

Paris, 31 August 2010

1st half-year 2010: sharp increase in results, Alice integration finalised and balance sheet strengthened

- Group consolidated half-year revenues exceeded €1 billion for the first time, at €1,015 million
- Increase of over 27% in consolidated EBITDA to €392 million
- Net profit doubled to €171.4 million
- Record cash generation by ADSL operations of €218 million
- Alice: a fast financial recovery

1H 2010 KEY EVENTS

Group consolidated revenues exceeded €1 billion for the first time, at €1,015 million. This growth resulted from the combination of the commercial momentum gathered by the Free brand and the dilutive effect of Alice over the period.

During the 1st half-year 2010, the **Group significantly improved its profitability compared to the 1st half-year 2009**, due to the continuing development of a profitable growth model for its original group structure and a more rapid financial recovery than expected by Alice.

- (i) **Continuing sustained and profitable growth by the Group in its original business:**
 - **Double-digit organic growth (up 11.1%) in revenue** from 30 June 2009 to 30 June 2010, due to the 314,000 increase in the Free subscriber base over the period;
 - **EBITDA in excess of 40% of revenue and an increase of over 2.1 percentage points** between 30 June 2009 and June 2010, due to the virtuous effect of unbundling and controlled growth in the major expense headings. Group EBITDA was thus 40.4% at 30 June 2010.
- (ii) **Alice: financial recovery faster than expected**, due to:
 - **The full effect of the synergies implemented over 2009**, notably on the level of network costs, IT systems and organisational costs.

- The **unbundling of Alice subscribers in the areas covered by the Free network**, which thus enabled to maximise the gross margin generated by these subscribers.

These various measures led for the first time to reporting a very positive contribution to Group results, with **EBITDA of €38 million for the first-half-year 2010**, compared to €5.5 million over the same period of the previous year. **Alice had met its target of €90 million on an annual basis as early as May 2010, ahead of forecasts, generating €7.5 million.**

A sound financial structure:

The growth in Group profitability was accompanied by **very strong cash generation by the ADSL business, exceeding €218 million over the first 6 months of the year (compared with €164 million the previous year).**

This strong cash generation enabled the Group, despite the acquisition of a mobile licence, for more than €240 million, to remain one of the least indebted operators in Europe with a debt ratio below 1.0 X EBITDA (x 0.96).

MAIN FINANCIAL INDICATORS

(€ millions)	30 June 2010	30 June 2009	% change
Revenues	1,015.0	969.9	+4.6%
EBITDA	391.6	307,8	+27.2%
<i>As % of revenues</i>	38.6%	31.7%	
Profit from recurring operations	234.8	157.0	+49.6%
Consolidated net profit	171.4*	72.0	+138.1%
ADSL FCF	218.2	164.1	+33.0%
Leverage	x 0.96	x 1.24	-

*Including an exceptional income of €39.9 million after tax

MAIN GROUP TARGETS

Taking account of the excellent results of the first half-year 2010, the Group confirms the following operational and financial targets:

(i) Operational targets:

- continuing growth in the subscriber base, while maintaining a low customer acquisition cost, with a view to totalling about 5 million broadband subscribers in 2011;
- a Group unbundled rate of circa 90% over the medium term;
- as part of the rollout of its FTTH network, the Group:
 - expects to cover most of Paris horizontally in less than one year,
 - confirms its target of providing horizontal coverage to 4 million households by the end of 2012,
 - will connect a significant number of subscribers starting at end 2010.
- as part of its mobile project:
 - to cover 27% of the French population between now and January 2012,
 - to launch a commercial offering in 2012.

(ii) Financial targets:

- double-digit growth rate in Group EBITDA in 2010 (including Alice);
- very significant increase in net profit in 2010.
- cumulative ADSL Free Cash Flow in excess of € 1.1 billion between 2010 and 2012 (including Alice);

CONSOLIDATED INCOME STATEMENT

(€ millions)	30 June 2010	30 June 2009	% change
Revenues	1,015.0	969.9	4.6%
Cost of sales	(451.4)	(469.5)	(3.9%)
Gross profit	563.6	500.4	12.6%
Personnel costs	(51.8)	(58.0)	(10.7%)
External charges	(71.7)	(75.6)	(5.2%)
Taxes and duties	(19.0)	(22.5)	(15.6%)
Provision charges	(14.8)	(27.1)	(45.4%)
Other operating income and expenses	(14.7)	(9.4)	56.4%
EBITDA	391.6	307.8	27.2%
Employee benefits	(3.4)	(3.7)	(8.1%)
Amortisation and depreciation	(153.4)	(147.1)	4.3%
Profit from recurring operations	234.8	157.0	49.6%
Other operating income and expenses	61.0	(23.1)	-
Operating profit	295.8	133.9	120.9%
Net finance income (expense)	(22.2)	(25.1)	11.6%
Income tax	(102.2)	(37.8)	170.4%
Net profit (loss) from disposed operations	-	1.0	-
Consolidated net profit	171.4	72.0	138.1%

Revenues

Consolidated Group revenues grew by 4.6% over the first half-year 2010 due to:

- **sustained organic growth under the Free brand**, which recruited 125,000 subscribers net of terminations over the period;
- **the negative basis effect on the Alice brand**, taking account of the cessation of wholesale sales and the erosion of the subscriber base;
- **the growth of over 6% in value-added services** over the first half-year 2010. At 30 June 2010, revenue from these services amounted to €246.6 million, compared to €231.8 million at 30 June 2009. This was due to:
 - (i) the **decline in the Telephony share** (22% decline in Call Termination rates over the period / integration of new free destinations in the offer),
 - (ii) and **the continuing growth in audio-visual services**. Over the first half-year 2010, close to 4.9 million VOD and S-VOD subscribers were thus recruited, an increase of more than 24% compared to the first 6 months of 2009. New services and an improved level of penetration are the keys to this strong growth.

EBITDA

Group EBITDA for the consolidated scope grew by 27.2% to €391.6 million at 30 June 2010 compared to 30 June 2009. The EBITDA to revenue ratio gained nearly 7 percentage points to 38.6% at 30 June 2010, compared to 31.7% at 30 June 2009.

Original group structure:

Over the first half-year 2010, the Group's original business reported a record 40.4% profit margin, compared to 38.4% for the same period in 2009. At 30 June 2009, EBITDA was thus €353.6 million, an increase of 17% compared to 30 June 2009. This improvement was due to:

- the continuing implementation by the Group of **a policy of investing in unbundling the local loop**. The Group thus opened over 200 new cluster nodes over the first half-year 2010, enabling an improvement in the unbundled rate of Free subscribers;
- **an improved product mix** for value-added services;
- **a decline in certain regulated costs**.

Alice:

Over the 1st half-year 2010, the full effects of synergies **provided a contribution by Alice of €38 million to Group EBITDA (compared to €5.5 million at 30 June 2009)**. The Group

achieved its €90 million EBITDA target as early as May (on an annual basis from the 2nd half-year 2010), reporting EBITDA in excess of €7.5 million.

Profit from recurring operations

Profit from recurring operations amounted to €234.8 million at 30 June 2010, compared to €157.0 million at 30 June 2009, an increase of close to 50% over the period. This was due to an improvement in profitability, as discussed above, and the end of exceptional amortisation and depreciation charges for Alice.

Operating profit

Operating profit amounted to €295.8 million at 30 June 2010, compared to €133.9 million at 30 June 2009.

This increase was due to:

- the **sharp increase in Group profit from recurring operations**, as specified above;
- the **recognition of a non-recurring income of €61 million**. This comprised (i) exceptional income of €125 million, (ii) the €40 million writedown of the Wimax licence and (iii) various non-recurring provisions.
- the **end of Alice restructuring costs**.

Capital expenditure

The cash outflows relating to the acquisition of property, plant and equipment and intangible assets (net of disposals) grew strongly to €478.3 million over the first six months of the year, compared to €188.3 million in 2009. This reflects the Group's policy of investing in growth projects, comprising notably:

- **investments in the ADSL business** (including investments in the network related to unbundling, and subscriber investments related to modems and other connection charges) for €135.6 million, a modest decline compared to 2009.
- **the increase in FTTH investments** (up 69% compared to the first half-year 2009), at €93.6 million, taking account of the acceleration in both the horizontal rollout by the Group and the acquisition of new fibre optic hubs over the period.
- **the acquisition of a third generation mobile licence for €242.7 million**. Since this acquisition, Free Mobile has selected its main service providers for both its equipment and for implementing the actual rollout, as well as the major lessors for its base transceiver stations. In the context of this rollout, Free Mobile has already signed deals with more than 30 suppliers and 1,500 people are fully dedicated to this project.

Cash flow

The **principal movements in Group cash flows** for the first half-year 2010 were as follows:

- a **33% increase in the ADSL business Free Cash Flow to €218.2 million;**
- a net cash flow from operations of €473.6 million, taking non-recurring income into account,
- the refinancing of the €1,200 million credit line, through the implementation of a new syndicated credit line of €1,400 million. As part of this transaction, the Group wished to optimise its gross debt and **repaid €217 million in bank debt.**

BALANCE SHEET

At 30 June 2010, the Group's gross debt amounted to €1,122.1 million and **net debt to €717.2 million.** Despite the acquisition of the mobile licence for over €240 million over the period, the Group remain one of the least indebted telecom operators in Europe with a **debt ratio of x 0.96 at 30 June 2010.**

GLOSSARY

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

Broadband ARPU (Average Revenue per User): includes revenues from the flat-rate package and the value-added services but excludes non-recurring revenues (e.g. migration from one offer to the other or connection and unsubscription fee) divided by the total number of ADSL subscribers invoiced for the period

EBITDA: or operating profit before non-current asset amortisation and depreciation and employee benefit (corresponding to non-cash personnel costs associated with employee stock options) depreciation and amortisation.

Total ADSL Subscribers: at the end of a period consists of the total number of customers identified by their individual phone lines who have signed up for Free or Alice ADSL service, excluding those for whom an unsubscription notice has been registered.

Recruitment: corresponds to the difference between the total number of ADSL subscribers at the end of two different periods.

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

FTTH: "Fibre 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.



The Iliad Group is a major player in the French telecommunications and Internet access market via Free and Alice (4,514,000 ADSL subscribers as of 30 June 2010), Onetel and Iliad Télécom (fixed telephony providers), as well as Free Mobile. The Iliad Group is listed on Euronext Paris under the ticker ILD.

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Marketplace: **Eurolist A of Euronext Paris (SRD)**

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