



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 – SIX MONTHS TO JUNE 30, 2009

1.1 KEY CONSOLIDATED FINANCIAL DATA

(in €millions)	Six months to June 30, 2009	Six months to June 30, 2008	Year ended December 31, 2008
INCOME STATEMENT			
Revenues.....	969.8	692.2	1,565.0
Operating income and expense, net.....	(812.8)	(564.2)	(1,362.0)
Profit from ordinary activities.....	157.0	128.0	203.0
Other operating income and expense, net.....	(23.1)	-	(30.7)
Operating profit	133.9	128.0	172.3
Financial income and expense, net	(25.1)	(1.5)	(19.5)
Corporate income tax.....	(37.8)	(43.5)	(52.3)
Profit for the period.....	72.0	82.9	100.4
EBITDA	307.8	256.9	524.7
BALANCE SHEET			
Non-current assets.....	1,589.4	832.6	1,545.0
Current assets	780.5	418.4	695.2
<i>Of which cash and cash equivalents</i>	596.2	274.4	335.7
Assets held for sale	25.3	11.0	16.8
Total assets	2,395.2	1,262.0	2,257.0
Total equity.....	651.6	594.1	597.5
Non-current liabilities.....	1,298.5	367.9	1,227.8
Current liabilities	445.1	300.0	431.7
Total equity and liabilities	2,395.2	1,262.0	2,257.0
CASH FLOWS			
Net cash generated from operating activities.....	400.2	217.8	474.2
Net cash used in investing activities.....	(188.3)	(171.9)	(1,159.2)
Net cash generated from (used in) financing activities	30.7	(3.4)	799.4
Net change in cash and cash equivalents.....	242.7	42.5	114.4
Cash and cash equivalents at period-end.....	580.1	265.5	337.4

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 the six months to June 30, 2009, the Broadband segment represented more than 99% 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 and 22 MB in non-unbundled areas (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 €6 (including VAT) less €3 for every month of their subscription period, and covers the cost of activating the line.
- **Telephony via ADSL.** Subscribers to the Free Haut Débit broadband service who are equipped with a Freebox modem are 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.

- **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 June 30, 2009. Revenues generated by pay TV channels are included within the revenues of the Broadband segment. Subscribers to Canal+ Group channels are billed directly by the Canal+ Group, which pays a commission to Free. Since July 31, 2007 all Free Haut Débit broadband subscribers (in unbundled and non-unbundled areas and subject to line eligibility) can access a selection of TV channels from Free's portal.
- **Video on demand (VoD) via ADSL.** Since December 2005, subscribers to broadband Internet via the Freebox (in unbundled areas and subject to line eligibility) have been offered a video on demand service 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. Two offerings are available under this service: (i) the basic Free Home Video package for €7.99 a month (including VAT), with unlimited 24/7 access to a selection of more than 50 films and 100 episodes from TV series that are renewed each week, and (ii) Free Home Video Premium, which gives subscribers unlimited access to a full range of content including movies, TV series, music shows, children's programs and HD broadcasts, for €11.99 a month (including VAT).
- **“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 (including VAT). An extended offer including a digital video recorder function is also available at €9.99 per month (including VAT).
- **“Pay-as-you-go” access.** For this no-subscription dial-up offer, the customer pays the price of the use of the telephone line invoiced by France Télécom. The share of airtime revenue passed on by France Télécom to Free is calculated on a per minute basis by France Télécom and is 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). 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 (including VAT).
- **Marketing of domain names and selling of advertising space** on Free's portal.

- **Other Broadband activities.** Revenues from these operations are generated mainly from the sale of switched traffic to the Traditional Telephony segment as well as the sale of WiFi cards and related equipment, the preselection offering, migration to the unbundled service and renewal of modems.

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. Since late 2008, Alice’s service range has been 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, 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 mainland 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 the 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 as of June 30, 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). This service enables subscribers to access a catalog of over 10,000 titles 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 use of the telephone line invoiced by N9uf Télécom. The share of airtime revenue passed on by N9uf Télécom to Alice is calculated on a per minute basis by France Télécom and is 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 customer 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 all services are 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 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 commission on 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 service (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.

Under Option 1, direct costs per subscriber and per month, as mentioned in the basic unbundling offer, were as follows at June 30, 2009:

Operating costs under Option 1 (partial unbundling)

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

Operating costs under Option 1 (full unbundling)

- Rental of the copper pair: €9.00
- 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.

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

Under this option, 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.

For the DSL Access offer, the monthly subscription fee was set at €10.40 effective from January 1, 2009 and was reduced to €9.30 as from July 1, 2009. The monthly fee for the DSL Access Only service was €17.50 between January 1 and June 30, 2009 and was cut to €16.40 as from July 1, 2009.

IP transit service costs vary depending on the bit rate used by all Option 5 subscribers. The applicable price terms in first-half 2009 were as follows:

- Usage fee per Mbps €45.00
- Access fee €3.80

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

- Usage fee per Mbps €19.00
- 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 the second half of 2009 the Group will continue to migrate part of Alice's subscriber base from Option 5 to Option 1 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.

- In the first half of 2009 the cost of the Freebox HD modems incorporating power line communication (PLC) technology and 802.11n Wi-Fi remained stable at around €80. Since February 1, 2009 new Alice subscribers have been provided with the latest generation modems which cost around €30.
- Fees invoiced by France Télécom for access to unbundling services are €50 per subscriber for full unbundling and €60 for partial unbundling.

All of these items (access fees and logistics, modem and DSLAM costs) are now depreciated over a period of four years as from the date they are brought into service, compared with the previously applicable three-year period.

Under Option 5, total capital expenditure is lower as new subscribers are provided with Freebox version 4 modems, which are already in the process of being depreciated. The main capitalized costs now therefore correspond to access fees billed by France Télécom, breaking down as follows:

- | | |
|---|--------|
| • Fees for access to the DSL Access service | €49.00 |
| • Fees for access to the DSL Access Only service | €4.00 |
| • Fees for access to the DSL Access Only service (where operator access was already in place) | €17.00 |

Capitalized access fees are also depreciated over four years.

1.2.1.3.2 Rollout of an FTTH network

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

- acquiring premises to house optical nodes (ONs);
- laying fiber optic cable between the ONs and buildings (“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). During the first half of 2009 the Group carried out its first horizontal rollouts in areas outside Paris, using France Télécom's service offering that allows access to the incumbent operator's existing cable ducts.

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 first-half 2009

Excluding Alice

In the first half of 2009, the Group saw rises in its main operating performance indicators:

- Organic growth came to 14%, fueled by (i) a 455,000 jump in Free's subscriber base during the twelve months from June 30, 2008 to June 30, 2009; and (ii) subscribers' increasing use of value-added services.
- The Group's main profitability indicators climbed significantly, reflecting the combined impact of a 3.8 point rise in the unbundling rate to 87.2% at June 30, 2009 and tight control over the principal expense items.
- The ADSL business reported very strong cash generation, amounting to over €178 million in the first six months of 2009.

Alice

During first-half 2009 the Group continued to rapidly integrate Alice, leveraging synergies identified for marketing expenditure and revenue per user as well as network and IT expenses and fixed costs. These measures enabled Alice to exceed its target of returning to breakeven, with a contribution of €5.5 million to consolidated EBITDA during the period.

During the six months under review the Group also reported non-recurring income of €144.3 million corresponding to the use of a portion of Alice's tax loss carryforwards and earn-out payments received from Telecom Italia.

1.2.3 Comparison of results for first-half 2009 and first-half 2008

Consolidated revenues and operating expenses disclosed in the financial statements do not match the sum of the segment revenues and expenses set out below, due to the elimination of inter-segment transactions, corresponding to transactions between Group companies belonging to different segments. The bulk of inter-segment transactions consist of billings to the Traditional Telephony segment of telecommunications services provided over the Free network. In all, inter-segment transactions amounted to €13.9 million in first-half 2009 and €13.4 million in the same period of 2008.

Broadband operations now account for 99% of revenues and operating profit. An analysis of this business and its results is provided in section 1.2.3.1.1 below. This data is broken down both including and excluding the impact of the Alice acquisition and a separate summary of Alice's contribution in first-half 2009 is also presented.

(in €millions)	Six months to June 30, 2009 Incl. Alice	Six months to June 30, 2009 Excl. Alice	Six months to June 30, 2008	% change Incl. Alice	% change Excl. Alice
Revenues	969.8	787.6	692.2	40.1%	13.8%
Purchases used in production	(469.4)	(362.7)	(339.1)	38.4%	7.0%
Gross profit	500.4	424.9	353.1	41.7%	20.3%
Payroll costs	(58.0)	(29.6)	(27.4)	111.7%	8.0%
External charges	(75.6)	(44.3)	(38.9)	94.3%	13.9%
Taxes other than on income	(22.5)	(19.0)	(11.9)	89.1%	59.7%
Additions to provisions	(27.1)	(18.1)	(9.1)	197.8%	98.9%
Other income and expenses from operations, net	(9.4)	(11.6)	(8.9)	5.6%	30.3%
EBITDA	307.8	302.3	256.9	19.8%	17.7%
Employee benefits expense	(3.7)	(3.7)	(2.5)	48.0%	48.0%
Depreciation and amortization	(147.1)	(98.1)	(126.4)	16.4%	(22.4%)
Profit from ordinary activities	157.0	200.5	128.0	22.7%	56.6%
Other operating income and expense, net	(23.1)	-	-	-	-
Operating profit	133.9	200.5	128.0	4.6%	56.6%
Financial income and expense, net	(25.1)	(2.7)	(1.5)	-	-
Corporate income tax	(37.8)	(37.8)	(43.6)	(13.3%)	(13.3%)
Profit from discontinued operations	1.0	1.0	-	-	-
Profit for the period	72.0	161.0	82.9	(13.1%)	94.2%

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 Alice, Free, Free Haut Débit, Free Télécom and Freebox 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)	Six months to June 30, 2009 Incl. Alice	Six months to June 30, 2009 Excl. Alice	Six months to June 30, 2008	% change Incl. Alice	% change Excl. Alice
Revenues	963.7	782.1	684.1	40.9%	14.3%
Purchases used in production	(468.9)	(362.8)	(338.7)	38.4%	7.1%
Gross profit	494.8	419.3	345.4	43.3%	21.4%
Payroll costs	(56.3)	(27.9)	(25.0)	125.2%	11.6%
External charges	(73.6)	(42.3)	(36.5)	101.6%	15.9%
Taxes other than on income	(22.2)	(18.7)	(11.6)	91.4%	61.2%
Additions to provisions	(27.0)	(17.9)	(9.1)	196.7%	96.7%
Other income and expenses from operations, net	(9.1)	(11.3)	(8.8)	3.4%	28.4%
EBITDA	306.6	301.2	254.4	20.5%	18.4%
Employee benefits expense	(3.0)	(3.0)	(2.1)	42.9%	42.9%
Depreciation and amortization	(147.1)	(98.1)	(126.3)	16.5%	(22.3%)
Profit from ordinary activities	156.5	200.1	126.0	24.2%	58.8%
Other operating income and expense, net	(23.1)	-	-	-	-
Operating profit	133.4	200.1	126.0	5.9%	58.8%

The table below sets out Alice's contribution to the results of the Broadband segment in first-half 2009.

(in €millions)	Six months to June 30, 2009 Incl. Alice	Six months to June 30, 2009 Excl. Alice	Six months to June 30, 2009 Contribution by Alice
Revenues	963.7	782.1	181.6
Purchases used in production	(468.9)	(362.8)	(106.1)
Gross profit	494.8	419.3	75.5
Payroll costs	(56.3)	(27.9)	(28.4)
External charges	(73.6)	(42.3)	(31.3)
Taxes other than on income	(22.2)	(18.7)	(3.5)
Additions to provisions	(27.0)	(17.9)	(9.1)
Other income and expenses from operations, net	(9.1)	(11.3)	2.2
EBITDA	306.6	301.2	5.4
Employee benefits expense	(3.0)	(3.0)	-
Depreciation and amortization	(147.1)	(98.1)	(49.0)
Profit/(loss) from ordinary activities	156.5	200.1	(43.6)
Other operating income and expense, net	(23.1)	-	(23.1)
Operating profit/(loss)	133.4	200.1	(66.7)

Revenues

The table below shows the breakdown by category of Broadband revenues for first-half 2009 and first-half 2008, as well as the percentage change between the two periods.

(in €millions)	Six months to June 30, 2009	Six months to June 30, 2008	% change
Broadband revenues (excluding inter-segment sales)	961.0	679.6	41.4%
- <i>ISP revenues (ADSL, Pay-as-you-go, 50-hour plan)</i>	941.7	665.3	41.5%
- <i>Hosting and advertising revenues</i>	12.8	8.8	45.5%
- <i>Other revenues</i>	6.5	5.5	18.2%
Inter-segment sales	2.7	4.5	(40.0%)
Total revenues	963.7	684.1	40.9%

Excluding inter-segment sales, Broadband revenues for first-half 2009 climbed by €281.4 million or 41.4% compared with the first six months of 2008, boosted by the success of Free's ADSL broadband offer and the consolidation of Alice's ADSL operations.

ISP revenues

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 €941.7 million for the six months ended June 30, 2009, up by 41.5% on the same period of 2008. This rise reflects:

- **A sharp rise in the subscriber base** thanks to (i) Free's strong organic growth, with net adds of 455,000 and representing almost one new subscriber in four in the French market; and (ii) the 782,000 subscribers added following the acquisition of Alice.

	June 30, 2007	June 30, 2008	June 30, 2009
Total ADSL subscribers	2,626,000	3,134,000	4,371,000
- Free	2,626,000	3,134,000	3,589,000
- Alice	-	-	782,000
Unbundled subscribers	2,060,000	2,614,000	3,551,000
- Free	2,060,000	2,614,000	3,130,000
- Alice	-	-	421,000
Percentage of unbundled subscribers	78.4%	83.4%	81.2%
- Free	78.4%	83.4%	87.2%
- Alice	-	-	53.8%
Share of French residential ADSL market¹	19.5%	19.8%	24.8%

¹ Source: Iliad and France Télécom

- **The increasing use of value-added services** available to Free and Alice subscribers. Revenues generated by these services in first-half 2009 totaled €231.8 million, versus €168.9 million for the corresponding prior-year period, representing an increase of more than 37%.
- **The streamlining of Alice's service range** structured around two offerings.

The commercial success of the Free offering and the synergies achieved on the integration of Alice enabled the Group to record ARPU of €36.30 for the second quarter of 2009, representing a rise of €0.40 compared with the first three months of the year.

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 €12.8 million in first-half 2009, up from €8.8 million in the prior-year period.

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 WiFi cards and related items. These revenues were lower than in the first half of 2008 due to the contraction in Traditional Telephony business volumes.

Gross profit

Including Alice

Including Alice, Broadband gross profit came in at €494.8 million, up 43.3% on the €345.4 million recorded in first-half 2008. As a percentage of revenues it increased by 0.9 points, despite the dilutive impact of consolidating Alice.

Excluding Alice

Excluding the impact of the Alice acquisition, operating profitability continued to rise in the Broadband segment, with gross profit climbing 21.4% to €419.3 million and advancing 3.1 points as a percentage of revenues. This increase reflects:

- The **positive effect** of the rise in the unbundling rate on the back of strong sales momentum by Free and the launch of new connection nodes. At June 30, 2009 the Group had unbundled 2,375 connection nodes versus 1,850 one year earlier, which resulted in the unbundling rate for Free subscribers increasing by 3.8 points during the period to 87.2%.
- A **decrease** in operating costs under Option 1 (full unbundling).
- **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 53.8% at June 30, 2009. During the second half of 2009 the Group will launch an unbundling plan for Alice subscribers with a view to reaching an unbundling rate of between 75% and 80% for the Alice subscriber base.

Payroll costs

Including Alice

Payroll costs excluding employee benefits represented 5.8% of Broadband revenues in first-half 2009, up 2.2 points on the equivalent period of 2008. This increase is mainly due to the integration of Alice employees following the acquisition.

Excluding Alice

During the first half of 2009 the Group continued to enhance its customer service and on April 2 Free was awarded NF Service certification for its call centers by AFNOR (France's standard-setting agency). At 3.6% of Broadband revenues, payroll costs excluding Alice were on a par with the first half of 2008.

From a general perspective, the costs of customer service are higher than the revenues generated from incoming calls.

External charges

Including Alice, external charges for the Broadband segment totaled €73.6 million versus €36.5 million in the first six months of 2008. This strong increase is chiefly due to the impact of consolidating Alice, as a number of Alice's functions are routinely outsourced.

Additions to provisions

Additions to provisions amounted to €27.0 million in first-half 2009 versus €9.1 million in the prior-year period. This rise is mainly attributable to provisions for doubtful customer accounts as well as impairment of inventories relating to the consolidation of Alice as well as certain provisions for contingencies recorded by other Group companies.

Taxes other than on income

Taxes other than on income rose to €22.2 million from €1.6 million in first-half 2008, reflecting the Group's first payment of the tax set up to finance the public audiovisual sector effective from January 1, 2009.

Other income and expenses from operations, net

This item represented a net expense of €9.1 million in the first half of 2009, compared with a net expense of €8.8 million in the corresponding period of 2008.

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 20.5% to €306.6 million. The EBITDA margin came to 31.8%, versus 37.2% and 31.2% in first-half and second-half 2008 respectively.

Excluding Alice

Excluding Alice, EBITDA for the Broadband segment rose by 18.4% to €301.2 million in first-half 2009, representing a record 38.5% of revenues compared with 37.2% in the first half of 2008. 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

During first-half 2009 the Group continued to rapidly integrate Alice, leveraging synergies identified for marketing expenditure and revenue per user as well as network and IT expenses and fixed costs. The main measures put in place were:

- Simplifying and repositioning Alice's commercial offerings
- Streamlining the Alice network and optimizing costs paid to external parties
- Migrating the Alice subscriber monitoring process to Free's IT system

These measures helped Alice to contribute €5.5 million to consolidated EBITDA in the first half of 2009.

Operating profit

Including Alice

Operating profit for the Broadband segment came to €133.4 million in first-half 2009, up from €126 million in the first six months of 2008. This near-6% year-on-year increase was achieved despite the €66.7 million dilutive impact caused by the consolidation of Alice.

Excluding Alice

Excluding Alice, operating profit surged 58% year-on-year to top the €200 million mark as depreciation expense grew at a slower pace than revenues in first-half 2009 due to:

- The fact that the cost of Freebox HD modems remained stable, at €180 during the period, despite the widespread provision to subscribers of PLC technology and 802.11n Wi-Fi.
- An increase in the depreciation period for access fees, modems and related costs, from three to four years.

In view of these factors, operating profit as a percentage of revenues advanced by 7 points to 25.5%.

Alice

Alice's contribution to Broadband operating profit was a negative €66.7 million in first-half 2009, due to:

- €49 million in depreciation expense, recorded due to an acceleration in the useful lives of certain assets. However, this item is expected to decrease sharply following migration of Alice's subscriber base to Free's network.
- The recognition of a €23.1 million provision to cover restructuring costs.

1.2.3.1.2 *Key figures for the Traditional Telephony segment*

The Traditional Telephony segment now represents only 1% of the Iliad Group's consolidated revenues and its contribution to Group earnings is negligible, due to:

- The above-described strong rise in Broadband business.
- The end of indirect connections.
- To a lesser extent, the lower number of One.Tel subscribers.
- The discontinuation of Alice's Wholesale business.

(in €millions)	Six months to June 30, 2009 Incl. Alice	Six months to June 30, 2009 Excl. Alice	Six months to June 30, 2008	% change Incl. Alice	% change Excl. Alice
Revenues	20.0	19.4	21.5	(7.0%)	(9.8%)
Gross profit	17.9	17.8	17.8	0.6%	-
EBITDA	1.2	1.1	2.5	(52.0%)	(56.9%)
Profit from ordinary activities	0.5	0.4	2.0	(75.0%)	(80.0%)

1.2.4 Cash flows and capital expenditure

(in €millions)	Six months to June 30, 2009	Six months to June 30, 2008
Net cash generated from operating activities.....	400.2	217.8
Net cash used in investing activities.....	(188.3)	(171.9)
Net cash generated from (used in) financing activities	30.7	(3.4)
Net change in cash and cash equivalents	242.7	42.5
Cash and cash equivalents at period-end	580.1	265.5

Including Alice

The Group's cash flow generation was very strong in the first half of 2009, reflecting the combined impacts of:

- **An increase in free cash flow generated by Free's ADSL operations, which doubled to €178.4 million compared with the same period of 2008.**
- Non-recurring outflows of €25.1 million relating to restructuring operations within Alice.
- Non-recurring inflows of €44.3 million.

Excluding Alice

Excluding Alice, net cash generated from operating activities – after tax and changes in working capital, but before capital expenditure – came to €423 million.

Acquisitions of property, plant and equipment and intangible assets (net of disposal proceeds) totaled €200 million, breaking down as follows:

- €22.2 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 on a par with the previous period due to measures taken to build up a stock of boxes in order to improve customer service by reducing delivery lead times.
- €2.4 million in **ADSL-related network expenditure** (including IRU contracts, France Télécom co-location rooms, civil engineering work and transmission equipment).
- €5.4 million in **FTTH optical fiber network expenditure**. The majority of premises used to house optical nodes (ONs) as well as certain network equipment have been acquired under finance leases. The amounts paid in relation to these leases – which totaled €1.2 million in first-half 2009 – are not classified as capital expenditure in the accounts.

The €178 million in free cash flow generated by ADSL operations enabled the Group to (i) self-finance the vast majority of its investments in optical fiber (€5.4 million) and (ii) strengthen its cash position.

Alice

Alice's contribution to consolidated cash flows in first-half 2009 was as follows:

- A positive €1.9 million impact **generated by Alice's operating activities**.
- €16.2 million in **ADSL-related network and 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.
- Non-recurring outflows of €25.1 million relating to restructuring operations within Alice.

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 and it remains confident about its profit-making capacity.

The Group's gross debt comprised the following at June 30, 2009:

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 June 30, 2009, €06.5 million of this credit line had been used.
- A €250 million revolving credit facility available until June 25, 2013. None of this facility had been used at June 30, 2009.

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 €326.3 million. These bonds are redeemable in January 2012 and bear interest at 2.2%.

Finance lease commitments

At June 30, 2009, the Group had €25.7 million in obligations under real estate finance leases entered into with Genefim to acquire ONs. During the first half of 2009 the Group set up leases worth €4.3 million with Cisco to finance the acquisition of FTTH equipment.

At June 30, 2009, the Group had gross debt of €1,308 million and net debt of €712 million. Its leverage ratio (net debt to EBITDA) was 1.24, down sharply on the ratio of 1.7 reported at December 31, 2008.

1.2.6 Ownership structure at June 30, 2009

At June 30, 2009, Iliad's share capital was made up of 54,522,460 ordinary shares, held by the following shareholders:

- Executive Management: 38,491,697 shares, representing 70.6% of the share capital.
- Public: 16,030,763 shares, representing 29.4% of the share capital.

At June 30, 2009, 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	38,524
December 20, 2005	€8.44	December 20, 2009	197,002
December 20, 2005	€8.44	December 20, 2010	197,003
June 14, 2007	€74.62	June 13, 2012	162,455
August 30, 2007	€68.17	August 30, 2012	694,759
November 5, 2008	€53.79	November 5, 2013	590,600
Total			1,880,343

1.3 ADDITIONAL INFORMATION

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

(en millions d'euros)	June 30 2008
Revenues	859.4
EBITDA	214.0
Profit for the period	(11.2)

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.

1.3.1 Strategic objectives

In light of its first-half year 2009 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).
- 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.

1.3.2 Events after the balance sheet date

Iliad is a candidate for the fourth French mobile phone license

The French mobile phone market represents €2 billion a year in revenues and constitutes an additional growth vector for Iliad. The Group's entry into this market would be in line with its business strategy, with Iliad drawing on its Free brand, its latest-generation network, its capacity for innovation, its commercial expertise and its 4.4 million-strong subscriber base (with some 10 million users) to develop innovative products at attractive prices.

1.3.3 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 subscription start-up and termination fees), divided by the total number of ADSL subscribers invoiced for the period.

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

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

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

Net adds consists of 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.