

Paris, 27 August 2009

## Strong growth, enhanced profitability and rapid integration of Alice

- € 178 million positive Free Cash Flow from ADSL broadband operations under the Free brand
- Record-breaking EBITDA over original Group structure at 38.4% of revenues
- Integration of Alice ahead of targets
- Rapid reduction in Group debt

### 1H 2009 KEY EVENTS

---

The first-half year 2009 highlighted the financial strength of Iliad Group, which managed to improve both profitability and cash flow generation against a background of strong growth and the integration of Alice. In the light of these very good results, the Group confirms its short and medium term targets. The highlights of the first half-year 2009 were as follows:

#### **(i) Strong growth in the Group's operational and financial indicators for its original structure (excluding acquisition of Alice):**

- Strong 14% organic growth, due to the increase in Free's subscriber base and the rising use of its added value services;
- Strong increase in profitability indicators, due to the improved unbundled rate and the controlled increase in major expense items. EBITDA as a percentage of revenues thus reached a record level of 38.4%, with operating profit growth of 57%;
- Very strong cash generation by the ADSL broadband activity, of € 178 million over the first six months of the 2009 financial year, which was double that achieved over the same period of 2008.

#### **(ii) Alice's return to operating profitability**

Over the first half-year 2009, the Group continued the rapid integration of Alice by implementing the synergies identified in areas such as marketing expenses, revenue per subscriber, network costs, IT system and structure costs. These steps enabled Alice to exceed the initially set target of breaking even again, by posting for the first time a €5.5 million contribution to Group EBITDA over 1H 2009.

#### **(iii) Rapid reduction in Group debt**

Over the first half-year, the leverage ratio sharply declined to 1.2, due to significant operating cash flow and non-recurring cash inflows due to the application of certain price adjustment clauses relating to the acquisition of Alice and the use of Alice's retained losses.

## CONSOLIDATED INCOME STATEMENT

(€millions)	30 June 2009 Incl. Alice	30 June 2009 Excl. Alice	30 June 2008	% change Incl. Alice	% change Excl. Alice
<b>Revenues</b>	<b>969.8</b>	<b>787.6</b>	<b>692.2</b>	<b>40.1%</b>	<b>13.8%</b>
Cost of sales	(469.4)	(362.7)	(339.1)	38.4%	7.0%
<b>Gross profit</b>	<b>500.4</b>	<b>424.9</b>	<b>353.1</b>	<b>41.7%</b>	<b>20.3%</b>
Personnel costs	(58.0)	(29.6)	(27.4)	111.7%	8.0%
External charges	(75.6)	(44.3)	(38.9)	94.3%	13.9%
Taxes and duties	(22.5)	(19.0)	(11.9)	89.1%	59.7%
Provisions	(27.1)	(18.1)	(9.1)	197.8%	98.9%
Other operating income and expenses	(9.4)	(11.6)	(8.9)	5.6%	30.3%
<b>EBITDA</b>	<b>307.8</b>	<b>302.3</b>	<b>256.9</b>	<b>19.8%</b>	<b>17.7%</b>
Employee benefits	(3.7)	(3.7)	(2.5)	48.0%	48.0%
Amortisation and depreciation	(147.1)	(98.1)	(126.4)	16.4%	(22.4%)
<b>Profit from ordinary activities</b>	<b>157.0</b>	<b>200.5</b>	<b>128.0</b>	<b>22.7%</b>	<b>56.6%</b>
Other operating income and expenses	(23.1)	-	-	-	-
<b>Operating profit</b>	<b>133.9</b>	<b>200.5</b>	<b>128.0</b>	<b>4.6%</b>	<b>56.6%</b>
Net finance income (expense)	(25.1)	(2.7)	(1.5)	-	-
Income tax	(37.8)	(37.8)	(43.6)	(13.3%)	(13.3%)
Net profit (loss) from disposed operations	1.0	1.0	-	-	-
<b>Consolidated net profit</b>	<b>72.0</b>	<b>161.0</b>	<b>82.9</b>	<b>(13.1%)</b>	<b>94.2%</b>

### Revenues

Consolidated Group revenues grew by over 40% to € 969.8 million between 30 June 2008 and 30 June 2009, due to:

- The strong increase in the subscriber base over the period, driven by the vigorous organic growth of the Free brand (recruitment of 455,000 new subscribers, net of terminations),

which represents close to one new subscribers out of every four, and the integration of Alice's 782,000 subscribers;

- The growing use of value added services available to Free and Alice subscribers. Sales of these services to 30 June 2009 totalled € 231.8 million, compared to € 168.9 million to 30 June 2008, an increase of more than 37% over the period;
- The simplification of Alice's commercial offering to two packages.

## EBITDA

### Consolidated Group structure:

The Group's consolidated EBITDA grew by 19.8% to € 307.8 million at 30 June 2009 compared with 30 June 2008. EBITDA represented 31.7% of revenues at 30 June 2009, which is an improvement over 2H 2008 (30.7%).

### Original Group structure:

Over 1H 2009, **the Group achieved record-breaking EBITDA of 38.4% of revenue**, compared with 37.1% over the same period of 2008. This improvement was due to:

- The positive impact of the increase in the unbundled rate (87.2% at 30 June 2009);
- Growth in added-value services,
- The decrease in operational costs of option 1 (full unbundling);
- The absorption of the fixed cost base by strong revenue growth.

### Alice:

For the first time since the acquisition of Alice, carried out in August 2008, the Alice structure reported a positive € 5.5 million contribution to Group EBITDA, reflecting the successful integration policy, the main steps of which involved the following to date:

- Simplification and repositioning of commercial offerings;
- Rationalisation of the Alice network and optimisation of costs paid to third parties;
- Migration of follow-up of Alice's subscriber base to Free's IT system.

## Operating profit

### Consolidated Group structure:

The Group's operating profit totalled € 133.9 million to 30 June 2009, compared with € 128 million to 30 June 2008, in spite of Alice's € 66.6 million dilutive effect over 1H 2009.

### Original Group structure:

**The operating profit of the original Group structure sharply increased by 57% between the first half-years 2008 and 2009 to € 200.5 million at 30 June 2009**, due to:

- The unchanged cost of Freeboxes at € 180 over the period, in spite of the generalisation of the CPL technology and Wifi 802.11n,
- The extension of the depreciation period of access, modem and related expenses.

Operating profit as a percentage of revenues thus increased by 7 percentage points between 1H 2008 and 1H 2009 to 25.5% at 30 June 2009.

#### Alice:

**Alice's contribution to the Group's operating profit was a negative €66.6 million** over the first six months of the financial year, due to:

- The recognition of depreciation charges, due to the reduction in the useful life of certain assets for € 49 million. Alice's depreciation charges are set to decrease following completion of the transfer of its subscribers to the Free network.
- The recognition of a €23.1 million charge relating to restructuring costs.

#### **Net profit**

The Group's consolidated net profit amounted to € 72 million to 30 June 2009, in spite of the dilutive impact of Alice.

#### **Cash flow**

The first half-year 2009 featured very strong cash generation, due to:

- € 178.4 million free cash flow from Free's ADSL activities, which was double that achieved over the same period of 2008,
- € 25.1 million in non-recurring cash outflows relating to Alice's restructuring costs,
- € 144.3 million non-recurring cash inflows.

#### **BALANCE SHEET**

---

At 30 June 2009, the Group had gross debt of € 1,308 million and net debt of € 712 million. The net debt to EBITDA ratio was 1.2, a significant improvement compared to 1.7 at 31 December 2008.

#### **MAIN GROUP OBJECTIVES FOR 2009**

---

In light of these excellent results, the Group wishes to continue to implement its profitable growth policy over the second half-year 2009 and confirms its short and medium-term targets:

- 5 million broadband subscribers in 2011,
- An 82% group-wide (Free and Alice) unbundling rate by end 2009,
- ADSL Free Cash Flow in excess of €300 million in 2009 (excluding Alice) and in excess of €1 billion over 2009-2011 (including Alice),
- Generate incremental EBITDA of €90 million from Alice (on a full-year basis) from the second half of 2010,
- A very strong increase in net profit in 2009,
- As part of the roll-out of its FTTH network, the Group confirms its objective of:
  - Providing horizontal coverage of 70% of Paris by the second half year 2009,
  - Providing horizontal coverage to 4 million households by end 2012.

## 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 and employee benefit (corresponding to non-cash personnel costs associated with employee stock options) depreciation and amortization.

**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 ADSL service, excluding those for whom an unsubscription notice has been registered.

**Net adds:** consists of the difference between Total ADSL Subscribers at the end of two different periods.

Exchange: **Euronext Paris**

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

Ticker: **ILD**

ISIN code: **FR0004035913**

FTSE ranking: **974 Internet**

Member of SBF 120 and Next 150