



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

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

Registered in Paris under no. 342 376 332

MANAGEMENT REPORT – YEAR ENDED DECEMBER 31, 2008

1.1 KEY CONSOLIDATED FINANCIAL DATA

(in €millions)	Year ended December 31, 2008	Year ended December 31, 2007
INCOME STATEMENT		
Revenues.....	1,565.0	1,212.4
Operating income and expense, net.....	(1,362.0)	(998.6)
Profit from ordinary activities	203.0	213.8
Other operating income and expense, net.....	(30.7)	(2.0)
Operating profit	172.3	211.8
Financial income and expense, net	(19.5)	(3.5)
Corporate income tax.....	(52.3)	(72.0)
Profit for the period.....	100.4	150.2
EBITDA	524.7	443.6
BALANCE SHEET		
Non-current assets	1,545.0	771.2
Current assets.....	695.2	375.9
<i>Of which cash and cash equivalents</i>	<i>335.7</i>	<i>234.8</i>
Assets held for sale	16.8	8.1
Total assets.....	2,257.0	1,155.2
Total equity.....	597.5	516.7
Non-current liabilities.....	1,227.8	362.5
Current liabilities	431.7	276.0
Total equity and liabilities	2,257.0	1,155.2
CASH FLOWS		
Net cash generated from operating activities...	474.2	317.1
Net cash used in investing activities	(1,159.2)	(351.8)
Net cash generated from (used in) financing activities	799.4	(18.6)
Net change in cash and cash equivalents	114.4	(53.2)
Cash and cash equivalents at year-end	337.4	223.1

1.2 MANAGEMENT REPORT

1.2.1 Overview

The Iliad Group (also referred to as the “Group”) is the leading alternative operator in the landline telecommunications market in France.

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

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

ADSL broadband and value-added services, combined within the Broadband segment, represent the dominant source of revenue, while revenues from the Group's other offerings, combined within the Traditional Telephony segment, are declining as planned. In 2008, the Broadband segment accounted for more than 98% of Group revenues excluding inter-segment sales.

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

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

1.2.1.1 Breakdown of revenues

1.2.1.1.1 Broadband revenues

1.2.1.1.1.1 Offers and services available under the Free brand

- **Unlimited broadband via ADSL.** Since October 2002, Free has offered its subscribers unlimited broadband access for €29.99 per month (including VAT), with an ADSL modem provided and no installation fees. This unique offer allows subscribers to access the Internet at a speed of at least 2 MB per second and up to 28 MB (observed) in areas where the local loop is unbundled (depending on whether a subscriber's line is eligible). In March 2008, Free began offering new subscribers in non-unbundled areas Internet access at a speed of up to 22 MB per second (depending on whether a subscriber's line is eligible). Subscribers are billed by Free and pay the €29.99 by monthly direct debit. Subscribers who cancel their subscription are charged a termination fee, also paid by direct debit. The fee amounts to €96 (including VAT) less €3 for every month of their subscription period, and covers the cost of activating the line.

- **Telephony via ADSL.** Since August 2003 (unbundled areas) and March 2004 (non-unbundled areas), subscribers to the Free Haut Débit broadband service who are equipped with a Freebox modem have also been offered a telephony service. Under this service, telephone calls made through the Freebox to another Freebox subscriber or to any number in mainland France (excluding short numbers and special numbers), Reunion Island, Guadeloupe, and 97 foreign countries are completely free. Revenues generated by calls to French mobile phones and to international numbers not included in the package, as well as revenues generated by incoming calls to Freebox subscribers, are included within the revenues of the Broadband segment.
- **Free's preselection offer.** Since June 2005, Free Haut Débit broadband subscribers have been able to apply for a preselection offering where they have not opted for full unbundling. By signing up with the Free preselection service, the subscriber authorizes the company to make a preselection request to France Télécom so that all calls made from the designated landline can be transferred to and billed by Free (excluding special numbers). This enables the subscriber to benefit from Free's rates on all local, national and international calls, as well as on calls to mobile phones.
- **Television via ADSL.** Since December 2003, subscribers to broadband Internet via the Freebox (in unbundled areas and subject to line eligibility) have been offered a television service with more than 300 channels, including 150 free channels as of December 2008. Revenues generated by pay TV channels are included within the revenues of the Broadband segment. Subscribers to Canal+ Group channels are billed directly by Canal+, which pays a commission to Free. Since July 31, 2007 all Free Haut Débit broadband subscribers (in unbundled and non-unbundled areas and subject to line eligibility) can access a selection of TV channels from Free's portal.
- **Video on demand (VoD) via ADSL.** Since December 2005, subscribers to broadband Internet via the Freebox (in unbundled areas and subject to line eligibility) have been offered a video on demand service that includes Canalplay, i-concerts, TF1 vision, M6 television and vodéo.tv. This service enables subscribers to access a catalog of movies 24 hours a day, 7 days a week, and view them on their television. The movies – which are ordered using the Freebox remote control – include DVD player features and may be viewed for a period of 24 hours. The price of the movies, which starts from €0.99 (including VAT), is invoiced directly on the subscriber's Free Haut Débit bill.
- **Subscription-based video on demand (S-VoD) via ADSL.** Since June 2007, subscribers to broadband Internet via the Freebox (in unbundled areas and subject to line eligibility) have been offered a subscription-based video on demand service. For €5.99 a month (including VAT), subscribers with the basic Free Home Vidéo package have unlimited 24/7 access to a selection of more than 50 films and 100 episodes from TV series that are renewed each week. In January 2008, this offering was rounded out to include Free Home Vidéo Intégrale, a new service giving subscribers unlimited access to a full range of content including movies, TV series, music shows, children's programs and HD broadcasts for €9.99 a month (including VAT). On February 1, 2009 the price of these offerings was increased by €2 to €7.99 (including VAT) for the basic Free Home Vidéo package and €11.99 (including VAT) for the Free Home Vidéo Intégrale offering.
- **"Multi-TV" offer.** Since September 2008 Free has offered its subscribers the option of watching programs on several TV sets. The price of the basic offer providing TV content on one additional television set is €4.99 per month. An extended offer including a digital video recorder function is also available at €9.99 per month.

- **Migration to the fully unbundled service and modem replacement offering.** Since June 2004, Free Haut Débit broadband subscribers can request migration from partially to fully unbundled access. The migration fee is €90 (including VAT), less a discount calculated on the basis of the number of months that the user has had a subscription.
- **“Pay-as-you-go” access.** For this no-subscription dial-up offer, the customer pays the price of the phone call invoiced by France Télécom. Customers dial the Free access number (08 60 92 20 00) from any landline 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 revenue-share passed on to Free by France Télécom. Free invoices France Télécom on a monthly basis. The customer pays France Télécom a connection charge of €0.106 (including VAT) and a flat rate of €0.02 per minute (including VAT), applicable 24/7, excluding special offers. The share of airtime revenue passed on by France Télécom to Free as the operator of an interconnected network amounts to €0.0225 per minute of use (rate at December 31, 2008). The amount per minute is calculated by France Télécom and approved by the French telecommunications and postal regulator (Arcep).
- **The “50-hour plan”.** Under this offering, subscribers are entitled to 50 hours of dial-up Internet access per month for a flat fee of €14.94 (including VAT). Subscribers connect 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 from the subscriber’s account at the beginning of the following month but are recognized in revenues for the current month.
- **Hosting services.** Revenues for this business are generated through the sale of both dedicated and non-dedicated hosting solutions. Non-dedicated hosting services are invoiced at a flat annual rate by domain name or by site. The dedicated server offering (Dedibox), which is targeted at SMEs and individuals, provides broadband Internet access for multimedia applications from €29.99 per month.
- **Marketing of domain names and selling of advertising space** on Free's portal.
- **Other Broadband activities.** Revenue from these operations are generated mainly from the sale of switched traffic to the Traditional Telephony segment and the sale of WiFi cards and related equipment.

1.2.1.1.1.2 Offers and services available under the Alice brand

- **ADSL offer.** Since September 2005, Alice has offered subscribers in unbundled areas unlimited broadband access from €29.95 per month (including VAT), with an ADSL modem provided and no installation fees. Subscribers previously had to take out a contract for a minimum of twelve months but this requirement was removed in 2009. In late 2008 Alice's service range was revamped and structured around a basic offer at €29.95 per month (including VAT). This offer is available either with (i) a "4-hour mobile" deal whereby the monthly price for the first year is €29.95 (including VAT) and then €39.95 (including VAT) for the following years; or (ii) a "first-three months free" deal. For €34.95 per month (including VAT), Alice offers its subscribers in non-unbundled areas Internet access at a speed of up to 22 MB per second (subject to line eligibility). Users who cancel their subscription are charged a termination fee, also paid by direct debit, which amounts to €45.00 (including VAT) and covers the cost of activating the line.
- **Telephony via ADSL (VoIP).** Subscribers using the Alice Box are offered unlimited calls to 87 countries including France. Alice has also set up flat-rate packages for calls to mobile phones and international numbers. The prices of these packages range from €7.95 to €23.95 per month (including VAT) depending on the number of hours and countries covered.
- **Television via ADSL (IPTV).** Since November 2005, subscribers to broadband Internet via the Alice Box (in unbundled areas and subject to line eligibility) have been offered a television service with access to over 140 free channels in 2009. Pay channels and various flat-rate packages are also available such as the "Essential TV" package at €9.95 per month (including VAT) and the "Integral TV" package at €19.95 (including VAT). Subscribers to Canal+ Group channels are billed directly by Canal+, which pays a commission to Alice.
- **Video on demand (VoD) via ADSL.** Since January 2007, subscribers to broadband Internet via the Alice Box (in unbundled areas and subject to line eligibility) have been offered a video on demand service covering various different platforms (primarily Virginmega in 2008). This service enables subscribers to access a catalog of over 4,000 movies 24 hours a day, 7 days a week, and view them on their television. Movies ordered may be viewed for a period of 48 hours. The price of the movies, which starts from €0.99 (including VAT), is invoiced directly on the subscriber's Alice bill.
- **"Pay-as-you-go" dial-up access.** For this no-subscription dial-up offer, the customer pays the price of the phone call invoiced by N9uf Télécom (formerly Télécom Développement). Customers dial the Alice access number from any landline in France, and the call is charged by N9uf 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 revenue-share passed on to Alice by N9uf Télécom. Alice invoices N9uf Télécom on a monthly basis. The share of airtime revenue passed on by N9uf Télécom to Alice as the operator of an interconnected network amounts to €0.023 per minute of use (rate at December 31, 2008), less 5% for N9uf Télécom's administrative fees. The amount per minute is calculated by France Télécom and approved by the French telecommunications and postal regulator (Arcep).

- **Daytime Internet Access.** Under Alice’s Daytime Internet Access offer, for a flat rate of €9.95 (including VAT), subscribers have unlimited access between 5:00 a.m. and 5:00 p.m. from Monday to Saturday as well as 15 hours access per month outside these set times. Subscribers connect to the Internet by dialing a toll-free number and pay a subscription fee directly to Alice. Any additional access time and charges for incomplete months are invoiced by Alice at a rate of €0.05 per minute.
- **Unlimited Internet Access.** Under this package, subscribers have unlimited Internet access 24 hours a day, seven days a week for a flat rate of €29.95 including VAT. Subscribers connect to the Internet by dialing a toll-free number and pay a subscription fee directly to Alice.
- **“B2B” offer.** This offer proposed by Alice involves setting up and managing telecommunications and e-business solutions for telephony, IP connectivity, virtual private networks and hosting.

1.2.1.1.2 Traditional Telephony revenues

Traditional Telephony segment revenues break down as follows:

- Revenues generated by **One.Tel.** One.Tel’s offer is a no-subscription carrier preselection service. By signing up with One.Tel, the subscriber authorizes the company to make a preselection request to France Télécom so that all calls made from the designated landline can be transferred to and billed by One.Tel (excluding special numbers). This enables the customer to benefit from One.Tel's rates on all local, national and international calls, as well as on calls to mobile phones. This includes the €0.01 per minute offer (including VAT) for all local and national calls. At the end of each month, the total cost of calls is calculated for each customer and invoiced for payment within two weeks.
- Revenues from **ANNU**, the reverse look-up directory accessible by Minitel, telephone, Internet and SMS text messaging. Minitel access to this service is billed directly by France Télécom on the user's telephone bill, and part of the revenue is passed on by France Télécom to the company running the service. For ANNU, the revenue passed on by France Télécom amounts to €36.93 per hour. Revenue payments are received every other month.
- Revenues generated by **Assunet** – an online insurance broker – from sales of insurance policies to private individuals and Group companies.
- Revenues from **Iliad Telecom’s** carrier preselection service for companies.
- The **“Wholesale”** offer. In 2008 Alice’s scope of operations included wholesale activities in the telecommunications market, consisting of buying and reselling international call terminations and bandwidth with external operators. These activities – which were carried out because Alice was a member of the Telecom Italia SPA group – are scheduled to be discontinued in 2009.

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

Free and Alice's ADSL offerings comprise two types of service:

- Option 1 (subscribers on an unbundled line), corresponding to an offer carried entirely by the Free and Alice networks. Subscribers can choose between a partially or fully unbundled service. In the case of the partially unbundled service, users subscribe to the broadband offering but continue to pay the telephone line rental to France Télécom and can still make and receive telephone calls through France Télécom. Where subscribers opt for the fully unbundled service, they have no commercial ties with France Télécom and do not therefore pay a telephone line rental charge. In this case, all telephone calls transit through the broadband connection.
- Option 5 (subscribers not on an unbundled line), representing a France Télécom wholesale offer marketed by Free and Alice.

Under Option 1, direct costs per subscriber and per month, as mentioned in the basic unbundling offer, were as follows at December 31, 2008:

Operating costs under Option 1 (partial unbundling)

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

Operating costs under Option 1 (full unbundling)

- Rental of the copper pair: €2.29
- Copper tie cable (average): €1.32

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

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

The access cost structure under Option 5 has been simplified since October 1, 2005 and is no longer directly related to the bit rate or type of connection node. For the DSL Access offer, the monthly subscription fee was set at €11.40 effective from July 1, 2008 and was reduced to €10.40 as from January 1, 2009. The monthly fee for France Télécom's DSL Access Only service available since September 1, 2006 was reduced from €20.00 to €18.50 as of July 1, 2008 and was further cut to €17.50 as from January 1, 2009.

IP transit service costs vary depending on the bit rate used by all Option 5 subscribers. The applicable price terms in 2008 were as follows:

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

This pricing structure has been amended since January 1, 2009 as follows:

- Usage fee per Mbps €15.00
- Access fee €3.80

Option 1 gross margin and EBITDA margin are significantly higher than Option 5 margins. The Group's objective is therefore to maximize the proportion of Option 1 subscribers by migrating its Option 5 subscribers to Option 1 or, where technically feasible, by directly offering Option 1 to new subscribers living in an area where the local loop has been unbundled. In 2009 the Group will migrate part of Alice's subscriber base from Option 5 to Option 1 which it will be able to do thanks to the density of its network.

1.2.1.3 Capital expenditure and depreciation

1.2.1.3.1 Broadband

The Group has rolled out a telecommunications network in mainland France. Most of the underlying optical fiber for this network was obtained under IRU (Indefeasible Right of Use) contracts with terms ranging from 10 to 25 years, that involve a single upfront payment when the fiber is made available. These IRU contracts are recognized as property, plant and equipment and are depreciated over the life of the contract.

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

Under Option 1, the Group is required to provide Freebox or Alice Box modems and Freebox DSLAMs and to pay fees to France Télécom for access to unbundling services (which are also known as cabling costs or access fees). In addition, it incurs logistics and modem shipping costs.

- (i) The cost of these four items totaled around €240 per Free subscriber in 2008. At December 31, 2008, the cost of the Freebox HD modems incorporating power line communication (PLC) technology and 802.11n Wi-Fi was around €180.
- (ii) As from February 1, 2009 new Alice subscribers will receive the latest generation modems which cost around €130.

For Alice subscribers, logistics costs and access fees for France Télécom's unbundling services are depreciated over four years. Shipping costs and access fees for France Télécom's unbundling services for Free subscribers, as well as Freebox and Alice Box modems and Freebox DSLAMs, are depreciated over three years from the date of subscriber installation. However, in view of these assets' average useful lives, their depreciation period will be increased to four years as from January 1, 2009. Fees invoiced by France Télécom for access to unbundling services are €50 per subscriber for full unbundling and €60 for partial unbundling.

Under Option 5, total capital expenditure is lower. Only the cost of access to France Télécom's unbundling services is capitalized and depreciated over three years as the ADSL modems provided under this option are Freebox version 4, which are already in the process of being depreciated. As from January 1, 2009 these access fees will be depreciated over a period of four years. The fees billed by France Télécom for access to the DSL Access Only service are €54 per subscriber without access to the France Télécom traditional voice network and €17 per subscriber with access to the France Télécom traditional voice network. Fees billed by France Télécom for the DSL Access service are €49 per subscriber without access to France Télécom's traditional voice network.

1.2.1.3.2 Rollout of an FTTH network

To support the rollout of its FTTH (fiber-to-the-home) network, the Group is making fresh investments in network infrastructure through its subsidiaries Free Infrastructure, IRE and Immobilière Iliad. This network is being rolled out in four phases:

- acquiring premises to house optical nodes (ONs);
- laying fiber optic cable between the ONs and buildings (“horizontal rollout”);
- installing optical fiber within those buildings, up to the front door of each business or household (“vertical rollout”);
- connecting subscribers to the network.

The Group acquires its ONs through its subsidiaries IRE and Immobilière Iliad. Most of the premises purchased are held by IRE and a large proportion is financed through 12-year leases. Immobilière Iliad has, however, acquired a number of sites in its own name.

The Group is currently focusing on the horizontal rollout phase, which is being handled either by its own teams (mainly in Paris), or by subcontractors under fixed-price contracts (rest of France). As from 2009 the Group will increasingly use France Télécom's existing cable ducts for the horizontal rollout phase in areas outside Paris.

1.2.1.4 Gross profit and earnings before interest, tax, depreciation, amortization and employee benefits (EBITDA)

The following items are key performance indicators for the Group and are used throughout this management report:

Gross profit, which corresponds to revenues less purchases used in production.

EBITDA, which corresponds to profit from ordinary activities before employee benefit expense (share-based payments), depreciation, amortization and provisions for impairment of non-current assets.

1.2.2 Significant events of the year

In 2008:

(i) The Group continued to enhance its operating performance indicators (excluding the impact of the Alice acquisition):

- Sustained organic growth – Free’s subscriber base climbed by 485,000 during the year to 3.39 million. Subscribers' use of value-added services helped drive up ARPU to the record level of €36.9 in the fourth quarter of the year. These services now account for over 25% of Broadband revenues.
- Higher margins, reflecting the combined impact of a 4.1 point rise in the unbundling rate to 85.6% at December 31, 2008 as well as a decrease in interconnection costs and the growing use of value-added services by Free’s subscribers.
- Strong cash flow generation by Free’s ADSL business – Cash flow generated by this business came to almost €10 million in 2008, compared with €3 million in 2007.

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(ii) Iliad acquired and integrated Liberty Surf Group SAS:

- This acquisition added 0.84 million to Iliad's subscriber base in 2008.
- The initial cost and revenue synergies from the acquisition led to a reduction in the sales and marketing budget and an increase in ARPU to €32 in December 2008.
- Iliad set up a €1.2 billion financing package to fund the acquisition as well as the Group's future growth.

1.2.3 Comparison of results for 2008 and 2007

Consolidated revenues and operating expenses disclosed in the financial statements do not match the sum of the segment revenues and expenses set out below, due to the elimination of inter-segment transactions, corresponding to transactions between Group companies belonging to different segments. The bulk of inter-segment transactions consist of billings to the Traditional Telephony segment of telecommunications services provided over the Free network. In all, inter-segment transactions amounted to €32.4 million in 2008 and €29.6 million in 2007.

Broadband operations now account for 98% of revenues and 99% of operating profit. An analysis of this business and its results is provided in section 1.2.3.1. below. This data is broken down both including and excluding the impact of the Alice acquisition and a separate summary of Alice's contribution since August 26, 2008 is also presented.

(in €millions)	2008 Incl. Alice	2008 Excl. Alice	2007	% change Incl. Alice	% change Excl. Alice
Revenues	1,565.0	1,434.1	1,212.4	+29.1%	+18.3%
Purchases used in production	(781.5)	(697.9)	(612.5)	+27.6%	+13.9%
Gross profit	783.6	736.2	599.9	+30.6%	+22.7%
Payroll costs	(79.8)	(59.9)	(47.5)	+68.0%	+26.1%
External charges	(109.5)	(79.8)	(68.4)	+60.1%	+16.7%
Taxes other than on income	(27.9)	(25.8)	(12.1)	+130.6%	+113.2%
Additions to provisions	(25.2)	(16.0)	(8.7)	+189.7%	+83.9%
Other income and expenses from operations, net	(16.4)	(15.6)	(19.6)	-16.5%	-20.4%
EBITDA	524.7	539.1	443.6	+18.3%	+21.5%
Employee benefit expense	(5.4)	(5.4)	(3.2)	+68.8%	+68.8%
Depreciation and amortization	(316.4)	(267.4)	(226.7)	+39.6%	+18.0%
Profit from ordinary activities	203.0	266.3	213.8	-5.1%	+24.6%
Other operating income and expense, net	(30.7)	-	(2.0)	-	-
Operating profit	172.3	266.3	211.8	-18.6%	+25.7%
Financial income and expense, net	(19.5)	2.7	(3.5)	-	-177.1%
Corporate income tax	(52.3)	(52.3)	(72.0)	-27.4%	-27.4%
Profit/(loss) from discontinued operations	(0.1)	-	13.9	-	-
Profit for the period	100.4	216.7	150.2	-33.2%	+44.3%

1.2.3.1.1

Analysis of results for the Broadband segment

The Broadband segment includes the following operations:

- Internet Service Provider (ISP) operations, both through the switched telephone network and via ADSL, marketed under the Free, Free Haut Débit, Free Télécom, Freebox and Alice brands.
- Hosting and domain-name creation services, operated under the Online, Dedibox, Bookmyname and Alice brands.
- Call center operations, carried out by Centrapel, Total Call and Free.
- Optical fiber operations.
- The B2B operations of the Alice brand.
- Wimax activities operated by IFW.

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

(in €millions)	2008 Incl Alice	2008 Excl Alice	2007	% change Incl. Alice	% change Excl. Alice
Revenues	1,540.8	1,419.5	1,189.0	+29.6%	+19.4%
Purchases used in production	(771.6)	(697.4)	(608.6)	+26.8%	+14.6%
Gross profit	769.2	722.1	580.4	+32.5%	+24.4%
Payroll costs	(73.7)	(54.1)	(43.2)	+70.6%	+25.2%
External charges	(105.4)	(75.7)	(62.9)	+67.6%	+20.3%
Taxes other than on income	(27.5)	(25.4)	(11.6)	+137.1%	+119.0%
Additions to provisions	(25.2)	(16.0)	(8.6)	+193.0%	+86.0%
Other income and expenses from operations, net	(15.9)	(15.7)	(19.1)	-16.8%	-17.8%
EBITDA	521.5	535.2	435.0	+19.9%	+23.0%
Employee benefits expense	(4.6)	(4.6)	(2.4)	+91.7%	+91.7%
Depreciation and amortization	(316.2)	(267.2)	(226.4)	+39.7%	+18.0%
Profit from ordinary activities	200.8	263.4	206.2	-2.6%	+27.7%
Other operating income and expense, net	(30.7)	-	-	-	-
Operating profit	170.1	263.4	206.2	-17.5%	+27.7%

The table below sets out Alice's contribution to the results of the Broadband segment since it was consolidated on August 26, 2008.

(in €millions)	2008 Incl. Alice	2008 Excl. Alice	2008 contribution by Alice
Revenues	1,540.8	1,419.5	121.3
Purchases used in production	(771.6)	(697.4)	(74.2)
Gross profit	769.2	722.1	47.1
Payroll costs	(73.7)	(54.1)	(19.6)
External charges	(105.4)	(75.7)	(29.7)
Taxes other than on income	(27.5)	(25.4)	(2.1)
Additions to provisions	(25.2)	(16.0)	(9.2)
Other income and expenses from operations, net	(15.9)	(15.7)	(0.2)
EBITDA	521.5	535.2	(13.7)
Employee benefits expense	(4.6)	(4.6)	-
Depreciation and amortization	(316.2)	(267.2)	(49.0)
Profit/(loss) from ordinary activities	200.8	263.4	(62.6)
Other operating income and expense, net	(30.7)	-	(30.7)
Operating profit/(loss)	170.1	263.4	(93.3)

Revenues

The table below shows the breakdown by category of Broadband revenues for 2008 (including and excluding Alice) and for 2007, as well as the percentage change between the two periods.

(in €millions)	2008 Incl. Alice	2008 Excl. Alice	2007	% change Incl. Alice	% change Excl. Alice
Broadband revenues (excluding inter-segment sales)	1,533.3	1,412.0	1,178.4	+30.1%	+19.8%
- <i>ISP revenues (ADSL, Pay-as-you-go, 50-hour plan)</i>	1,499.5	1,384.4	1,149.9	+30.4%	+20.4%
- <i>Hosting and advertising revenues</i>	20.1	16.9	19.3	+4.2%	-12.4%
- <i>Other revenues</i>	13.7	10.7	9.2	+48.9%	-16.3%
Inter-segment sales	7.5	7.5	10.6	-29.3%	-29.3%
Total revenues	1,540.8	1,419.5	1,189.0	+29.6%	+18.9%

Excluding inter-segment sales, Broadband revenues climbed by €354.9 million in 2008 or 30.1% compared with 2007, boosted by the success of Free's ADSL broadband offer and the consolidation of Alice's ADSL operations.

ISP revenues

Including Alice

ISP revenues generated through both the switched telephone network and ADSL and operated under the Free, Alice, Free Télécom and Free Haut Débit brands, totaled €1,499.5 million in 2008, up by over 30% year-on-year. The main growth factor was the sharp rise in the number of ADSL subscribers to 4,225,000 from 2,904,000, representing an increase of over 1,321,000 during the year.

This rise reflects (i) the 836,000 subscribers added following the acquisition of Alice France on August 26, 2008 and (ii) an extra 485,000 subscribers thanks to Free's strong organic growth. The Iliad Group is now the leading alternative ADSL operator in France with market share of 25.2% at December 31, 2008 versus 19.7% one year earlier.

	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2008
Total ADSL subscribers	2,278,000	2,904,000	4,225,000
- Free	2,278,000	2,904,000	3,389,000
- Alice	-	-	836,000
Unbundled subscribers	1,730,000	2,366,000	3,323,868
- Free	1,730,000	2,366,000	2,900,000
- Alice	-	-	423,868
Percentage of unbundled subscribers	75.9%	81.5%	78.7%
- Free	75.9%	81.5%	85.6%
- Alice	-	-	50.7%
Share of French residential ADSL market¹	19.0%	19.7%	25.2%

Excluding Alice

A 17% increase in the subscriber base. At December 31, 2008, the number of Free's ADSL subscribers stood at 3,389,000 compared with 2,904,000 one year earlier, representing an increase of 485,000 and 23.5% of total new ADSL subscriptions in France.

A € rise in ARPU for Free's subscribers, reflecting the increasing use of value-added services provided through the Freebox. Revenues generated by value-added services climbed by more than 34% in 2008, coming in at €353.3 million compared with €263.4 million in 2007. This excellent performance was primarily attributable to the increasing use of video and other services. In 2008, stand-alone purchases of video products (VoD and SVoD) totaled 6.5 million versus 4.3 million for the previous year. Value-added services now account for over a quarter of Free Haut Débit's revenues.

(in €millions)	2006	2007	2008
Revenues from value-added services	163.4	263.4	353.3
Broadband revenues	865.1	1,178.4	1,406.5
% of Broadband revenues	18.9%	22.4%	25.1%

Alice

Alice recorded a rise in ARPU over the last four months of the year, fueled by the rollout of new services and the termination of certain special offers. Consequently, ARPU for Alice subscribers reached €32 in December 2008.

Hosting and advertising revenues

The marketing of domain names in France, value-added hosting services and the sale of advertising space on the Free and Alice portals generated hosting and advertising revenues of €20.1 million in 2008, up from €19.3 million in 2007.

¹ Source: Iliad and France Telecom

Inter-segment sales and other revenues

Inter-segment sales and other revenues correspond to airtime on Free's directly-operated network billed to the Traditional Telephony segment, and to sales of Wi-Fi cards and related items. These revenues were lower than in 2007 due to the contraction in Traditional Telephony business volumes.

Gross profit

Including Alice

Including Alice, Broadband gross profit came in at €769.2 million, up 32.5% on the €580.4 million recorded in 2007. As a percentage of revenues it increased by 1.1 points, despite the dilutive impact of consolidating Alice.

Excluding Alice

Excluding the impact of the Alice acquisition, gross profit jumped 24.4% to €722.1 million and increased by 2.1 points as a percentage of revenues, reflecting:

- The positive impact of the rise in the unbundling rate on the back of strong sales momentum and the launch of 700 new connection nodes in 2008. The number of unbundled lines rose significantly during the year, reaching 2,900,000 at December 31, 2008 versus 2,366,000 one year previously.
- The relative fall in telephone interconnection charges.
- Growth in optional value-added services as described above.

Alice

The consolidation of Alice had a dilutive impact on the Group's gross profit due to Alice's low subscriber unbundling rate, which was 50.7% at the year-end.

Payroll costs

Including Alice

Payroll costs excluding employee benefits represented 4.8% of Broadband revenues excluding inter-segment sales in 2008, up 1.2 points on 2007. This increase is mainly due to the integration of 1,211 Alice employees at August 26, 2008.

Excluding Alice

Excluding Alice, payroll costs were on a par with 2007, representing 3.8% of Broadband revenues. This stability was achieved despite recruiting an additional 580 employees as part of heightened measures to handle subscribers' technical problems. At December 31, 2008 the number of employees (including part-time workers) therefore totaled 3,023 versus 2,575 in 2007.

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

External charges

Including Alice, external charges for the Broadband segment totaled €105.4 million versus €62.9 million in 2007. This strong increase is chiefly due to the impact of consolidating Alice, as a number of Alice's operations are routinely outsourced, such as maintenance and IT systems development.

Additions to provisions

Additions to provisions amounted to €25.2 million in 2008, and primarily corresponded to provisions for doubtful customer accounts as well as impairment of inventories mainly relating to the consolidation of Alice.

Taxes other than on income

Taxes other than on income rose to €7.5 million in 2008 from €1.6 million in 2007. This increase reflects the start of contributions to the *Compte de Soutien à l'Industrie des Programmes audiovisuels* ("COSIP") support fund as from January 1, 2008.

Other income and expenses from operations, net

This item represented a net expense of €15.9 million, compared with a net expense of €19.1 million in 2007.

The total includes royalties, bad debts (net of provision reversals), and gains and losses on asset disposals as well as provisions for charges relating to the consolidation of Alice.

EBITDA

Including Alice

Broadband EBITDA advanced 19.9% to €21.5 million. The EBITDA margin, excluding inter-segment sales, came to 34.0%, versus 36.9% in 2007.

Excluding Alice

Excluding Alice, EBITDA for the Broadband segment rose by a sharp 23.0% year-on-year to €35.2 million, representing 37.9% of revenues (excluding inter-segment sales) compared with 36.9% in 2007. This increase in operating profitability reflects (i) the above-described rise in gross profit and (ii) the absorption of fixed costs by fast-paced business growth.

Alice

The contribution of Alice to Broadband EBITDA was a negative €13.7 million between August 26 and December 31, 2008.

Operating profit

Including Alice

Operating profit for the Broadband segment came to €170.1 million in 2008, down from €206.2 million the previous year. The 17.6% decrease is attributable to the consolidation of Alice since August 26, 2008 and a €30.7 million provision recorded for restructuring costs (with no impact on cash for the year).

Excluding Alice

Excluding Alice, operating profit climbed 27.7% year-on-year to €63.4 million as depreciation and amortization expense grew at a slower pace than revenues in 2008 due to:

- The fact that the cost of Freebox HD modems remained stable, at €180 in 2008, despite the introduction of boxes with PLC technology and 802.11n Wi-Fi.
- A slowdown in ADSL market growth in France, with Free winning 485,000 new subscribers in 2008, versus 626,000 in 2007.
- Lower access fees for the France Télécom service (see section 1.2.1.3.1).

In view of these factors, operating profit as a percentage of revenues (excluding inter-segment sales) rose to 18.7% from 17.5% in 2007.

Alice

Alice's contribution to Broadband operating profit was a negative €3.3 million in 2008, due to:

- €49.0 million in depreciation and amortization expense. However, this item is expected to decrease sharply following migration of Alice's subscriber base to Free's network.
- The recognition of a €30.7 million provision to cover restructuring costs (without any cash outflow over the period).

1.2.3.1.2 Key figures for the Traditional Telephony segment

The Traditional Telephony segment now represents only 2% of the Iliad Group's consolidated revenues excluding inter-segment sales and its contribution to Group earnings is negligible, due to:

- A decrease in revenues as a result of the end of indirect interconnections.
- To a lesser extent, the lower number of One.Tel subscribers.
- The discontinuation of Alice's Wholesale business.

(in €millions)	2008 Incl. Alice	2008 Excl. Alice	2007	% change Incl. Alice	% change Excl. Alice
Revenues	56.7	43.3	53.0	+7.0%	-18.3%
Gross profit	38.0	37.8	40.8	-6.9%	-7.4%
EBITDA	3.2	3.8	8.6	+62.8%	-55.8%
Profit from ordinary activities	2.2	2.8	7.6	-71.1%	-63.2%

1.2.4 Cash flows and capital expenditure

(in €millions)	2008	2007
Net cash generated from operating activities	474.2	317.1
Net cash used in investing activities	(1,159.2)	(351.8)
Net cash generated from (used in) financing activities	799.4	(18.6)
Net change in cash and cash equivalents.....	114.4	(53.2)
Cash and cash equivalents at year-end.....	337.4	223.1

Including Alice

Including Alice, cash flows for 2008 reflected:

- A strong €10 million in free cash flow generated by Free's ADSL operations.
- Outflows of €71.3 million relating to the acquisition of Alice.
- A negative €52.4 million negative impact arising from the consolidation of Alice since August 26, 2008.

Excluding Alice

Excluding Alice, net cash generated from operating activities – after tax and changes in working capital, but before capital expenditure – came to €486.3 million.

Acquisitions of property, plant and equipment and intangible assets (net of disposal proceeds) totaled €341.2 million, breaking down as follows:

- €36.4 million in **ADSL-related development expenditure** (including Freebox modems and DSLAMs, access fees to the France Télécom service and portability service fees). This outlay was down almost 10% on 2007, due to the slowdown in new subscriptions, the decrease in Freebox costs, fewer subscriber transfers and lower portability costs.
- €40.2 million in **ADSL-related network expenditure** (including IRU contracts, France Télécom co-location rooms, civil engineering work and transmission equipment). This represents a 4.4% decrease on 2007.
- €64.6 million in **FTTH optical fiber network expenditure**. The majority of premises used to house optical nodes (ONs) have been acquired under finance leases with Genefim, a subsidiary of Société Générale, and some network equipment has been acquired under leases with Cisco Capital (see section 1.2.5).

The €10 million in free cash flow generated by ADSL operations enabled the Group to (i) finance all of its investments in optical fiber (€64.6 million) and (ii) strengthen its cash position by €11.9 million.

Alice

Alice's contribution to consolidated cash flows between August 26 and December 31, 2008 was as follows:

- A negative €12 million impact **generated by Alice's operating activities**.
- €40.4 million in **ADSL-related development expenditure** covering items such as modems, access fees to the France Télécom service, portability service fees and commissions paid to sub-contractors for signing up new subscribers.

1.2.5 Consolidated debt

As far as Iliad is aware, the Group is not subject to any liquidity risk as a result of acceleration clauses contained in loan agreements entered into by Group companies or as a result of any breaches of financial covenants (ratios, targets, etc.). As of the date of this report, the Group's business had not been affected by the economic crisis. Similarly, the crisis on the financial markets did not impact the 2008 consolidated financial statements. At the beginning of 2009, the Group has not observed any deterioration in its business levels and remains confident in its profit-making capacity.

The Group's gross debt comprised the following at December 31, 2008:

A €1,200 million syndicated loan

On July 31, 2008, as part of its acquisition of the LSG group, Iliad set up a €1,200 million syndicated credit facility with 12 European banks, breaking down as:

- A €50 million line dedicated to the related acquisition and restructuring costs which can be drawn down until December 31, 2009 and is repayable in installments up to June 25, 2013. At December 31, 2008, €44.9 million of this credit line had been used.
- A €50 million revolving credit facility available until June 25, 2013. None of this facility had been used at December 31, 2008.

The interest rate on these credit facilities is based on Euribor plus a margin ranging between 1.45% and 0.70% depending on the Group's leverage ratio.

“Oceane” bonds

On June 21, 2006 Iliad carried out an issue of “Oceane” bonds (convertible into new or existing shares), which gave rise to net proceeds of €26.3 million. These bonds are redeemable in January 2012 and bear interest at 2.2%.

Finance lease commitments

At December 31, 2008, the Group had €24.1 million in obligations under real estate finance leases entered into with Genefim to acquire ONs. During the year the Group set up leases worth €4.4 million with Cisco to finance the acquisition of FTTH equipment.

At December 31, 2008, the Group had gross debt of €1,217.8 million and net debt of €81.9 million. Its leverage ratio (net debt to EBITDA) was 1.68.

1.2.6 Ownership structure at December 31, 2008

At December 31, 2008, Iliad's share capital was made up of 54,431,275 ordinary shares, held by the following shareholders:

- Executive Management: 38,700,800 shares, representing 71.1% of the share capital.
- Public: 15,730,475 shares, representing 28.9% of the share capital

At December 31, 2008 there were five Iliad stock option plans in place with the following main characteristics:

Grant date	Exercise price	Exercise date	Number of shares to be issued on exercise of options
January 20, 2004	€16.30	January 20, 2008	129,709
December 20, 2005	€18.44	December 20, 2009	197,003
December 20, 2005	€18.44	December 20, 2010	197,002
June 14, 2007	€74.62	June 13, 2012	162,455
August 30, 2007	€68.17	August 30, 2012	701,331
November 5, 2008	€3.79	November 5, 2013	596,600
		Total	1,984,100

1.3 ADDITIONAL INFORMATION

1.3.1 Pro Forma Information

The following table presents the Group's pro forma information taking into account the acquisition of Alice at January 1, 2008.

(in €millions)	December 31, 2008
Revenues	1,776.4
EBITDA	478.3
Profit for the period	3.6
Free cash flow	80.6

This data does not take into account:

- the impact on income of the harmonization of Free's and Alice's accounting methods, particularly the impact of the change in depreciation methods for some material assets, as well as the accelerated impairment of certain assets;
- the impact of operations discontinued due to the termination of their ties with the Telecom Italia SPA group or pursuant to a decision taken by the Iliad Group following the takeover of Alice;
- the impact of the transactions with Intercall, a company acquired by the Iliad Group in connection with the takeover of Alice's operations and immediately sold to a non-Group entity.

This information is not representative of the performance of all the consolidated entities had the acquisition taken place at January 1, 2008, nor is it representative of the Group's performance.

1.3.2 Strategic objectives

In light of its 2008 results the Group intends to continue to implement its strategy of achieving profitable growth and has set itself the following objectives:

- 5 million Broadband subscribers by 2011.
- An unbundled subscriber rate of 82% by end-2009 for the Group as a whole (i.e. including Free and Alice).
- EBITDA breakeven on Alice during 2Q 2009
- Free cash flow from ADSL operations in excess of €300 million in 2009 (excluding Alice) and topping €1 billion between 2009 and 2011 (including Alice).
- Incremental EBITDA of €90 million (annualized basis) for Alice as of the second half of 2010.
- A strong increase in profit for 2009.
- As part of the rollout of its FTTH network, the Group is standing by its objectives of (i) covering 70% of Paris horizontally by the second half of 2009 and (ii) covering 4 million homes horizontally by end-2012.

1.3.3 Events after the balance sheet date

- The offering for unlimited landline calls included in the Freebox flat rate was increased to 97 countries from January 2009.
- Presentation of the new Alice Box on February 3, 2009.
- Set-up of a strategic partnership with Chiligaming (part of the Gaminvest Holding Ltd group) with a view to offering online gaming facilities in France when permitted by the applicable regulations following the opening up of the online gaming and betting market.

1.3.4 Glossary

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

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

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

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

Leverage ratio corresponds to the ratio between net debt (short- and long-term financial liabilities less cash and cash equivalents) and EBITDA.

Net adds corresponds to the difference between Total ADSL subscribers at the end of two different periods.

Total ADSL subscribers at the end of a period represents the total number of customers identified by their individual “phone lines” who have signed up for Free’s or Alice’s ADSL service excluding those recorded as having requested the termination of their subscription.

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