

# *iliad*

*Société anonyme.* Share capital: €12,134,780

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

Registered in Paris under no. 342 376 332



Société anonyme. Share capital: €12,134,780  
Registered office: 8, rue de la Ville l'Evêque – 75008 Paris  
Registered in Paris under no. 342 376 332

## 1. ANALYSIS OF THE GROUP'S BUSINESS AND RESULTS

### KEY CONSOLIDATED FINANCIAL DATA

<i>In € millions</i>	Six months to June 30, 2011	Six months to June 30, 2010	Year ended Dec. 31, 2010
<b>INCOME STATEMENT</b>			
Revenues	1,041.6	1,015.0	2,038.3
Operating income and expense, net	(781.8)	(780.2)	(1,560.4)
Profit from ordinary activities	259.8	234.8	477.9
Other operating income and expense, net	-	61.0	61.0
Operating profit	259.8	295.8	538.9
Financial income and expense, net	(31.2)	(22.2)	(49.5)
Corporate income tax	(83.1)	(102.2)	(176.3)
Profit for the period	145.0	171.4	313.1
<b>Profit for the period before non-recurring items</b>	<b>145.6</b>	<b>134.9</b>	<b>313.1</b>
<i>EBITDA</i>	416.4	391.6	798.1
<b>BALANCE SHEET</b>			
Non-current assets	2,540.1	1,810.4	1,904.4
Current assets	1,145.0	583.2	516.2
<i>Of which cash and cash equivalents</i>	952.0	404.9	347.5
Assets held for sale	69.4	62.9	71.6
<b>Total assets</b>	<b>3,754.5</b>	<b>2,456.5</b>	<b>2,492.2</b>
Total equity	1,213.7	921.3	1,078.3
Non-current liabilities	1,630.5	1,016.8	1,016.0
Current liabilities	910.3	518.4	397.9
<b>Total equity and liabilities</b>	<b>3,754.5</b>	<b>2,456.5</b>	<b>2,492.2</b>
<b>CASH FLOWS</b>			
Net cash generated from operating activities	429.4	473.6	874.9
Net cash used in investing activities	(398.2)	(478.2)	(793.7)
Net cash generated from (used in) financing activities	571.5	(234.3)	(374.1)
Net change in cash and cash equivalents	602.6	(238.9)	(292.9)
Cash and cash equivalents at period-end	940.0	391.5	337.5

## 1.1 OVERVIEW

The Iliad Group (also referred to as the “Group”) is a major player in the landline telecommunications market in France, with a market share of 23% in the ADSL broadband segment at June 30, 2011.

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, Dedibox and Iliad Entreprises brands), user assistance services (Centrapel, Total Call, Free, ProTelco and Call One BPO), Wimax activities (IFW), mobile telephony activities (Free Mobile), operations related to the rollout of the FTTH (fiber-to-the-home) network (Free Infrastructure, IRE, Immobilière Iliad and Citéfibre), and online gambling games and sports betting (Iliad Gaming);
- **the Traditional Telephony segment**, which includes switched landline telephony (One.Tel and Iliad Telecom), directory services (mainly the ANNU reverse look-up directory accessible by Minitel, telephone, Internet and SMS text messaging) and insurance brokerage operations (Assunet).

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 first half of 2011, the Broadband segment represented more than 99% of Group revenues.

These segments may change in the future, depending on operating criteria and the development of the Group’s businesses, particularly following the commercial launch of its mobile operations in 2012.

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 end of the reporting period.

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 share-based payment expense, depreciation, amortization and provisions for impairment of non-current assets.

### 1.1.1 Breakdown of revenues

#### (a) Broadband revenues

##### Offerings and services available under the Free and Alice brands

The Group offers its subscribers the following different Internet access solutions, with a box provided and no installation fees:

- **Unlimited broadband via ADSL**. This offering allows subscribers to access the Internet at a speed of at least 2 Mbps and up to 28 Mbps (observed) in areas where the local loop is unbundled, and 22 Mbps in non-unbundled areas (depending on whether a subscriber’s line is eligible). Two options are available under this offering:

- **Option 1** (subscribers on an unbundled line), whereby the Group markets services on its own network (excluding local loop);
- **Option 5** (subscribers not on an unbundled line), whereby the Group sells on to subscribers a wholesale offer proposed by the incumbent operator.
- **FTTH very high-speed broadband.** This offering – which is available in selected areas chosen by Free – provides subscribers with very high-speed Internet access (100 Mbps download and 50 Mbps upload).

Through these offerings subscribers are provided with the services described below:

- **Telephony.** All subscribers are provided with a telephone service under which they can make completely free calls through their modem to landline numbers in mainland France (apart from short numbers and special numbers), as well as Reunion Island, Guadeloupe and 57, 100 or 101 foreign countries depending on the terms of their offer. In addition, certain of the Group's offers include free calls or packaged deals for calls to mobile numbers in mainland France.
- The Group has the broadest **television offering** in the market, comprising over 400 channels (of which 60 to 180 are included in the basic packages) with 30 high definition channels.  
The Group also offers the most comprehensive catch-up TV offering in the market, through which users can watch or re-watch programs shown on 39 channels within seven days of their initial broadcast. This service is offered at no extra charge for channels included in the subscriber's television package, subject to availability.  
The Group was the first operator in France to broadcast genuine 3D channels (with a total of five at June 30, 2011, including two in the basic package) – a move that has reaffirmed its technological edge over its competitors.  
Since April 2011, the Group has offered its subscribers the possibility of building up their own Disney and ABC collections. Through this exclusive service – which is the first of its kind in France – subscribers can watch films and series via streaming as many times as they like and can also download content and transfer it onto any DivX® certified hardware.  
Subscribers can also sign up to watch Canal+ channels through their Freebox or AliceBox.
- **Video on demand (VOD).** Subscribers to the Group's Internet offerings (in unbundled areas and subject to line eligibility) are provided a video on demand service that includes Canalplay, TF1 Vision, Cinéma à la demande, M6 VOD and Vodeo.tv. 3D content is also offered on several platforms.  
This service enables subscribers to access a catalog of movies at prices starting at €0.99 per movie 24 hours a day, seven days a week and view them on their television. The movies – which are ordered using the subscriber's remote control – include DVD player features and may be viewed for a period of 48 hours.  
Freebox Revolution – the Group's latest offering – provides subscribers with a cinematographic encyclopedia at the tip of their remote controls, containing the world's second largest database of movies and TV series. Thanks to the Group's partnership with Allociné, subscribers to this offering can use their televisions to access information sheets on nearly 80,000 movies and 7,000 TV series.
- **Subscription-based video on demand (S-VOD).** Subscribers to the Group's Internet offerings (in unbundled areas and subject to line eligibility) can take out a monthly subscription starting at €0.99 for video on demand content. During the first half of 2011, Free packaged this service into thirteen offers whereby subscribers have unlimited access to themed content comprising numerous videos and TV series that are regularly updated.
- **HD games.** The Freebox Revolution offer enables subscribers to access games directly via their televisions. Through its partnerships with Gameloft – a leading worldwide developer and

publisher of downloadable video games – and TransGaming – the global leader in the multiplatform deployment of games – the Group has once again demonstrated its pioneering approach by bringing out the first-ever HD games offer on a triple-play box.

#### **Hosting offers and services provided under the Online, Dedibox and Iliad Entreprises brands**

The Hosting business corresponds to the sale of both dedicated and non-dedicated web hosting services, as well as customized outsourcing solutions.

Non-dedicated hosting services proposed under the Online brand are invoiced at a flat annual rate by domain name or by site.

The dedicated server offering marketed under the Dedibox brand is aimed at SMEs and individuals. The services are invoiced on a monthly basis and subscribers can access a high-speed multi-usage platform that is permanently connected to the Internet network. Various formats are offered to subscribers, depending on whether they are seeking hosting solutions for their e-commerce sites, messaging servers, data backups or applications (whether low-resource or resource-hungry).

The Group also has a brand that is entirely devoted to professionals – Iliad Entreprises – which offers customers bespoke solutions in communication systems management in order to precisely meet their requirements, offering services ranging from infrastructure relocation to global project management, with operations assistance targeted at specific areas of expertise.

#### **Other Broadband activities**

The Group's Other Broadband activities mainly generate revenues through the sale of (i) advertising space on Free's portal, (ii) the "Pay-as-you-go" and "50-hour plan" Internet access offerings, (iii) switched traffic to the Traditional Telephony segment and (iv) WiFi cards and related equipment, as well as the preselection offering, migration to the unbundled service and modem renewals. In 2010, ARJEL (France's online gaming regulator) licensed the Group's newly-created subsidiary Iliad Gaming as an authorized operator in the French market. The revenues generated from the Group's online gambling games and sports betting offerings are included in "Other Broadband activities".

#### **(b) Traditional Telephony revenues**

Traditional Telephony segment revenues are generated through the following offerings:

- One.Tel's no-subscription carrier preselection offering.
- Other offerings, including ANNU (the reverse look-up directory accessible by Minitel, telephone, Internet and SMS text messaging), Assunet (an insurance broker) and Iliad Telecom (a carrier preselection service for companies).

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

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

- **Option 1** (subscribers on an unbundled line), whereby Free and Alice offers are carried entirely by the Group's network. 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 the incumbent operator and can still make and receive telephone calls through that operator. Where subscribers opt for the fully unbundled service, they have no commercial ties with the incumbent operator 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, 2011:

### Operating costs under Option 1 (partial unbundling)

- Rental of the copper pair and the ADSL splitter:.....€1.70
- Other costs (backhaul cables, room rental, optical fiber leasing payments, etc.) :.....€1.99

### Operating costs under Option 1 (full unbundling)

- Rental of the copper pair : .....€9.00
- Other costs (backhaul cables, room rental, optical fiber leasing payments, etc.) : .....€1.99

- **Option 5** (subscribers not on an unbundled line), representing a wholesale offer proposed by the incumbent operator that is sold on to subscribers 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.

In first-half 2011 the monthly subscription fee for the DSL Access and DSL Access Only services was €7.30 and €14.15 respectively.

IP transit service costs vary depending on the bit rate used by all Option 5 subscribers. The price terms applicable in first-half 2011 were as follows:

- Usage fee per Mbps: .....€30.00
- Access fee: .....€3.20

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.

### 1.1.3 Capital expenditure and depreciation

#### (a) 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 27 years that involve a single upfront payment when the fiber is made available. These IRUs 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 AliceBox modems and Freebox DSLAMs and to pay fees to the incumbent operator for access to unbundling services (which are also known as cabling costs or access fees). In addition, it incurs logistics and modem shipping costs:

- Since December 14, 2010, subscribers have been supplied with either the Freebox HD under the traditional offering or the latest-generation Freebox under the Freebox Revolution offer. The Freebox Revolution incorporates state-of-the-art technologies such as PLC (Power Line Communication), a Blu-ray™ player, a gyroscopic remote control, a gamepad and loud speakers, all for a cost of around €300.
- Fees invoiced by the incumbent operator for access to unbundling services are €50 per subscriber for full unbundling and €60 for partial unbundling.

In view of the numerous innovations incorporated into the Freebox Revolution, the depreciation period for these boxes has been set at five years compared with four years for the previous version, the Freebox HD.

In view of the features of the Group's subscriber base as well as the average useful life of the hardware concerned and the current market dynamics, the Group decided to increase the depreciation period for access fees and logistics costs from four to five years as from January 1, 2011.

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

- Fees for access to the DSL Access service: ..... €49.00
- Fees for access to the DSL Access Only service: ..... €54.00
- 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 five years as from when the related services are provided.

## **(b) 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 majority of the Group’s ON acquisitions are financed through twelve-year leases, with only certain sites purchased in Iliad’s own name. At June 30, 2011 the Group had 221 such sites against 162 one year earlier.

During the first six months of 2011 the Group continued to focus on horizontal rollouts undertaken either by the Group’s own teams or subcontractors and particularly in areas outside Paris – using the incumbent operator’s service offering allowing access to its existing cable ducts.

The Group currently has some 3.6 million FTTH plugs that have been rolled out or are in the process of being rolled out in 100 French towns and cities.

During first-half 2011, the Group began to connect up buildings made available by third-party operators under agreements signed between different operators to pool their separate rollout projects. Iliad expects vertical rollouts within buildings to pick up pace in the second half of the year. To this end, it has signed agreements with over 600,000 households to act as the “building operator” and has access to a base of over 1,200,000 households that are connected up by Orange and SFR.

## **(c) Rollout of a third-generation mobile communications network**

On January 12, 2010, Iliad’s subsidiary Free Mobile was authorized to use frequencies in the 2.1 GHz and 900 MHz bands to set up and operate a third-generation mobile communications network in mainland France.

Since this license was acquired – at a price of €242.7 million – Free Mobile has strengthened its own teams, especially in mobile engineering, rollout management and real estate negotiations. The company has also built up a network of service providers specialized in the various rollout phases of a site, ranging from seeking out and identifying potential sites to infrastructure and installation work.

Through these various teams, Free Mobile has put in place a specific organizational structure to manage and oversee its network rollout process, which notably involves:

- Seeking out sites, which entails site identification and reporting on each site’s mobile coverage potential.
- Undertaking discussions with all types of lessors, including private individuals, condominium owners, housing associations, corporate and institutional lessors and companies with substantial real estate portfolios such as hotel chains.
- Carrying out administrative and regulatory procedures to obtain the necessary authorizations to perform works (such as preliminary planning statements, building permit applications etc.).

- Organizing, planning and managing projects as well as coordinating the work of the various people and entities involved in both the validation process and subsequent site construction work, notably via a collaborative information system.
- Ensuring a full understanding of and compliance with safety rules related to performing installation works at height and the use of mobile communications equipment.

To date, Free Mobile has signed contracts with more than 100 companies for the rollout of its network to over 5,000 identified sites, with a total of around 3,500 people currently working on the project.

In light of the rollouts that have already taken place, Free Mobile is standing by the objectives set in connection with its commitments to ARCEP, i.e. to:

- achieve population coverage levels of:
  - 27% of the French population by January 2012
  - 75% by 2015
  - 90% by 2018
- launch a commercial offering in early 2012.

The aggregate amount of network expenditure forecast for the purposes of rolling out the Group's 3G network is €1 billion. In 2010, total capital outlay for the mobile business came to €262 million, including €242.7 million for the license. In the first half of 2011, mobile-related capital expenditure was over €50 million and network-related cash outflows are expected to represent between €150 million and €200 million for the full year.

Also during the first half of 2011, the Group signed a 2G and 3G roaming agreement with France Telecom with a six-year term effective from the launch of the Group's mobile offering.

## 1.2 SIGNIFICANT EVENTS OF THE PERIOD

<i>In € millions</i>	<b>Six months to June 30, 2011</b>	<b>Six months to June 30, 2010</b>	<b>% change</b>
<b>Consolidated revenues</b>	<b>1,041.6</b>	<b>1,015.0</b>	<b>+2.6%</b>
<b>EBITDA</b>	<b>416.4</b>	<b>391.6</b>	<b>+6.3%</b>
<i>as a % of revenues</i>	<i>40.0%</i>	<i>38.6%</i>	
<b>Profit from ordinary activities</b>	<b>259.8</b>	<b>234.8</b>	<b>+10.6%</b>
Profit for the period	145.0	171.4	-15.4%
<b>Profit for the period before non-recurring items</b>	<b>145.6</b>	<b>134.9</b>	<b>+7.9%</b>
<b>ADSL Free Cash Flow</b>	<b>196.0</b>	<b>218.4</b>	<b>-10.2%</b>
<b>Gearing ratio</b>	<b>0.83x</b>	<b>0.96x</b>	<b>-</b>

The first half of 2011 saw (i) the launch and commercial success of the Freebox Revolution offer, enabling the Group to achieve a record market share during the period with 29% of the market's new subscribers, and (ii) a change in the VAT regime applicable to triple play offers.

Against this backdrop, the Group proved its capacity to keep up its profitable growth trajectory, with consolidated revenues rising 2.6% year-on-year to €1,041.6 million.

During the first six months of 2011 the Group enhanced its profitability (with EBITDA up 6% on first-half 2010), despite the dilutive impact of (i) calls to mobile numbers being included in the Freebox Revolution offer and (ii) the change in VAT regime. Thanks to the pursuit of the Group's virtuous business model focused on unbundling, as well as cost optimization measures implemented during the period, consolidated EBITDA represented a record 40% of revenues, up 1.4 points on the same period of 2010.

Profit from ordinary activities rose 11% in the first half of 2011, coming in at €260 million against €235 million in the corresponding prior-year period. This increase was driven by both the enhanced profitability mentioned above as well as the fact that the depreciation-to-revenues ratio remained stable.

Profit for the period before non-recurring items came in at €145.6 million, up 8% on first-half 2010. The overall profit figure for the six months ended June 30, 2010 was boosted by €36.5 million as a result of non-recurring income received during the period.

In line with Group forecasts, cash generated by the ADSL business contracted slightly, to €196 million from €218 million in the first half of 2010 due to the commercial success of the Freebox Revolution offer and the fact that the unit cost of the Freebox Revolution is higher than that of the Freebox HD.

In first-half 2011 the Group strengthened its financial structure despite its proactive capital expenditure plan thanks to (i) a reduction in the gearing ratio to 0.8x from 1x one year earlier and (ii) the success of the Group's first bond issue which represented €500 million.

### 1.3 COMPARISON OF RESULTS FOR FIRST-HALF 2011 AND FIRST-HALF 2010

<i>In € millions</i>	Six months to June 30, 2011	Six months to June 30, 2010	% change
<b>Revenues</b>	<b>1,041.6</b>	<b>1,015.0</b>	<b>+2.6%</b>
Purchases used in production	(461.7)	(451.4)	+2.3%
<b>Gross profit</b>	<b>579.9</b>	<b>563.6</b>	<b>+2.9%</b>
<i>as a % of revenues</i>	55.7%	55.5%	-
Payroll costs	(59.6)	(51.8)	+15.1%
External charges	(74.4)	(71.7)	+3.8%
Taxes other than on income	(11.5)	(19)	-39.5%
Additions to provisions	(13.5)	(14.8)	-8.8%
Other income and expenses from operations, net	(4.5)	(14.7)	-69.4%
<b>EBITDA</b>	<b>416.4</b>	<b>391.6</b>	<b>+6.3%</b>
<i>as a % of revenues</i>	40.0%	38.6%	-
Share-based payment expense	(4.8)	(3.4)	+41.2%
Depreciation, amortization and provisions for impairment of non-current assets	(151.8)	(153.4)	-1.0%
<b>Profit from ordinary activities</b>	<b>259.8</b>	<b>234.8</b>	<b>+10.6%</b>
Other operating income and expense, net	-	61.0	-100.0%
<b>OPERATING PROFIT</b>	<b>259.8</b>	<b>295.8</b>	<b>-12.2%</b>
Financial income and expense, net	(31.2)	(22.2)	+40.5%
Corporate income tax	(83.1)	(102.2)	-18.7%
Profit/(loss) from discontinued operations	(0.5)	-	-
<b>Profit for the period</b>	<b>145.0</b>	<b>171.4</b>	<b>-15.4%</b>
<b>PROFIT FOR THE PERIOD BEFORE NON-RECURRING ITEMS</b>	<b>145.6</b>	<b>134.9</b>	<b>+7.9%</b>

### 1.3.1 Analysis of consolidated results

#### (a) Revenues

The table below shows the breakdown of revenues by segment and category for first-half 2011 and first-half 2010 as well as the percentage change between the two periods.

<i>In € millions</i>	Six months to June 30, 2011	Six months to June 30, 2010	% change
<b>Broadband revenues (excluding inter-segment sales)</b>	<b>1,035.8</b>	<b>1,007.8</b>	<b>+2.8%</b>
- ISP revenues (ADSL, Pay-as-you-go, dial-up packages)	1,009.2	987.5	+2.2%
- Hosting and advertising revenues	15.4	13.0	+18.5%
- Other revenues	11.2	7.3	+53.4%
Inter-segment sales	1.4	2.2	-36.4%
<b>Total Broadband revenues</b>	<b>1,037.2</b>	<b>1,010.0</b>	<b>+2.7%</b>
Traditional Telephony revenues (excluding inter-segment sales)	5.8	7.2	-19.4%
Inter-segment sales	11.8	13.2	-10.6%
<b>Total Traditional Telephony revenues</b>	<b>17.6</b>	<b>20.4</b>	<b>-13.7%</b>
Elimination of inter-segment sales	(13.2)	(15.4)	-14.3%
<b>Total consolidated revenues</b>	<b>1,041.6</b>	<b>1,015.0</b>	<b>+2.6%</b>

Consolidated revenues for the six months ended June 30, 2011 climbed by €26.6 million, or 2.6%, year on year, driven by a steady rise in Broadband revenues. During the period, revenue contribution from the Traditional Telephony segment continued to represent an increasingly negligible amount.

#### ISP revenues

ISP revenues rose 2.2%, from €987.5 million in first-half 2010 to €1,009.2 million in the first six months of 2011. This increase was achieved despite the negative impact caused by the change in VAT regime, which was particularly felt in January, and primarily reflects the combined effects of the following:

- **Sustained organic growth turned in by Free**, fueled by the commercial success of the Freebox Revolution offer. During the first half of 2011, Free reported 231,000 net adds, giving the Group a 36% market share – a record high in its history.
- **A falloff in Alice's contribution** due to erosion of its subscriber base and migrations to Free's offerings – notably the Freebox Revolution – as well as the change in VAT regime.
- **A decrease in the Traditional Telephony segment's contribution** concerning value added services, primarily as a result of (i) a 28.5% reduction in landline call termination charges over the period, (ii) the incorporation of new international destinations in the basic package, and (iii) the inclusion within the Freebox Revolution and Freebox offers (in non-unbundled areas) of calls to mobiles on the networks of all mainland France's national operators.

	June 30, 2011	June 30, 2010	June 30, 2009
<b>Total broadband subscribers</b>	<b>4,717,000</b>	<b>4,514,000</b>	<b>4,371,000</b>
- Free	4,245,000	3,903,000	3,589,000
Of which migrations from Alice to Free	44,000	-	-
- Alice	472,000	611,000	782,000
<b>Percentage of unbundled subscribers</b>	<b>90.8%</b>	<b>87.5%</b>	<b>81.2%</b>

Based on the factors described above, the Group's Average Revenue Per User (ARPU) came in at €35.5 at the end of the first six months of 2011. ARPU for Freebox Revolution subscribers stood at approximately €38, in line with the Group's expectations.

### 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 €15.4 million in the six months ended June 30, 2011, up from €13.0 million in first-half 2010.

### Other Broadband revenues

Other Broadband revenues mainly comprise income from the sale of WiFi cards, related equipment and other components. These revenues were up year-on-year but did not significantly contribute to overall Broadband revenues.

### Traditional Telephony revenues (excluding inter-segment sales)

The Traditional Telephony segment's contribution to Group revenues is now negligible, owing to:

- the above-described strong rise in Broadband business and its dominant weighting within the Group's operations overall;
- the end of indirect connections;
- to a lesser extent, the lower number of One.Tel subscribers.

### Inter-segment sales

The bulk of inter-segment sales consists of billings to the Traditional Telephony segment of telecommunications services provided over the Free network. Total inter-segment sales – which are eliminated in consolidation – amounted to €13.2 million in first-half 2011 versus €15.4 million in the first six months of 2010.

## (b) Gross profit

Consolidated gross profit came to €579.9 million in the first half of 2011, up 2.9% on the €563.6 million recorded in first-half 2010. As a percentage of revenues, it climbed 0.2 points to 55.7%, spurred by:

- **The positive effect** of a 3.3 point year-on-year rise in the unbundling rate on the back of strong sales momentum by Free and the opening of over 250 new connection nodes during the first half of 2011. By reaching an unbundling rate of 90.8% at June 30, 2011 the Group has already hit the target it originally set itself.
- **A decrease in operating costs.**

**(c) Payroll costs**

Excluding employee benefits, payroll costs came in just below €59.6 million in first-half 2011, representing 5.7% of consolidated revenues.

During the period the Group kept up its drive to enhance the quality of its customer service by strengthening the Local Technical Assistance teams that provide trouble-shooting solutions at subscribers' homes, and by recruiting more telephone advisors in order to shorten hotline waiting times, particularly in view of the Freebox Revolution launch.

The payroll costs figure for first-half 2011 includes the impact of recruitments carried out in connection with developing the Group's mobile operations.

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

**(d) External charges**

At €74.4 million, the Group's external charges represented 7.1% of revenues, on a par with one year earlier.

**(e) Taxes other than on income**

Taxes other than on income decreased during the period under review to €11.5 million from €19.0 million in the first six months of 2010.

**(f) Additions to provisions**

Additions to provisions amounted to €13.5 million versus €14.8 million in the same period of 2010. The decrease was chiefly due to lower provisions recorded for doubtful customer accounts relating to the Alice brand.

**(g) Other income and expenses from operations, net**

This item represented a net expense of €4.5 million, compared with a net expense of €14.7 million in first-half 2010. The total includes royalties, bad debt writedowns (net of provision reversals) and gains and losses on asset disposals.

## (h) EBITDA

Consolidated EBITDA climbed 6.3% year-on-year to €416.4 million. The EBITDA margin rose 1.4 points to 40%, primarily due to:

- the above-described rise in gross profit;
- pro-active management of the fixed costs base.

## (i) Profit from ordinary activities

Thanks to the rise in EBITDA and the stable level of depreciation, amortization and provisions for impairment of non-current assets, profit from ordinary activities advanced by more than 10% in first-half 2011, coming in at €259.8 million versus €234.8 million in the corresponding prior-year period.

This rise in profit from ordinary activities fueled an 8% increase in profit for the period before non-recurring items, which totaled €145.6 million against €134.9 million in first-half 2010.

### 1.3.2 Breakdown of results by segment for first-half 2011 and first-half 2010

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.

The following table shows the results of the Broadband segment which now accounts for 99% of the Group's revenues and operating profit.

<i>In € millions</i>	<b>Six months to June 30, 2011</b>	<b>Six months to June 30, 2010</b>	<b>% change</b>
<b>Revenues</b>	<b>1,037.2</b>	<b>1,010.0</b>	<b>+2.7%</b>
Purchases used in production	(461.6)	(451.3)	+2.3%
<b>Gross profit</b>	<b>575.6</b>	<b>558.7</b>	
<b>as a % of revenues</b>	<b>55.5%</b>	<b>55.3%</b>	<b>+3.0%</b>
Payroll costs	(57.0)	(49.2)	+15.9%
External charges	(70.3)	(70.1)	+0.3%
Taxes other than on income	(11.3)	(18.8)	-39.9%
Additions to provisions	(13.4)	(14.7)	-8.8%
Other income and expenses from operations, net	(4.3)	(14.5)	-70.3%
<b>EBITDA</b>	<b>419.3</b>	<b>391.4</b>	
<b>as a % of revenues</b>	<b>40.4%</b>	<b>38.8%</b>	<b>+7.1%</b>
Share-based payment expense	(4.1)	(2.9)	+41.4%
Depreciation, amortization and provisions for impairment of non-current assets	(151.7)	(153.4)	-1.1%
<b>Profit from ordinary activities</b>	<b>263.5</b>	<b>235.1</b>	<b>+12.1%</b>
Other operating income and expense, net	-	52.0	-
<b>OPERATING PROFIT</b>	<b>263.5</b>	<b>287.1</b>	<b>-8.2%</b>

The table below shows the results of the Traditional Telephony segment which represent an increasingly negligible portion of the Group total.

<i>In € millions</i>	Six months to June 30, 2011	Six months to June 30, 2010	% change
<b>Revenues</b>	17.6	20.4	-13.7%
<b>Gross profit</b>	17.1	19.4	-11.8%
<b>EBITDA</b>	(2.9)	0.3	-
<b>Profit/(loss) from ordinary activities</b>	(3.7)	(0.3)	-
Other operating income and expense, net	-	9.0	-
<b>Operating profit/(loss)</b>	<b>(3.7)</b>	<b>8.7</b>	<b>-</b>

### 1.3.3 Cash flows and capital expenditure

The Group's cash flows and capital expenditure were mainly affected by the following in first-half 2011:

- a stable Free Cash Flow position, at €15 million;
- the extension and diversification of the Group's borrowings as a result of a €500 million bond issue maturing in 2016;
- €53 million in cash outflows recorded in connection with the rollout of the mobile network;
- an increase in ADSL-related capital expenditure, to €242 million, as a result of the commercial success of the Freebox Revolution offer.

<i>In € millions</i>	Six months to June 30, 2011	Six months to June 30, 2010	% change
<b>Consolidated cash flow</b>	<b>414.3</b>	<b>382.5</b>	<b>+8.3%</b>
Change in working capital requirement	24.0	(28.6)	-
ADSL-related capital expenditure	(242.3)	(135.7)	+78.6%
<b>Free Cash Flow from ADSL operations</b>	<b>196.0</b>	<b>218.2</b>	<b>-10.2%</b>
FTTH-related capital expenditure	(102.9)	(93.6)	+9.9%
Mobile-related capital expenditure	(53.2)	(249.0)	-78.6%
Other	(25.0)	102.5	-
<b>Consolidated Free Cash Flow</b>	<b>14.9</b>	<b>(21.9)</b>	<b>-</b>
Net cash generated from/(used in) financing activities	587.7	(217.0)	-
<b>Net change in cash and cash equivalents</b>	<b>602.6</b>	<b>(238.9)</b>	<b>-</b>
<b>Cash and cash equivalents at period-end</b>	<b>940.0</b>	<b>391.5</b>	<b>-</b>

### Free Cash Flow from ADSL operations

The overall consolidated cash flow figure climbed 8.3% in first-half 2011, driven by the Group's enhanced profitability levels.

ADSL-related capital expenditure (including network expenditure due to increased unbundling and subscriber-related expenditure for modems and other connection expenses) came to €242 million in first-half 2011 compared with €136 million for the same period of 2010, directly reflecting the commercial success of the Freebox Revolution offer launched in December 2010.

Consequently, in line with the Group's expectations, Free Cash Flow from ADSL operations amounted to €196 million in first-half 2011, slightly down on the first-half 2010 figure of €218 million.

### Consolidated Free Cash Flow

Consolidated Free Cash Flow swung to a positive €14.9 million in the six months ended June 30, 2011 from a negative €21.9 million in the same period of 2010. The first-half 2010 figure included (i) a €242.7 million negative impact due to the payment of the Group's 3G mobile license and (ii) a non-recurring €125 million cash inflow. The main movements during the first six months of 2011 were:

- A 9% year-on-year increase, to €102.9 million, in FTTH-related capital expenditure excluding finance leases, on account of ongoing horizontal rollouts and initial expenditure incurred in connection with vertical rollouts. During first-half 2011, expenditure under finance leases as part of the FTTH project amounted to €3.6 million.
- A sharp rise in mobile-related capital expenditure (excluding the mobile license) to €53.2 million.

The Group expects to report a negative consolidated Free Cash Flow figure in the second half of 2011 due to its planned capital expenditure programs for ADSL, FTTH and mobile operations, as well as the payment of the tax charge provisioned for the year.

### Net change in cash and cash equivalents

The €603 million net increase in cash and cash equivalents in the first six months of 2011 was primarily due to the successful €500 million bond issue carried out during the period.

## **1.3.4 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.).

At June 30, 2011, the Group had gross debt of €1,635 million and net debt of €683 million. Despite its large-scale capital expenditure plan implemented during the period (due to the Freebox Revolution launch and FTTH and mobile rollouts), the Group reduced its leverage ratio from 1x at June 30, 2010 to 0.8x at end-June 2011, confirming its position as one of the European telecom operators with the lowest debt levels.

The Group's gross debt primarily comprised the following at June 30, 2011:

#### "Océane" bonds

On June 21, 2006, Iliad carried out an issue of 3,754,968 "Océane" bonds (convertible into new or existing shares) with a face value of €88.05 per bond, giving rise to net proceeds of €326.3 million. These bonds are redeemable in January 2012 and pay interest at 2.2%.

#### A €1,400 million syndicated credit facility

On June 9, 2010 the Group set up a €1,400 million syndicated credit facility. This new facility – which was arranged with a pool of 11 international banks – comprises two tranches:

- A €600 million loan tranche to refinance the Group's net debt, which was fully drawn down at June 30, 2011.
- A revolving tranche of €800 million expiring in June 2015. None of this tranche had been drawn down at June 30, 2011.

The interest rate on this credit facility is based on Euribor plus a margin varying between 2.05% and 1.10% per year depending on the Group's leverage ratio.

#### Loan granted by the European Investment Bank (EIB)

The EIB has granted Iliad a €150 million loan in order to help finance the rollout of the Group's ADSL and FTTH networks. The loan has a 10-year term and is repayable in installments. A total of €100 million of the loan had been used at June 30, 2011.

At June 30, 2011 all of the covenants on the Group's credit facilities were respected.

#### Finance lease commitments

The Group uses finance leases to finance (i) the purchase of premises required to develop its FTTH network and (ii) a portion of its technical equipment.

At June 30, 2011, the Group's total obligations under finance leases amounted to €97.2 million, up €1.7 million on December 31, 2010.

#### A €500 million bond issue

On May 26, 2011 the Group issued €500 million worth of bonds paying interest at 4.875% per year. The bonds will be redeemed at par on June 1, 2016.

### 1.3.5 Ownership structure at June 30, 2011

At June 30, 2011, Iliad's share capital was made up of 54,759,741 ordinary shares, held by the following shareholders:

- Executive Management: 36,153,445 shares, representing 66.0% of the share capital.
- Public: 18,606,296 shares, representing 34.0% of the share capital.

At June 30, 2011, there were six Iliad stock option plans in place with the following main characteristics:

Grant date	Exercise price	Exercise date	Number of shares under option
January 20, 2004	€16.30	January 20, 2008	20,000
December 20, 2005	€48.44	December 20, 2009 December 20, 2010	172,956
June 14, 2007	€74.62	June 13, 2012	162,455
August 30, 2007	€68.17	August 30, 2012	675,052
November 5, 2008	€53.79	November 5, 2013	572,600
August 30, 2010	€67.67	August 29, 2014	180,450
August 30, 2010	€67.67	August 29, 2015	421,050
			<b>2,204,563</b>

## 1.4 ADDITIONAL INFORMATION

### 1.4.1 Strategic objectives

In light of its strong first-half 2011 results the Group intends to continue to implement its strategy of achieving profitable growth and has set itself the following objectives:

#### (a) Operational objectives:

- As part of the rollout of its FTTH network, the Group:
  - expects to have around 100,000 FTTH subscribers by end-2011, and
  - is standing by its objective of covering four million homes horizontally by end-2012.
- As part of its mobile telephony project the Group's objectives are:
  - to cover 27% of the French population by January 2012, and
  - to launch a commercial offering in early 2012.

- To attain a 24%-25% share of the Broadband market in the long term.

#### **(b) Financial objectives:**

- To achieve Free Cash Flow from ADSL operations in excess of €1.1 billion between 2010 and 2012 (including Alice).
- To double Group revenues by 2015.

#### **1.4.2 Events after the balance sheet date**

Free has signed an agreement with France Telecom-Orange to jointly finance FTTH networks to be rolled out in less densely populated areas. The agreement covers approximately 60 conurbations, representing five million homes.

The joint financing arrangement selected allows Free to only invest the amounts required for the lines needed to serve its own subscribers, in contrast to very densely populated areas where each operator rolls out a network for all lines, up to each building. The overall arrangement also includes a backhaul offering.

#### **1.4.3 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):* includes revenues from the flat-rate package and value-added services but excludes one-time revenues (e.g. migration from one offer to another or subscription start-up and termination fees), divided by the total number of broadband subscribers invoiced for the period.

*Broadband subscribers:* subscribers who have signed up for the Group's ADSL or FTTH offer.

*Free Cash Flow from ADSL operations:* represents 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):* data delivery technology that directly connects subscribers' homes to an optical node (ON).

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

*Net adds:* represents the difference between total broadband subscribers at the end of two different periods.

*Total broadband subscribers:* represents, at the end of a period, the total number of subscribers identified by their individual telephone lines who have signed up for Free's or Alice's broadband service, excluding those recorded as having requested the termination of their subscription.

*Unbundled subscribers:* ADSL subscribers who have signed up for the Group's ADSL service through a telephone exchange unbundled by Free.