

iliad

 **Morgan Stanley Conference**

November 20th, 2008

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Targets & Combined KPIs

Targets

- Remain the 1st Alternative on the French broadband market
- Invest in FTTH
- Quick integration of Alice
- Address the mobile market

	Alice estimates	+	Free Sept. 08	=	Iliad Sept. 08
Active ADSL Subs.	850,000		3,275,000		4,125,000
Market Share	5.3%		20.2%		25.5%
ARPU (end of the period)	ca. €27.0		€36.4		€34.5
Unbundling ratio	45.8%		84.2%		76.4%

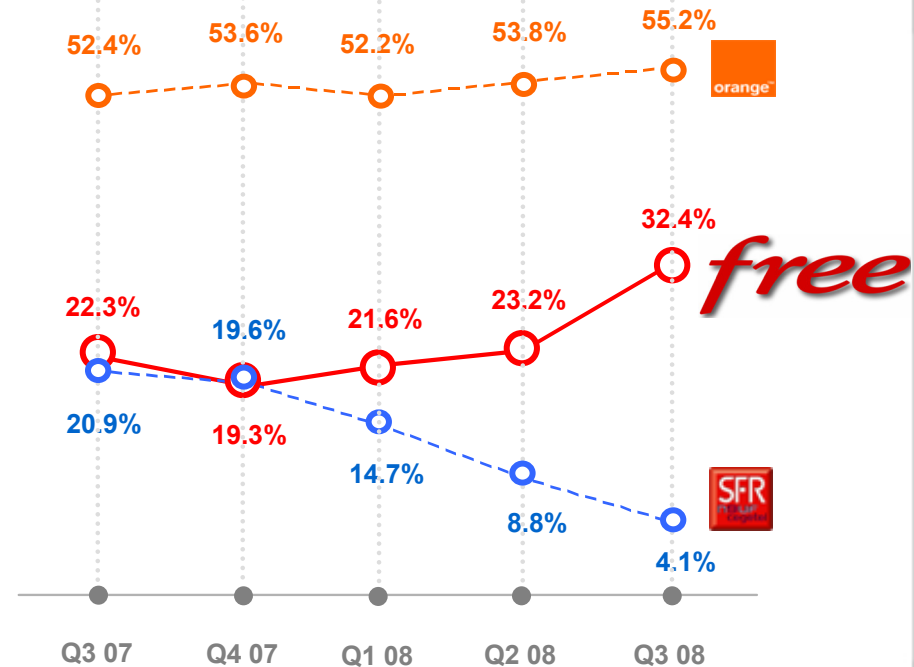
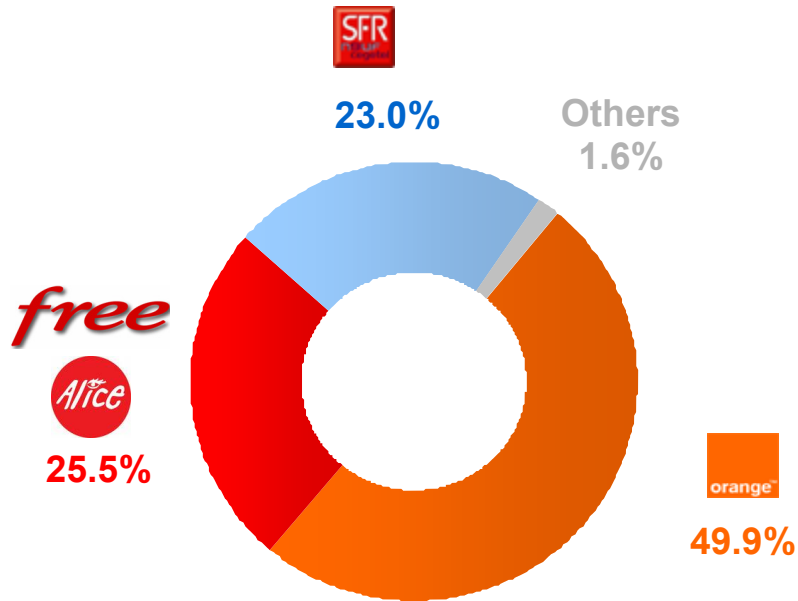
Free Gains from Market Consolidation

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Sep. 30, 2008
Market Shares

Quarterly Net Adds
Market Shares

16.2 M. ADSL Subscribers

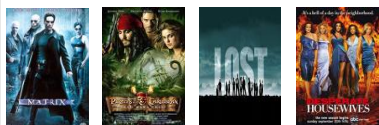


Free: More than an Access Provider !

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Leading HD Experience

Films / Series



Channels



Major Sporting Events



A Strong Partnership

CANAL+
à la demande

- Launch of the 1st Catch Up TV Service in France

CANALSAT

- €10 / month during the first year (vs. €20.90)

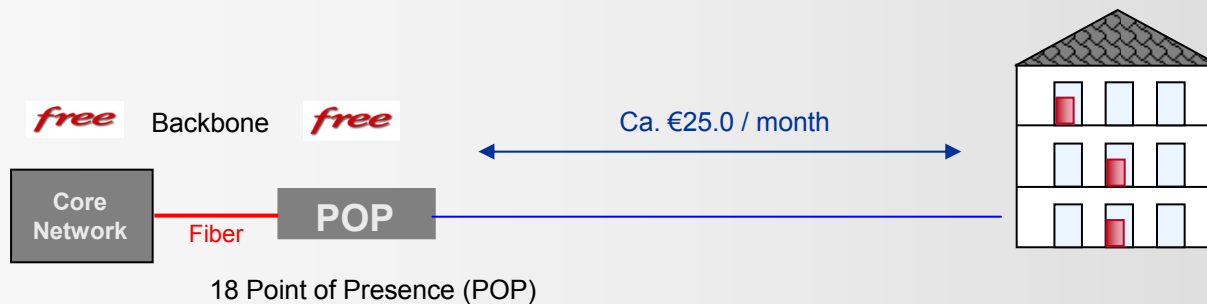
Multi-TV Sets



- Launched in Sep. 2008
- Basic offer at €4.99 / month
- Premium offer (incl. PVR) at €9.99 / month

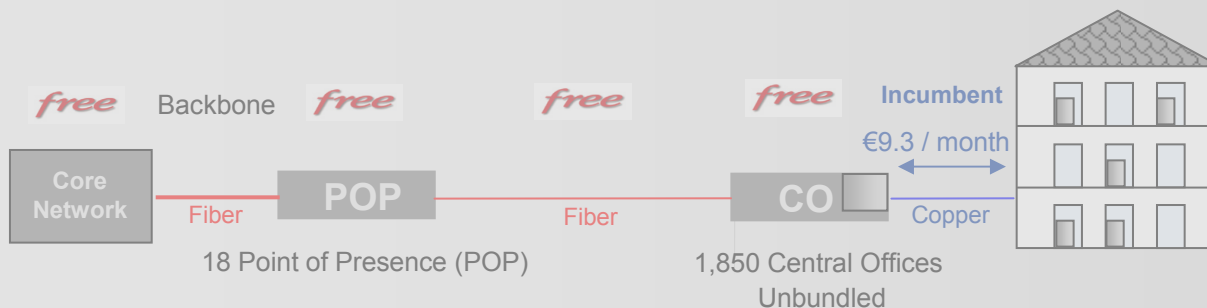
VAS account for more than 25% of Broadband Revenues

Yesterday Wholesale, Today Unbundling and Tomorrow FTTH



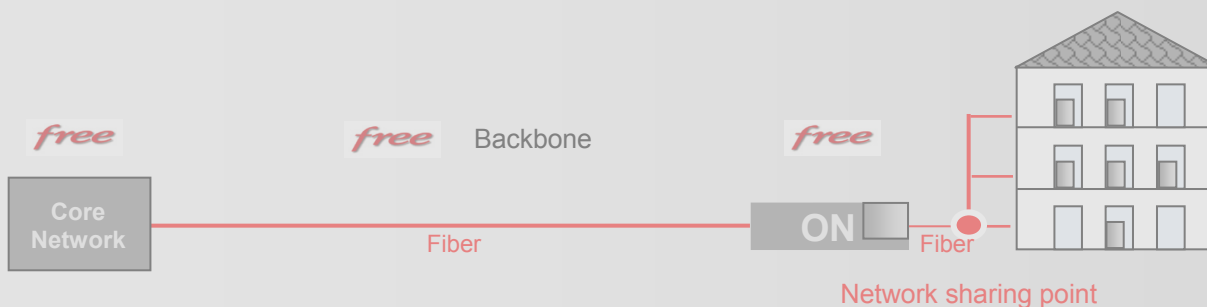
FT Wholesale

- FT rental Fee: € 13.5 - €21.0
- IP Transit : €5.0 - €7.0
- Gross margin of ca. 5%



Unbundling

- FT rental Fee: €9.3
- Other costs : €4.0
- Gross margin of ca. 50%

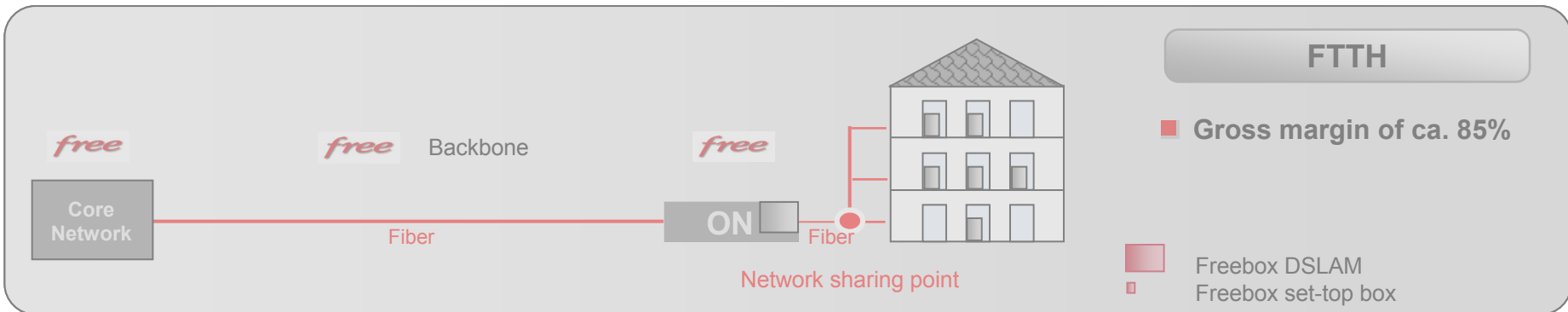
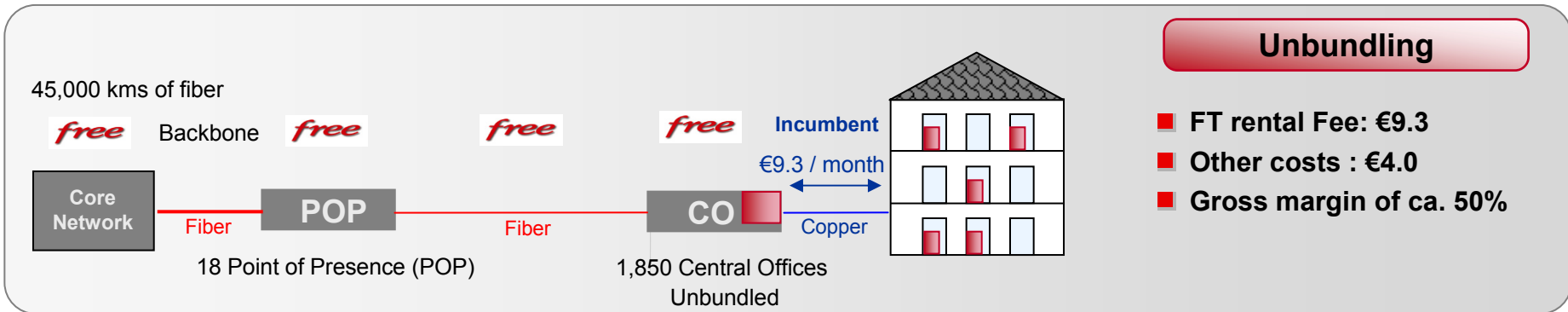


FTTH

- Gross margin of ca. 85%

■ Freebox DSLAM
■ Freebox set-top box

Yesterday Wholesale, Today Unbundling and Tomorrow FTTH



Yesterday Wholesale, Today Unbundling and Tomorrow FTTH

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FT Wholesale

free Backbone free

Core Network Fiber POP

Ca. €25.0 / month

18 Point of Presence (POP)

- FT rental Fee: € 13.5 - €21.0
- IP Transit : €5.0 - €7.0
- Gross margin of ca. 5%

Unbundling

free Backbone free free Incumbent

Core Network Fiber POP Fiber CO Copper

€9.3 / month

18 Point of Presence (POP) 1,850 Central Offices Unbundled

- FT rental Fee: €9.3
- Other costs : €4.0
- Gross margin of ca. 50%

FTTH

free Backbone free

Core Network Fiber ON Fiber

Network sharing point

- Gross margin of ca. 85%
- Freebox DSLAM
- Freebox set-top box

Regulatory Framework in Progress

- **FTTH law passed**
 - Create a right to fiber
 - Regulate vertical roll-out
 - Vertical deployment mutualized
 - Network sharing on Public Domain
 - Ease buildings' access

- **Ducts**
 - France Telecom second ducts offer under review.
 - Technicalities agreed / Compatible with P2P technology
 - Pricing and operational process to be improved

FTTH Program 'on track'

- **Free FTTH Offer is becoming a reality**
 - Paris: FTTH offer available for some buildings in Paris
 - Outside Paris: Service opened in various areas of Montpellier

- **Investment Program confirmed**
 - A total CapEx plan of €1 bn by 2012
 - 70% of Paris covered horizontally by 2H 2009
 - €1,500 per existing subscribers confirmed

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 Alice

Rationales to Buy Alice



- Acquisition completed on August 26th
- Iliad will become the 1st Alternative Operator in France
 - 850,000 active subscribers for Alice as of Sep. 30th, 2008
 - A market share close of 25.5%
- No premium paid for this strategic asset
 - Price paid : €760 M (debt free / cash free)
 - €350 M: Tax asset
 - €410 M: Subscriber base
 - Submitted to significant downward adjustment clauses
- Improving the economics of :
 - FTTH investment plan
 - Content agreements
 - Mobile



Enhancing Iliad's strategic positioning

Summary of Synergies

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Revenues

- **ARPU Enhancement**
 - Alice's ARPU at ca. €27.0 in 1H 2008
 - Rationalization of commercial offers
- **Increasing VAS take-up**

Profitability

- **Increasing the unbundling ratio of Alice subscriber base**
- **Streamlining of Alice network and related cost**
 - Marketing expenses cut
 - Network: 700 Central Offices redundant
 - Rationalization of IT and G&A

Tax-shield

- **Substantial tax losses carried-forward within Liberty Surf Group (estimated value of ca. €350 M)**
- **Immediate use of tax losses by Iliad reducing tax charges**

Alice ARPU over €30 in Q4 2008
Targeting a yearly incremental EBITDA of €90 M as of 2H 2010

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Financials

Strong Financial KPIs



In € million

	FY 2006	FY 2007	1H 2008	VAR. 1H 08 / 07
Revenues	935.1	1 212.4	692.2	+20.6%
EBITDA	328.5	443.6	256.9	+24.4%
<i>EBITDA Margin</i>	35.1%	36.6%	37.1%	
EBIT	180.5	213.8	128.0	+26.2%
Net Income	120.6	150.2	82.9	+27.5%
ADSL FCF	(5.3)	23.0	74.7	

- **Alice's acquisition financed 100% by banks debt**

- **New Facilities of €1.2 bn**
 - 12 banks
 - Financing Alice acquisition
 - Refinancing of existing Facilities

- **Opening leverage of 2x EBITDA**

- **Strong deleveraging: Targeting 1x EBITDA in 2010**
 - Tax shield
 - Synergies

- **Iliad confirms its will to become the 4th Mobile Operator**
 - Uncompetitive market with only 3 players
 - Strong assets that can be redeployed
 - Drop in Mobile Termination Rates (MTRs)
 - Low break-even point
 - Unlimited offers jeopardize MVNO's positioning
- **ARCEP is in favor of a 4th player**
 - Cutting up the license into several blocks of frequencies
 - 1 blocks of 5 Mhz put to tender to all players
 - 2 blocks of 5 Mhz allotted to new entrants
- **Next steps**
 - Decision to reset a new tender has to be taken by Government
 - Attribution of the 4th License / blocks unlikely before mid-2009

**3.25 million subscribers by end 2008 (excluding Alice)
& 5 million by end 2011 (including Alice)**

84% unbundled subscribers by end 2008

> €20 average gross margin per ULL subscriber

FCF significantly higher than €100 M on ADSL activity in 2008

FTTH: 70% Paris covered horizontally over 2H 2009



Strengthen Iliad's Unique Position in French Telecom Market

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Appendice 1 : Free's Offer: € 29.99

The 'Best-Value for money'

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INTERNET

- Access up to 28 Mbps
- DSL Safe
- IPV6



PHONE

- Free phone calls to 70 destinations
- SIP Protocol
- Ring Back Tone
- Fax
- Voice message sent by mail
- Filtering incoming calls

freebox HD



TV / VIDEO

- 250 TV channels
- DTT
- PVR (40 Gbits Hard drive)
- VoD features
- S-VoD offer
- TV Perso
- HD Contents



CONNECTIVITY

- WiFi MiMo 802.11n
- HDMI connection
- Freeplugs

Appendice 2: More than 20 exclusives services available in Free's offer

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