's business, as well as for their personal integrity. The board may be made up in part of independent directors, as defined below.

Independent directors

The board of directors is responsible for ensuring that candidates for openings on the board meet the independence criteria established by its internal regulations. The board of directors submits its conclusions in this respect to the shareholders at the general shareholders' meeting called to appoint the Company's directors or to ratify interim appointments made pursuant to a decision of the board of directors.

In addition, the board of directors must examine on an annual basis the standing of each board member as regards their independence qualification and to state its conclusions in its annual report.

A director is determined to be independent if he or she:

- is not, and for the past five years has not been, an employee of the Company, a member of the Company's management, an employee or director of the parent company or a company which is consolidated by the Company;

- is not a management member (*mandataire social*), as defined in recommendation No. 2002-01 of the *Commission des operations de bourse*, of a company of which the Company serves directly or indirectly as a director or in which an employee designated as such or a management member of the Company (currently holding this position or having held this position within the last five years) serves as a director;

- is not a significant customer, supplier, commercial banker or finance banker of the Company or the Group and for whom the Company or the Group represents a significant portion of its business activity;

- does not have a close family connection with a management member;

- has not been an auditor of the Company during the last five years;

- has not been a director of the Company for more than 12 years;

- does not represent a significant shareholder of the Company, it being specified that:

  (i) a shareholder is considered significant if it holds more than 10% of the share capital or voting rights of the Company;

  (ii) below this threshold, the board of directors will systematically examine the independence qualification taking into account the composition of the Company's share capital and the existence of potential conflicts of interest.

With regard to such criteria, the meeting of the board of directors held on December 12, 2003 determined that, up to this date, only Mr. Alain Weill satisfies the above-mentioned criteria for independence.

Meetings of the board of directors

The board of directors meets at least four times per year upon convocation by its chairman or any other individual to whom the chairman has delegated this authority. In addition, whenever the board has not met for a period longer than two months, directors representing at least one third of the board of directors may call a meeting by presenting an agenda for the meeting.

The general manager may also request that the chairman call a meeting of the board for a specific agenda.

The regulations of the board of directors indicate the necessary procedures for participation in board meetings via videoconference.

Evaluation of the board of directors

The Company has not taken any formal measures for the evaluation of the performance of its board of directors. In the interest of good corporate governance, the board of directors in the future plans to include regularly a discussion of its performance in its agenda.

Committees

The board of directors may make use of the assistance of technical committees in the execution of its functions.

In this regard, and subject to the rules of formation described below, the board of directors has the power to establish an audit committee and a compensation committee.

The audit committee is composed of a minimum of three (3) and a maximum of five (5) members appointed by the board of directors from among the board members. The majority of the audit committee members must be independent directors as defined above.

The compensation committee is composed of a minimum of three (3) and a maximum of five (5) members appointed by the board of directors from among the board members. The majority of the compensation committee members must be independent directors as defined above.

The board of directors may compensate the members of the technical committees for their work performed on such committees.

The board of directors may establish other technical committees as often as it deems necessary.

Mission of the audit committee

The mission of the audit committee is as follows:

- to review the Company's individual and consolidated accounts prior to their presentation to the board of directors;
- to ensure the appropriateness and the consistency of the accounting methods used in the preparation of the accounts;
- to verify the internal procedures for collecting and checking information used for the preparation of such accounts;
- to make any reports or recommendations in respect of the above, both on a periodic basis upon the closing of the accounts and on the occurrence of any event justifying such report or recommendation;
- to lead the process for the selection of the statutory auditors or the renewal of their term, to formulate an opinion regarding the amount of fees paid to the statutory auditors and to present the board of directors with the results of this selection; and
- to examine in detail the fees paid by the Company and the Group to the statutory auditors and to ensure that the amount of these fees with respect to the aggregate revenues of the auditing firm are not so significant as to impede the independence of the statutory auditors.

Mission of the compensation committee

The mission of the compensation committee is as follows:

- to suggest to the board of directors the amount of compensation, including in-kind compensation, to be paid to management members;
- to define and monitor on an annual basis the rules for determining the variable component of compensation paid to the management members in accordance with their performance evaluation and the medium-term strategy of the Company;
- to define a general policy for the granting of options, with or without a discount;
- to review the share subscription or purchase plans for the benefit of management members and employees of the Company or the Group; and
- to provide proposals on compensation and incentive mechanisms for the Company's management members.

Ethical practices relating to trading of securities

The internal regulations of the board of directors applies COB regulation No. 2002-01 relating to information to be disclosed by directors, on a semi-annual basis, concerning transactions involving the Company's shares to which they are a party.

The director's charter requires that each director abstain from engaging in any transaction involving the shares of companies when such director, by virtue of his or her position within the Company, is in possession of non-public information.

In the event the Company's shares are admitted to a regulated trading market, the directors will abstain from making market trades of the Company's shares for a period of thirty calendar days preceding publication of the Company's quarterly, half-yearly or annual results.

6.1.1.2 Functioning of general management (Article 19 of the bylaws)

6.1.1.2.1. Organizational principles

In accordance with applicable law, the Company's general management is assumed by and is under the responsibility of either the chairman of the board of directors or another natural person appointed by the board of directors and given the title of general manager.

The board of directors decides as between these two organizational means of general management.

The decision by the board of directors regarding the choice of the organizational means of general management is taken pursuant to an absolute majority of directors present or represented at the board meeting.

The option selected by the board of directors must be for a period of at least one year.

6.1.1.2.2. General manager

Nomination – Dismissal

When the board of directors decides to separate the duties of chairman of the board from those of general manager, it appoints the general manager and determines his or her term of office and remuneration, and, if applicable, any limitations on his or her powers.

The general manager may be dismissed by the board of directors at any time. If the general manager does not also perform the duties of chairman of the board, his or her dismissal may give rise to an award of damages if there is no just cause for the dismissal.

The general manager must comply with the provisions of Article L. 225-94-1 of the French Commercial Code regarding the simultaneous holding of the offices of general manager, member of the management board, sole general manager, director, or member of the supervisory board of corporations with registered offices in French territory.

If the duties of general management are assumed by the chairman of the board, the chairman must comply with the applicable legal provisions concerning the general manager.

Powers

The general manager is vested with the broadest powers to act on behalf of the Company under all circumstances. The general manager exercises his or her powers within the limit of the corporate purpose and subject to those powers expressly granted by law to the shareholders' meetings or the board of directors.

The general manager represents the Company in its dealings with third parties. The Company is also bound by the actions of the general manager that fall outside the corporate purpose, unless the Company can prove that a third party was aware that such action was beyond such purpose or that such third party must have been so aware under the circumstances. Mere publication of the Company's bylaws does not in itself constitute such proof.

6.1.1.2.3. Senior vice presidents

Upon the proposal of the general manager, the board of directors may appoint one or more natural persons to assist the general manager, which persons are given the title of senior vice president.

The maximum number of senior vice presidents is set at five.

With the consent of the general manager, the board of directors determines the scope and duration of powers granted to the senior vice presidents.

Senior vice presidents, in their dealings with third parties, hold the same powers as the general manager.

The board of directors determines the remuneration of the senior vice presidents.

Upon the proposal of the general manager, senior vice presidents may be dismissed at any time by the board of directors.

In the event the general manager's duties are suspended or he or she is unable to act, the senior vice presidents maintain their duties and powers until a new general manager is appointed, unless otherwise determined by the board of directors.

6.1.1.3 Meetings of the management bodies

6.1.1.3.1. Supervisory board

The Company's supervisory board has met 28 times since January 1, 2002, with an average member participation rate of approximately 68%.

6.1.1.3.2. Management board

The Company's management board has met 28 times since January 1, 2002, with an average member participation rate of approximately 95%.

6.1.2 Members of management bodies

6.1.2.1 Board of directors

Member's first and family name or corporate name	Date of first appointment	Expiration of term of office(1)	Principal position within the Company	Principal position outside the Company	Other duties and responsibilities in other companies
Xavier Niel	December 12, 2003	2009	Chairman of the board of directors	-	Chairman of the board of directors of Freebox SA, Manager of SASAM SARL de presse, SNDM SARL de presse, XEM SARL
Cyril Poidatz	December 12, 2003	2009	Director and General manager	-	Chairman of Free SAS, One Tel SAS, Chairman of the board of directors of Online SAS, Kedra SA, Kertel SA and IH SA, General manager of Société SA, Manager of Toutcom SARL
Michaël Boukobza	December 12, 2003	2009	Director and Senior vice president	-	Senior vice president, Director of Online SAS, Kedra SA, Kertel SA and IH SA
Olivier Rosenfeld	December 12, 2003	2009	Director and Senior vice president	-	Senior vice president-finance, Director of Online SAS, Kedra SA, Kertel SA and IH SA
Alain Weill	December 12, 2003	2009	Director	Chairman of Next Radio S.A.	Chairman of Next Radio S.A.
Shahriar Tadjbakhsh, representing Goldman Sachs Inc. et Cie	December 12, 2003	2009	Director	Managing Director, Investment Banking, Goldman Sachs International	-

(1) The term of office of each of the above directors terminates following the annual general shareholders' meeting called to approve the accounts for the year ending December 31, 2008.

Mr. Alain Weill, Chairman of Next Radio S.A., is the only independent director among the members of the Company's board of directors. The criteria employed by the Company to determine director independence are those established by the Bouton report of September 23, 2002. In accordance with these criteria, Mr. Alain Weill maintains no relationship of any nature whatsoever, whether with the Company, its group or its management, which may compromise the independent exercise of his judgment.

6.1.3 General manager and senior vice presidents

Name	Position	Date of appointment	Expiration of term of office[(1)]	Other duties and responsibilities
Cyril Poidatz	General manager	December 12, 2003	2009	Chairman of Free SAS, One Tel SAS, Chairman of the board of directors of Online SAS, Kedra SA, Kertel SA and IH SA, General manager of Société SA, Manager of Toutcom SARL
Michaël Boukobza	Senior vice president	December 12, 2003	2009	Senior vice president, Director of Online SAS, Kedra SA, Kertel SA and IH SA
Olivier Rosenfeld	Senior vice president	December 12, 2003	2009	Senior vice president-finance, Director of Online SAS, Kedra SA, Kertel SA and IH SA
Rani Assaf	Senior vice president	December 12, 2003	2009	Senior vice president in charge of the Group's IP and Telecom network as well as DSL deployment
Franck Brunel	Senior vice president	December 12, 2003	2009	Senior vice president in charge of the Group's regulatory affairs
Antoine Levavasseur	Senior vice president	December 12, 2003	2009	Senior vice president, in charge of IT systems

(1) The term of office of each of the above directors terminates following the annual ordinary general shareholders' meeting called to approve the accounts for the year ending December 31, 2008.

6.1.4 Biographies of members of the board of directors and management members

Xavier Niel, Chairman of the board of directors. Xavier Niel is the Groups' majority shareholder and historical manager. Since the late 1980s, he has been increasingly involved in the data communications, Internet and telecommunications industry. In 1993, before dedicating himself full-time to developing the Group, he founded Worldnet, the first Internet service provider in France, which was sold to Kaptech (LDCom Group) in December 2000. He has been responsible for the Group's major strategic developments, from the launch of the ANNU service and the development of Internet access offer using France Télécom repayments as a financial model to the launching of the Freebox project.

Cyril Poidatz, General manager. Before joining the Group in 1998, Cyril Poidatz worked at Cap Gemini for ten years. As Chief Financial Officer at Cap Gemini Italia for several years, he was mainly responsible for restructuring Cap Gemini's Italian divisions. Cyril Poidatz began his career as an auditor with Coopers & Lybrand.

Michaël Boukobza, Deputy general manager. With a Masters of Management Science from the Université Paris IX Dauphine and a diploma from the École Supérieure de Commerce de Paris, Michaël Boukobza began his career in the mergers and acquisition departments at Rothschild in Paris and Morgan Stanley in London. Afterwards, he worked with i-Bazar in the areas of fund-raising and mergers and acquisitions. Michaël Boukobza joined the Group in January 2000.

Olivier Rosenfeld, Chief financial officer. Olivier Rosenfeld, a graduate of the Ecole de Commerce Solvay, began his career in Merrill Lynch's investment banking department where he was mainly involved with various privatization transactions prior to joining the Goldman Sachs team in charge of primary offerings in New York and Hong Kong. Olivier Rosenfeld joined the Group in January 2001.

Rani Assaf, Technical director. Rani Assaf is in charge of the Group's IP and Telecom network, as well as its DSL deployment. Since 1999, Rani Assaf has been involved in implementing IP network infrastructures, as well as the interconnection with the historical operator on a Cisco SS7 platform. Rani Assaf is also one of the founders of the Freebox project. Rani Assaf joined the Group in 1999.

Franck Brunel, Director of regulatory affairs. Franck Brunel is in charge of the Group's regulatory affairs as well as its relations with the telecommunications authorities. Since 1999, he has been involved in structuring the instruction files for L-33.1 and L-34.1 licenses and has taken part in all multilateral and bilateral relations between the ART, the historical operator and Iliad. Franck Brunel holds a Ph.D. in Science. Franck Brunel joined the Group in 1999.

Antoine Levavasseur, Technical director. Antoine Levavasseur holds an engineering degree from EFREI. He joined Iliad in 1999 as manager of the System platform and Free servers. Since 1999, he has been involved in developing the information system for subscriber management and in operating and developing email platforms, Web servers, and applications used by subscribers.

Alain Weill, member of the board of directors. Alain Weil holds a degree in economics and is a graduate of the Institut Supérieur des Affaires. From 1985 to 1989, he was the director of the NRJ SA network, then general manager of Quarare (Sodexho Group). In 1990, he became the attaché to the general management of Compagnie Luxembourgeoise de Télédiffusion (CLT), then Chairman and Chief Executive Officer of the network, a subsidiary of CLT and the Spanish group SER. In 1992, he was appointed to the general management of the NRJ Group, then of NRJ Régies in 1995, where he has been Vice Chairman of the management board since 1997. Since November 8, 2000, he has been Chairman of Next Radio S.A., and has been Chairman of the *Syndicat independent des régies de radios privés* (SIRRP) union since 1998.

Shahriar Tadjbakhsh, member of the board of directors representing the Goldman Sachs funds. Shahriar Tadjbakhsh holds a Bachelor of Arts degree from Northwestern University and is a graduate of Harvard Law School (J.D.). He began his career as an associate at Cleary, Gottlieb, Steen & Hamilton, where he worked from 1987 to 1996. Currently he is a Managing Director in the investment banking department at Goldman Sachs International.

6.2 SHAREHOLDING AND COMPENSATION OF MANAGEMENT MEMBERS

6.2.1 Management members' shareholding in the Company and in companies of the Group

Shareholding as of December 12, 2003[1]	Number of shares	%
Iliad		
Xavier Niel	37,123,410	77.95%
Alain Weill	95,070	0.20%
GS CAPITAL PARTNERS III, L.P.	2,239,890	4.70%
AXA Investment Managers Private Equity Europe	306,060	0.64%
Rani Assaf	1,152,590	2.42%
Michaël Boukobza	952,500	2.00%
Franck Brunel	952,500	2.00%
Antoine Levavasseur	1,152,590	2.42%
Cyril Poidatz	952,500	2.00%
Olivier Rosenfeld	952,500	2.00%
Total Iliad	*45,879,610*	*96.34%*
Kertel		
Cyril Poidatz	1	NS
Michaël Boukobza	1	NS
Olivier Rosenfeld	1	NS
Rani Assaf	1	NS
Total Kertel	*4*	*0.13 %*
Kedra		
Xavier Niel	1	NS
Cyril Poidatz	1	NS
Michaël Boukobza	1	NS
Olivier Rosenfeld	1	NS
Total Kedra	*4*	*0.01%*
Freebox		
Xavier Niel	1	NS
Michaël Boukobza	1	NS
Cyril Poidatz	1	NS
Antoine Levavasseur	1	NS
Rani Assaf	500	2.00%
Total Freebox	*504*	*2.02%*
Online		
Xavier Niel	1	NS
Cyril Poidatz	1	NS
Michaël Boukobza	1	NS
Olivier Rosenfeld	1	NS
Total Online	*4*	*0.01%*
One.Tel		
Cyril Poidatz	1	NS
Total One.Tel	*1*	*NS*

(1) After the ten-for-one share split approved by the general shareholders' meeting held on December 12, 2003.

6.2.2 Compensation and in-kind remuneration of any nature whatsoever paid to management members in the last fiscal year

During the fiscal year ended December 31, 2002, and since January 1, 2003, no resolution was adopted by the general shareholders' meeting concerning payment of fees to members of the supervisory board for their duties as such.

In the context of the transformation of the Company into a *société anonyme* with a board of directors as decided by the extraordinary general shareholders' meeting held on December 12, 2003, the payment of fees to directors for their duties as such was not anticipated.

6.2.2.1 Compensation of supervisory board members

Compensation paid to the chairman of the supervisory board, Xavier Niel, amounted to €146,731 for the fiscal year ended December 31, 2002. Other members of the supervisory board received no compensation. No resolution was adopted by the general shareholders' meeting concerning the payment of fees to supervisory board members for their duties as such.

6.2.2.2 Compensation of management board members

Compensation paid to members of Iliad's management board for the year ended December 31, 2002 amounted to €136,765 for Cyril Poidatz, chairman of the management board, €118,468 for Olivier Rosenfeld, €51,222 for Michaël Boukobza, €52,335 for Franck Brunel and €125,650 for Rani Assaf.

On November 15, 2002, the supervisory board authorized the implementation of a variable compensation mechanism for Cyril Poidatz, Olivier Rosenfeld, and Michaël Boukobza in accordance with their employment contract, to begin on January 1, 2003. This authorization was confirmed by the board of directors on December 12, 2003. This variable compensation will be paid to each of the above in quarterly installments of €25,000 in March, June, September, and December, based on the achievement of objectives to be determined and monitored by Xavier Niel.

6.2.3 Stock subscription or purchase options and BSPCEs granted to and exercised by the management members

Type	Date granted	Name of holder	Exercise price (euros)	Exercise period		Number of BSPCEs or stock options exercised
				By holder[1]	Number of shares to which BSPCEs or stock options entitle the holder[3]	
BSPCE	06/28/2001	Olivier Rosenfeld	2.97	from 06/28/2001 to 06/28/2006[2]	83,200	0
	06/28/2001	Olivier Rosenfeld	13.87	from 06/28/2001 to 06/28/2006	85,560	0
	08/12/2002	Michaël Boukobza	4.67	from 08/12/2002 to 08/12/2007 [2]	595,310	0
	08/12/2002	Cyril Poidatz	4.67	from 08/12/2002 to 08/12/2007	595,310	0
	08/12/2002	Olivier Rosenfeld	4.67	from 08/12/2002 to 08/12/2007	595,310	0
Total					1,954,690	0

(1) Except upon departure of beneficiary.

(2) These warrants may be exercised in portions of one-thirteenth of the total number of BSPCE Bs issued to Olivier Rosenfeld (each such fraction is hereafter referred to as a "**Tranche**"). The first Tranche became exercisable upon the subscription by Olivier Rosenfeld for the BSPCE Bs on June 28, 2001, the date the general shareholders' meeting was held which voted to issue the BSPCE Bs. The second Tranche is exercisable as of September 9, 2001, and each subsequent Tranche is or will become exercisable at the end of each three-month period as from September 9, 2001. Such exercisable BSPCE Bs may be exercised on one or more occasions, at any time as of the date on which they become exercisable, for up to five years as from their date of issuance by the general shareholders' meeting, *i.e.*, until June 28, 2006.

(3) Taking into account transactions involving the Company's share capital since the issuance of the warrants and following the share split approved by the general shareholders' meeting held on December 12, 2003.

6.2.4 Information concerning transactions with members of the board, management and supervisory bodies and with the principal shareholders of the Company

6.2.4.1 Agreements subject to prior approval of the supervisory board (conventions réglementées)

6.2.4.1.1. Debt forgiveness during the fiscal year ended December 31, 2002

For the year ended December 31, 2002, Iliad forgave a total of €4,174,985 in debt owed to it by certain of its subsidiaries who have management members in common with Iliad.

Details relating to this debt forgiveness for subsidiaries are provided in the table below:

Beneficiary company	Amount in euros
Emploi.com	3,356,274
Immobilier.com	574,793
One.Tel	243,918
Total as of December 31, 2002	4,174,985

6.2.4.1.2. Intragroup current accounts as of September 30, 2003

Iliad has signed several cash management agreements with certain of its subsidiaries who have management members in common with Iliad.

The table below shows the intragroup current account balance as of September 30, 2003 for each subsidiary:

Creditor company	Debtor company	Current account balance in euros as of September 30, 2003
Iliad SA	Société SA	3,070,761
liad SA	Assunet SA	2,429,142
Iliad SA	Free SAS	16,183,488
Iliad SA	Télécom SA	584,559
Iliad SA	Online SAS	58,533
Iliad SA	Centrapel SA	2,363,384
Iliad SA	Freebox SA	16,953,124
Iliad SA	Toutcom SARL	30,523
Online SAS	Free SAS	612,965
Online SAS	BookMyName SAS	179,428
One.Tel SAS	Iliad SA	23,016,434
Kedra SA	Iliad SA	185,202
IH SA	Iliad SA	19,451
Kertel SA	Iliad SA	2,087,234

6.2.4.2 Agreements subject to prior approval of the supervisory board **(conventions réglementées)** *concluded during the year ended December 31, 2002*

An automatic cash pooling agreement was signed on December 16, 2002 among (i) the Company, (ii) the companies Free, Assunet, Telecom, Société S.A., Centrapel, FreeBox, Online, Kedra and One.Tel and (iii) Fortis Banque France. Pursuant to this agreement, the bank nets out the various credit and debit balances of the subsidiaries' accounts and enters this balance to the Company's account, which functions as a centralizing entity. As consideration for this service, the bank charges a monthly fee of €38 before tax to each Group entity. The agreement is unlimited in duration and may be cancelled by any of the parties by giving 30 days' prior notice.

With the exception of (i) rent for the Group's registered offices which is paid by Iliad and re-invoiced to the Group's subsidiaries pro rata according to the surface area occupied by each subsidiary and (ii) salaries of Iliad management members which are re-invoiced to the subsidiaries, the Company receives no royalties and does not re-invoice any portion of its fees and expenses to its subsidiaries for services centralized by the Company within the Group.

6.2.4.3 Agreements subject to prior approval of the supervisory board **(conventions réglementées)** *concluded during the current fiscal year*

An intra-group cash management agreement was signed on January 1, 2003 between the Company and the companies Free, Assunet, Telecom, Société S.A., Centrapel, BookMyName, Online, Kedra and One.Tel. Freebox became a party to the agreement pursuant to an amendment dated March 1, 2003. This agreement provides for payment equal to 4% of the credit balances and was authorized by the Company's supervisory board on December 19, 2002.

Cash management agreements executed or maintained during the year ended December 31, 2002 were maintained during the current fiscal year, with the exception of the agreements entered into with Immobilier.com and Emploi.com as these companies ceased to exist as of December 16, 2002 following their winding up and liquidation.

6.2.5 Loans and guaranties granted to or for the benefit of members of the board, management or supervisory bodies

As of the date hereof, no loan or guaranty has been granted or issued for the benefit one of the members of the management or supervisory bodies.

6.3 PROFIT SHARING BY EMPLOYEES

None.

6.4 STOCK SUBSCRIPTION OR PURCHASE OPTIONS OR BSPCES GRANTED TO THE TEN LARGEST EMPLOYEE RECIPIENTS NOT MEMBERS OF MANAGEMENT AND OPTIONS OR BSPCES EXERCISED BY THEM

Type of Dilutive Securities	Date granted	Holders	Exercise price	Exercise period		Potential dilution arising from exercise of Dilutive Securities
				By holder[1]	Number of shares to which Dilutive Securities entitle holder[2]	
BSPCE	06/28/2001	Catherine Samama	€ 2.97	from 06/28/2001 to 06/28/2006	104,010	0.22%
	08/12/2002	Catherine Samama	€ 4.67	From 08/12/2002 to 08/12/2007	595,310	1.23%
Total					697,320	1.44%

(1) Except upon departure of beneficiary.
(2) Taking into account transactions involving the Company's share capital since the issuance of the Dilutive Securities and following the share split approved by the general shareholders' meeting held on December 12, 2003.

As of the date hereof, no share subscription or purchase options have been granted by the Company.

6.5 BSPCES ISSUED BY FREE

Free, currently a wholly-owned subsidiary of the Company, has issued founders' share subscription warrants (*bons de souscription de parts de créateur d'entreprise*, or *BSPCE*). Once Iliad's shares are admitted for trading on a regulated market, Iliad intends to offer to repurchase from holders of Free BSPCEs the Free shares issuable upon exercise of the BSPCEs, corresponding to a number of shares representing a maximum of 2% of Free's share capital. This acquisition would be for cash spread out over five equal payment installments to be made every six months beginning June 30, 2004.

CHAPTER 7

RECENT DEVELOPMENTS AND OUTLOOK

7.1 RECENT DEVELOPMENTS

Comments on financial items as of September 30, 2003

Financial and operational data for the period ended September 30, 2003 confirm the success of the Free ADSL offer with a total of 355,250 customers as of September 30, 2003, and especially the acceleration of the unbundling of the local loop with 87,230 subscribers on unbundled lines as of September 30, 2003, compared to 45,850 such subscribers as of June 30, 2003.

The Group had revenues of €202.6 million for the first nine months of the year, amounting to €42.4 million more than the Group's revenues for all of 2002, essentially due to the dynamism of the ADSL offer. With EBITDA of €36.2 million for the first nine months of the year, EBITDA margin has improved, amounting to 17.9%. The EBIDTA margin for the third quarter alone amounted to 18.2%, illustrating the Group's profitable growth strategy.

Given the strong growth in the number of ADSL subscribers, depreciation and amortization charges have increased by more than 80% over three months, increasing from €6.3 million as of June 30, 2003 to €11.4 million as of September 30, 2003. Despite this increase, operating income increased 57%, from €15.8 million for the period ended June 30, 2003 to €24.9 million for the period ended September 30, 2003.

The significant event of the third quarter was the development of large-scale technical procedures with France Télécom for the deployment of Option 1, which permitted an acceleration of unbundling operations in France. The development of the Group's Telephony and Other Services segments during the third quarter was in line with the objectives set by the Group's management and does not necessitate any particular comment.

Revenues from the Internet segment amounted to €146.1 million for the first nine months of 2003, an increase of nearly 65% compared to revenues for the first half of 2003 and nearly 48% compared to revenues for fiscal 2002. The significant growth in this segment's revenues resulted from the success of the ADSL offer and the continued solid performance of the Group's two dial-up offers.

After a temporary decline in margins during the first half of 2003, the profitability of the Internet segment improved considerably in the third quarter due to an acceleration of unbundling, with 24.6% of ADSL subscribers using unbundled lines as of September 30, 2003. The EBITDA margin amounted to 13.8% for the period ended September 30, 2003, compared to 12.4% for the period ended June 30, 2003.

The increase in profitability in the Internet segment is even more apparent over three months. With EBITDA of €9.1 million and revenue of €57.4 million for the third quarter alone, the EBITDA margin for the segment amounted to 15.9% compared to 12.4% for the first six months of 2003. Excluding inter-segment revenues, this margin amounted to 19.4% for the third quarter of 2003, compared to approximately 14% for the period ended June 30, 2003.

Operating income in this segment continued to increase, rising from €5.2 million for the period ended June 30, 2003 to €9.6 million for the period ended September 30, 2003, despite a significant increase in depreciation and amortization charges.

Separately, following a favorable opinion issued by the *Autorité de régulation des télécommunications* on December 9, 2003, the Deputy Minister for Industry approved, on December 11, 2003, France Télécom's pricing proposal for the lowering of wholesale prices for ADSL (Option 5). The decrease in rates, to be applied to telecommunications operators and Internet access providers, will enter into force on January 1, 2004. On December 12, 2003, Free modified its broadband offer in zones that have not been unbundled by increasing the contractual minimum bit rate offered to 1024 kbits per second while at the same time maintaining the price of this offer at €29.99 per month. The Company thus considers that France Télécom's price decrease will not have a significant impact on the Group's Internet segment results.

7.2 OUTLOOK

The number of Free subscribers on unbundled lines as of November 30, 2003 amounted to 140,000, corresponding to approximately 32% of the total number of Free's ADSL subscribers as of this date. The Group has set itself two objectives:

– to continue to grow its market share of ADSL access in France; and

– to increase the proportion of ADSL subscribers on unbundled lines during subsequent semesters and in particular to attain a proportion of 50% of subscribers on unbundled lines at the end of 2004 and 60% at the end of 2005. This should allow the Group to improve its EBITDA margins.

The EBITDA and operating income margins should increase during subsequent semesters given the solid growth expected in the ADSL broadband market in France.

GLOSSARY OF TECHNICAL TERMS

The glossary below is provided as a supplement and as an aid to understanding this document. Some of the definitions below therefore give only a summary of the technical processes described, without providing details as to the functioning of such processes.

Add/Drop Multiplexer (ADM): equipment on a telecommunications network used for inserting or extracting packets of data.

ADM (Add/Drop Multiplexer): see Add/Drop Multiplexer.

ADSL (Asymmetrical Digital Subscriber Line): ADSL is an xDSL technology used for high-speed transmission of data, particularly when using a subscriber's conventional telephone line consisting of a pair of copper wires. By using two modems, one installed on the subscriber's premises and the other in a DSLAM located in the main distribution frame, ADSL technology is able to increase network bandwidth considerably and obtain transmission speeds up to 160 times faster than with a conventional analogue modem. The principle behind ADSL is that part of the bandwidth is reserved for transporting voice traffic (low frequencies) while another part is used for transporting data (high frequencies) either in the direction of the network backbone (upload) or in the direction of the subscriber (download). The technology is asymmetrical in the sense that the upload bit rate (data sent by the user) is lower than the download rate (data received by the user). For the correct restoration of voice traffic (using the low frequency spectrum), splitters located at each end of the line eliminate those parts of the signal which are not needed.

The bandwidth of the line is divided as follows:

0 – 5 kHz	analogue telephone line,
30 kHz – 130 kHz	narrowband channel in the direction of the network (upload)
30 kHz – 1.1 MHz	Broadband channel in the direction of the subscriber (download)

FDM (Frequency Division Multiplexing) is used to separate the various data traffic flows. An echo cancellation system is used for spectrum recovery on the upload and download channels.

AFNIC (*Association française pour le nommage Internet en coopération* – www.afnic.fr): the AFNIC is a non-profit organization whose principal function is establish and implement a naming system for the .fr (France) and .re (Reunion Island) zones. It has drawn up naming charters which sets out its rules for registering domain names in these zones. Members of the AFNIC include service providers who have been accredited as registrars of domain names in the French domain name zones.

ART (*Autorité de régulation des télécommunications* – www.art-telecom.fr): the ART is an independent administrative authority. It was established on January 5, 1997 and, together with the Minister for Telecommunications, has overall responsibility for regulating the telecommunications sector in France.

ATM (Asynchronous Transfer Mode): this network technology is used for the simultaneous transmission of data, voice and video. It is based on the transmission of signals in short, fixed-length packets. The transmission of these packets is said to be asynchronous because they are transported over different routes and do not necessarily arrive at their destination in the same chronological order as they were sent.

Backbone: network consisting of a number of very high bandwidth links to which other, smaller networks are connected (including metropolitan networks).

Bandwidth: the transmission capacity of a transmission line. It determines the quantity of information (in bits per second) which can be transmitted simultaneously.

Bit: contraction of "binary digit". It is the smallest unit of information processed by a computer. In a binary system, one bit takes the value 0 or 1. Information recorded in digital form is coded in the form of bits. One character (letter or figure) is generally coded as 8 bits (1 byte).

Bit rate: amount of information passing through a communication channel over a given period of time. The bit rate is measured in bits per second or in multiples thereof (kbits per second = kilobits per second, Mbits per second = megabits per second, Gbits per second = gigabits per second, Tbits per second = terabits per second). The upload bit rate corresponds to the transmission of data from the subscriber to the network and the download bit rate corresponds to information transmitted from the network to the subscriber.

Broadband: The concept of broadband is a relative concept, depending on the status of transmission technology at any given time. At present broadband is generally accepted as corresponding to a bit rate of at least 512 kbits per second. See also "bit rate".

Byte: a set of eight bits. Bytes and their multiples (kilobyte (kB), megabyte (MB), gigabyte (GB), Terabyte (TB), etc.) are used to measure the size of electronic files. When such measurement is given in multiples of bytes, it is generally accepted that a kilobyte is equal to 210, or 1,024, bytes (and not 1,000 bytes), and that a megabyte is equal to 2^{20} bytes (and not 1,000,000 bytes).

Call termination: This operation consists of the routing of calls to subscribers on a particular network. In principle, call termination requires either that the call be made from the network on which the called party is a subscriber or from a network interconnected with such network.

CNIL (*Commission nationale de l'informatique et des libertés – www.cnil.fr*): The CNIL (National Commission for Information Technology and Freedom) is an independent administrative authority established by Law No. 78-17 of January 6, 1978, known as the Liberty and Freedom (*Informatique et libertés*) law. Its principal role is the protection of privacy and of personal or public freedom, and it is responsible for ensuring compliance with the Liberty and Freedom law.

Co-location facilities or space: room located in France Télécom sites containing equipment belonging to third party operators used for local loop unbundling. The room is built by France Télécom who then reinvoices the cost of construction to the operators located in the room. The third party operators then rent whatever space they need (one or more rack spaces occupying a floor area of 600 mm x 600 mm) for their unbundling activities.

Cookie: information recorded by a server in a text file located on the client's computer and which can be read by this same server (and by this server alone) at a later time.

Copper pair: type of cable used for the transmission of electrical signals, consisting of one or more pairs of metal conductors. The two wires forming the pair are braided in order to minimize potential interference between two conductors. By extension, the copper pair also refers to the local loop link between a subscriber and the local concentrator. See also "local loop".

CSA (*Conseil supérieur de l'audiovisuel – www.csa.fr*): The CSA is an independent administrative authority established by the law of January 17, 1989. Its principal role is to guarantee the freedom of audio-visual communications in France in accordance with the provisions of the Law of September 30, 1986, as amended.

Dark optical fiber: raw optical fiber without the equipment which allows it to be used.

Dedicated facilities or space: room in a France Télécom site containing equipment belonging to a third party operator used for unbundling. Third party operators rent the space (one or more racks each occupying a floor area of 600 mm x 600 mm) necessary for their unbundling activities. See also "co-location facilities".

Digital: coding in binary form (0 or 1) of information to be processed by a computer.

Digital local exchange (LX): switch on the France Télécom telephone network to which subscribers are connected by means of local concentrators. The France Télécom network is organized in a hierarchical fashion, with the digital local exchange being the lowest level in the hierarchy of exchanges installed on the network.

Digital main switching unit (MSU): France Télécom's interconnect point, occupying the highest level in the hierarchy of switches in a trunk exchange area. See also "trunk exchange area".

DNS (Domain Name System): the DNS is a database which registers Internet resources (computer, router, etc.) in the form of a domain name and allocates them a unique IP address. The Internet protocol converts the domain name to the corresponding IP address. Without the DNS, users would have to remember websites or email addresses in the form of the domain's IP address. See also "domain name".

Domain name: a domain name is the unique identifier of an IP address. The DNS (see "DNS – Domain Name System") matches the domain name to the IP address. A domain name consists of a string of characters (from "a" to "z" or "0" to "9", plus "-") corresponding to the name of a trademark, association, company individual, etc., plus a suffix known as the TLD (see "TLD – Top Level Domain"), such as .fr, .de, .net, .com, etc.

Domain name registration: domain name registration consists of hosting domain names on a computer with an IP address on behalf of the domain name owners, who are in turn entered in the register relating to their TLD. See also "TLD".

DSL (Digital Subscriber Line): See xDSL.

DSLAM (Digital Subscriber Line Access Multiplexer): equipment installed in the telephone exchange closest to the subscriber which is part of the equipment used to transform a conventional telephone line into an xDSL line. DSLAMs connect several xDSL lines and are connected to the modem on the subscriber's premises via the local loop.

DWDM (Dense Wavelength Division Multiplexing): technology permitting the transmission of a large number of frequencies on the same fiber strand, thereby significantly increasing the bandwidth capacity of the optical fiber.

Eligibility: A telephone line is said to be "eligible" for ADSL when the technical characteristics of the line in terms of signal loss are such that xDSL type technologies can be used. The length and diameter of the copper pairs (local loop) are the main parameters determining eligibility. As the technology stands at present, the subscriber's socket must not be more than 4 km from the DSLAM in order for a 512 kbits per second Internet connection to be possible.

Firewall: hardware or software device which controls access to all the computers on a network from a single point of entry. The main function of the firewall is to filter the information packets transmitted between the protected network and outside networks. In addition, a firewall can be used to perform advanced security functions such as virus detection, IP address masking on the protected network or the establishment of encryption tunnels associated with an authentication processes.

Full unbundling: Full unbundling consists of allowing a third party operator to control the entire local loop (both low and high frequencies).

IEEE 802.11a and 802.11b standards: radio-telecommunications standards established by the IEEE (Institute of Electrical and Electronic Engineers) describing the characteristics of wireless networks using the 5 GHz and 2.4 GHz frequency bands, respectively. (See also "RLAN – Radio Local Area Network" and "WLAN – Wireless Local Area Network").

Interconnection: the term interconnection refers to the reciprocal services provided by two operators of networks open to the public permitting all of their users to communicate freely with one another, no matter the type of network or services they use. The term also refers to the provision to a public telephone service provider of access to a public network operator's network. The objective of interconnection is to allow a given operator's subscribers to make telephone calls to the subscribers of all other interconnected operators. Interconnection between the incumbent operator (France Télécom) and third party operators is governed by the provisions of the French Post and Telecommunications Code and is regulated by the ART.

Internet Service Provider (ISP): organization or company providing its customers with access to the Internet.

IP address: the IP address allows a router using TCP/IP protocol to identify the unique network interface of a machine connected to the Internet. In order to be accessible or to send information over the Internet, a machine must have a public IP address, *i.e.* an address that is known on the Internet. ICANN has overall responsibility for managing IP addressing on a worldwide basis, but delegates responsibility for certain areas to regional and local organizations. An IP address is a sequence of 32 binary digits (see also "bit") grouped into four bytes in the form A.B.C.D where A, B, C and D are numbers between 0 and 255 (this structure corresponds to version 4 of the IP protocol, or IPv4). The problem of limited addressing resources highlighted by the growth of the Internet has led to the development of a new version of the IP protocol (IPv6), based on 128 binary elements, which will gradually be brought into use.

IP (Internet Protocol): telecommunications protocol used on the networks supporting the Internet which divides the information to be transmitted into packets, addresses the various packets, transports them independently of one another and, finally, recreates the initial message once the packets reach their destination. This protocol uses a technique known as packet switching. On the Internet, it is associated with a data transmission control protocol (TCP), hence the term TCP/IP protocol.

IRU (Indefeasible Right of Use): special type of agreement, peculiar to the telecommunications sector, for the provision of optical fibers (or transmission capacity) over a long period.

L. 33-1 license: this license, governed by Article L. 33-1 of the French Post and Telecommunications Code, is the authorization held by an operator of a telecommunications network open to the public.

L. 34-1 license: this license, governed by Article L. 33-1 of the French Post and Telecommunications Code, is the authorization held by an enterprise providing public telephone service.

Linux: Linux is a multi-task and multi-user UNIX (Uniplexed Information and Computer Service) operating system. It is a so-called "open" software system, *i.e.*, it is freely available in source code form and modifiable under the terms of a General Public License (GNU).

Local concentrator: active telecommunications equipment connected to both the digital local exchange and the copper pairs constituting the local loop. This is the primary active equipment in the France Télécom network. The function of the local concentrator is to group several subscriber lines into one cable.

Local loop: physical circuit of the telephone network which connects the termination point of the network on the subscriber's premises (*i.e.*, the subscriber's telephone socket) and the local loop operator's main distribution frame (generally France Télécom's primary telephone exchange) which contains a digital switch. The local loop is composed of a pair of braided copper wires.

Main distribution frame (MDF): device which establishes a temporary connection between a copper pair (local loop) and any active equipment on the operator's network. It is a vital point of flexibility in the operation of a telecommunications network.

Modem (modulator-demodulator): device transforming analogue signals into digital signals and vice versa. This equipment is necessary for connecting to the Internet (where the data exchanged are digital data).

Mpeg2: video signal compression standard, used mainly for DVDs.

Multicast: routing system minimizing the number of data flows from a server to various customers by multiplying the data flows only when they are as close as possible to the destination terminals (the subscribers' copper pairs).

Multiplexing: technique permitting several communication flows to pass through the same channel/transmission bearer. Multiplexing can work in different ways: frequency multiplexing uses different frequencies for the various communications, while time division multiplexing allocates a period of time (known as a slot) to each communication.

Narrowband (also dial-up): historically this corresponds to the bit rate of a conventional telephone line using the voice frequency spectrum. By way of example, an Internet connection using a conventional telephone line is established at a maximum download rate of 56 kbits per second. See also "bit rate".

Optical fiber: transmission medium which routes digital data in the form of modulated pulses of light. It consists of an extremely thin glass cylinder (the core strand) surrounded by a concentric layer of glass (the sheath). The potential bandwidth that can be passed through an optical fiber in conjunction with the corresponding active equipment is tremendous.

Partial unbundling: partial unbundling involves providing an operator with access to the France Télécom local loop and allowing the operator to use the high (non-voice) frequencies of the cooper pair frequency spectrum. France Télécom continues to use the local loop in order to provide conventional telephone service to the public (using the low frequencies of the local loop). Customers continue to pay the telephone line rental to France Télécom.

Peering: type of interconnection agreement between two IP backbone networks (called peer networks) for the exchange of Internet traffic destined for their respective networks free of charge. These reciprocal exchanges take place at exchange nodes called peering points.

Ping: Ping is an acronym for Packet Internet Groper, and is a component of the Internet connection protocol which verifies the connections established on the Internet between one or more remote hosts and measures the time the data packets require to be transmitted to one computer connected to the Internet and back again. The lower the ping value (*i.e.*, the nearer to zero) the better the network connection.

POP (Point of Presence): operator's physical site from which the operator can use an interconnection link to connect to the interconnect point of another operator (whether another POP or, in the case of France Télécom, a digital main switching unit or a digital local exchange). The POP is located on the operator's network backbone. See also "digital main switching point".

Portability: possibility for a subscriber to keep his or her telephone number when changing operators and/or geographical location.

Preselection: carrier selection mechanism allowing a subscriber automatically to route all eligible calls (local, national, international, and calls to mobile phones) so that they are carried by the operator of the subscriber's choice, without having to dial a special prefix.

Primary digital block (E1): basic unit of measurement of the capacity of interconnection links to the France Télécom network (telephone traffic and dial-up Internet traffic). It corresponds to a grouping of several communications on the same physical support structure (31 simultaneous communications, *i.e.* a capacity of 2 Mbits per second).

PSTN (Public switched telephone network): conventional telephone network which uses switching (a non-permanent link established by obtaining the line and then dialing). Each call established on the PSTN ties up network resources.

Reference Interconnect Offer: document describing the technical and pricing terms of France Télécom's interconnect offer (or the interconnect offer of any other operator designated as having significant market power pursuant to Article L. 36-7 of the French Post and Telecommunications Code). It allows third party operators to know what interconnection services are available and sets out the prices and the technical terms of these services.

Reverse look-up directory: service allowing users to retrieve the name and address of the owner of a telephone line on the basis of a search of the telephone number.

RLAN (Radio Local Area Network): wireless network. RLANs generally employ IEEE 802.11 standards.

SDH (Synchronous Digital Hierarchy): multiplexing technique providing for the secure transmission of different types of information. This technique is used for the transmission of data on conventional telephone networks.

SMS *(Short Message Services)*: short digital text messages.

Source code: list of instructions in a computer program in a language capable of being understood by human beings.

Spamming: the bulk mailing of unsolicited electronic messages. These types of messages are generally sent to email lists obtained illegally (for example, through the use of a search engine on public websites or through the sale of email address files without the permission of the owners of such addresses).

Switch: equipment which routes calls to their destinations by establishing a temporary link between two circuits on a telecommunications network (or occasionally by routing information organized into packets). Switches are organized in a hierarchical fashion, *i.e.*, the higher the position they occupy in the hierarchy, the more subscribers they serve.

TLD (Top Level Domain): the top level domain name classification, corresponding to a geographical area or a sector of activity, such as .com, .org or .fr.

Trunk exchange (TX): telephone network switch linking together the digital local exchanges. The France Télécom network is organized in a hierarchical fashion, with the trunk exchange being the highest level in the hierarchy of national exchanges. Through the digital local exchanges, the trunk exchange serves all subscribers in a given geographical area called a trunk exchange area. See also "trunk exchange area".

Trunk exchange area: the geographical area covered by a trunk exchange. France Télécom's switched network in metropolitan France is divided into 18 trunk exchange areas, defined by France Télécom in its Reference Interconnect Offer and generally corresponding to the administrative regional divisions of France. See also "Digital local exchange (LX)".

Unbundling: operation involving the separation of a range of telecommunications services into several distinct units. Unbundling of the local loop (or unbundled access to France Télécom's local network) consists of separating the access services provided over the local loop, mainly by separating the high frequencies from the low frequencies of the access network which constitutes the local loop, allowing new operators to use the local network of the incumbent operator in order to provide services directly to their subscribers.

Universal service: the main element of the public telecommunications service as defined by law, with the purpose of providing high quality telephone service to the general public at an affordable price.

Urban area: in the architecture of the France Télécom network, Ile-de-France is divided into two trunk exchange areas. The urban area corresponds to the former Seine *département* (Paris, Hauts-de-Seine, Seine-Saint-Denis, Val de Marne) and the peripheral area covering the Seine-et-Marne, Essonne, Yvelines and Val d'Oise *départements*.

VoDSL (Voice over DSL): transmission of voice traffic (in packets) using ADSL technology, *i.e.*, using the high frequencies of the local loop, as compared to conventional telephony which uses the low frequencies of the local loop.

WLAN (Wireless Local Area Network): a network using radio telecommunications (wireless network). RLANs (see "RLAN – Radio Local Area Network") are a specific type of WLAN.

xDSL (x Digital Subscriber Line): the family of technologies used to transmit digital data over the copper pair (local loop) at high speeds (such as ADSL, SDSL, VDSL, etc.). See also "ADSL".