

iliad

Société anonyme Share capital: €12,095,706.82

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

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1. ANALYSIS OF THE GROUP'S BUSINESS AND RESULTS

Key consolidated financial data

(in € millions)	Six months to June 30, 2010	Six months to June 30, 2009	Year ended Dec. 31, 2009
INCOME STATEMENT			
Revenues.....	1,015.0	969.8	1,954.5
Operating income and expense, net.....	(780.2)	(812.8)	(1,595.1)
Profit from ordinary activities	234.8	157.0	359.4
Other operating income and expense, net	61.0	(23.1)	(26.5)
Operating profit.....	295.8	133.9	332.9
Financial income and expense, net.....	(22.2)	(25.1)	(49.0)
Corporate income tax	(102.2)	(37.8)	(109.0)
Profit for the period	171.4	72.0	175.9
EBITDA	391.6	307.8	661.4
BALANCE SHEET			
Non-current assets	1,810.4	1,589.4	1,623.2
Current assets	583.2	780.5	820.8
<i>Of which cash and cash equivalents</i>	<i>404.9</i>	<i>596.2</i>	<i>633.9</i>
Assets held for sale	62.9	25.3	31.5
Total assets	2,456.5	2,395.2	2,475.4
Total equity	921.3	651.6	764.4
Non-current liabilities	1,016.8	1,298.5	1,317.3
Current liabilities	518.4	445.1	393.7
Total equity and liabilities	2,456.5	2,395.2	2,475.4
CASH FLOWS			
Net cash generated from operating activities	473.6	400.2	734.3
Net cash used in investing activities.....	(478.2)	(188.3)	(424.2)
Net cash generated from (used in) financing activities	(234.3)	30.7	(17.1)
Net change in cash and cash equivalents.....	(238.9)	242.7	293.0
Cash and cash equivalents at year-end	391.5	580.1	630.4

1.1 OVERVIEW

The Iliad Group (also referred to as the “Group”) is a major player 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, Dedibox, BookMyName and Iliad Datacenter brands), user assistance services (Centrapel, Total Call, Call One, Free and Protelco), Wimax activities (IFW), operations related to the rollout of the FTTH (fiber-to-the-home) network (Free Infrastructure, IRE, Immobilière Iliad and Citéfibre), mobile telephony activities (Free Mobile) and on-line gaming and betting services (Iliad Gaming).
- **The Traditional Telephony segment**, which includes switched landline telephony (One.Tel), 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.

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 end of the reporting period.

1.1.1 Breakdown of revenues

(a) Broadband revenues

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 €96 (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 100 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.** Subscribers to broadband Internet via the Freebox in unbundled areas have been offered a television service since December 2003 (subject to line eligibility). Since July 31, 2007 subscribers in non-unbundled areas have also been able to access a selection of TV channels from Free's portal (again subject to line eligibility). Free's offering comprises some 400 channels, including over 160 free channels at June 30, 2010. With 25 High Definition channels, of which 13 are included in the flat-rate package, Free has the widest HD offering on the market. Following on from its cutting-edge offering of access to 3D TV through the Freebox, in June 2010 the Group once again demonstrated its innovative prowess by launching Freebox Replay, the market's most comprehensive catch-up TV service. Through this service subscribers can watch or rewatch programs from a large number of channels within seven days of their original broadcast. 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.
- **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 VOD, vodéo.tv, Academy Video, UniversCiné and CoachClub. 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 (FHV). In 2010, Free packaged this service into nine offers whereby, in return for a set price, subscribers have unlimited access to themed content comprising numerous videos and series that are regularly updated. The price of these offers varies between €4.99 and €19.99 per month (including VAT), depending on the number of channels selected by the subscriber.
- **“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).
- **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, which is targeted at SMEs and individuals, provides broadband Internet access for multimedia applications from €14.99 per month (excluding 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, renewal of modems and dial-up Internet access offerings (both subscription-based and pay-as-you-go).

Offers and services available under the Alice brand

- **At June 30, 2010 the following three Broadband offers were available to Alice subscribers:**

In unbundled areas

- The Alicebox Plus offer at €29.99 per month (including VAT), with an Alicebox v5 modem provided and no minimum contract period. This offer allows subscribers to access the Internet at a speed of at least 2 MB per second and up to 28 MB (observed). It is also available with a “4-hour mobile” deal whereby the monthly price for the first year is €29.99 (including VAT) and €39.99 (including VAT) from then on. Users who cancel their subscription are charged a termination fee, paid by direct debit, which amounts to €96 (including VAT) less €3 for every month of their subscription period, and covers the cost of activating the line.
- The Alicebox Initial offer at €19.99 per month (including VAT), with a minimum contract period of twelve months, an Alicebox v4 modem provided and invoicing of line activation and termination costs (respectively €40.00 and €45.00 including VAT). This offer allows subscribers to access the Internet at a speed of at least 2 MB per second and up to 28 MB (observed).

In non-unbundled areas

- The Alicebox offer at €34.95 per month (including VAT), with an Alicebox v5 modem provided and no minimum contract period. This offer allows subscribers to access the Internet at a speed of up to 22 MB per second (depending on line eligibility). Users who cancel their subscription are charged a termination fee, paid by direct debit, which amounts to €96 (including VAT) less €3 for every month of their subscription period, and covers the cost of activating the line.
- **Telephony via ADSL (VoIP).** Depending on the offer selected, subscribers using the Alicebox can make unlimited calls in mainland France and to between 60 and 100 foreign countries.
- Alicebox subscribers have had access to the same value-added services as Free subscribers since they were migrated to Free’s IT systems. These services include television via ADSL (IPTV), video on demand (VoD) via ADSL and subscription-based video on demand (S-VoD) via ADSL (see above for further details).

(b) 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 Telecom 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 Telecom on the user’s telephone bill, and part of the fee is passed on by France Telecom to

the company running the service. For ANNU, the revenue passed on by France Telecom amounts to €36.93 per hour. Revenue payments are received every other month.

- Revenues generated by **Assunet** – an insurance broker – from commission on sales of insurance policies to private individuals and Group 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)**, 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 Telecom and can still make and receive telephone calls through France Telecom. Where subscribers opt for the fully unbundled service, they have no commercial ties with France Telecom 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, 2010:

Operating costs under Option 1 (partial unbundling)

- Usage fee per Mbps €2.90
- Other costs (backhaul cables, room rental, optical fiber leasing payments, etc.): €2.11

Operating costs under Option 1 (full unbundling)

- Usage fee per Mbps €9.00
- Other costs (backhaul cables, room rental, optical fiber leasing payments, etc.): €2.11

- **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 €8.30 effective from January 1, 2010 and was reduced to €7.30 as from July 1, 2010.

The monthly fee for the DSL Access Only service was €14.90 between January 1 and June 30, 2010 and was cut to €14.15 as from July 1, 2010.

- 2IP transit service costs vary depending on the bit rate used by all Option 5 subscribers. The applicable price terms set on March 1, 2010 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. In the first half of 2010 the Group continued to migrate part of Alice's subscriber base from Option 5 to Option 1 thanks to the density of its network.

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 France Telecom 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 2010 the cost of the Freebox HD (or Alicebox HD) modems incorporating power line communication (PLC) technology and 802.11n Wi-Fi remained stable at around €180.
- Fees invoiced by France Telecom 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 depreciated over a period of four years as from the date they are brought into service.

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 France Telecom, 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 four years

(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 12-year leases, with only certain sites purchased in Iliad's own name. At June 30, 2010, the Group had 160 such sites.

Iliad is currently focusing on the horizontal rollout phase, which is being undertaken either by the Group's own teams (mainly in Paris) or by subcontractors, primarily in the regions and using France Telecom's service offering allowing access to the incumbent operator's existing cable ducts.

During the first half of 2010, the Group stepped up the pace of horizontal rollouts in areas outside Paris, using France Telecom's service offering that allows access to the incumbent operator's 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 70 French towns and cities.

On December 22, 2009, ARCEP issued a decision supporting the pooling of infrastructures within buildings, which will facilitate vertical rollouts. Consequently, Iliad expects the pace of its rollouts within buildings to become gradually faster. The Group has signed agreements with 380,000 households for it to act as the "building operator" and has access to a base of 700,000 households that are connected up by Orange and SFR.

(c) Rollout of an 3G 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 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.

In accordance with its commitments to ARCEP, Free Mobile is aiming to achieve population coverage levels of 27% by early 2012, 75% by 2015 and 90% by 2018, and to launch its first commercial mobile offering in 2012.

The aggregate amount of network expenditure forecast for the purposes of rolling out the Group's 3G network is €1 billion and total related cash outflows (excluding the license) for 2010-2011 are expected to reach around €200 million.

1.1.4 Gross profit and earnings before interest, tax, depreciation, amortization and share-based payment expense (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 share-based payment expense, depreciation, amortization and provisions for impairment of non-current assets.

1.2 SIGNIFICANT EVENTS OF THE YEAR

Consolidated revenues for the six months ended June 30, 2010 topped €1 billion for the first time ever, coming in at €1,015 million and representing a 4.6% increase on the same period of 2009. The year-on-year increase was attributable to a robust sales performance turned in by Free and the dilutive effect on the prior-year period of consolidating Alice.

Profitability was up significantly in the first six months of 2010 with EBITDA climbing more than 27% against first-half 2009 and profit from ordinary activities up by almost 50%. This performance was fueled by ongoing profitable growth in the Group's historic businesses and a faster-than-expected turnaround in Alice's financial position. The close to 50% rise in profit from ordinary activities – to €234.8 million from €157.0 million year-on-year – also reflects the fact that Alice's network assets are no longer being depreciated on an accelerated basis.

The Group ended the first half of 2010 with operating profit of €295.8 million, up from €133.9 million in the first six months of 2009. This rise reflects the impact of the following factors:

- The above-mentioned sharp increase in consolidated profit from ordinary activities.
- €61 million in net non-recurring income, comprising a combination of (i) exceptional income of €125 million, (ii) €40 million in impairment losses on the Wimax license and (iii) various non-recurring provisions.
- The fact that no further restructuring costs were recorded during the period.

Consolidated profit for the six months ended June 30, 2010 totaled €171.4 million, representing more than double the first-half 2009 figure of €72 million.

The rise in consolidated profitability was achieved in tandem with **very strong cash generation by the ADSL business**, with the Group generating over €218 million in the first six months of 2010 (versus €164 million one year earlier).

Excluding Alice

In the first half of 2010 the Group continued its growth trajectory while enhancing profitability:

- **Iliad reported double-digit organic growth of 11.1% year-on-year**, fueled by a 314,000 jump in Free's subscriber base.
- **EBITDA margin topped 40%, up 2.1 points compared with the six months ended June 30, 2009**, thanks to the positive impact of unbundling operations and tight control over the main expense items. The overall EBITDA margin for the period was 40.4%.

Alice

Alice's financial recovery, which began in 2009, picked up pace in the first half of 2010 due to:

- The **full impact of synergies fostered during 2009**, particularly in terms of network and IT expenses and fixed costs.
- The **migration of Alice subscribers in areas covered by Free's network to unbundled offerings**, enabling the Group to maximize gross profit generated from subscriptions.

These factors drove a sharp rise in **Alice's contribution to consolidated EBITDA during first-half 2010, which came to €38 million** versus €5.5 million in the same period of 2009. This figure outstripped the target set by the Group, with Alice already reaching its €90 million profitability objective on an annualized basis as of May 2010, when it reported EBITDA of €7.5 million.

1.3 COMPARISON OF RESULTS FOR FIRST-HALF 2010 AND FIRST-HALF 2009

(in € millions)	Six months to June 30, 2010	Six months to June 30, 2009	% change
Revenues	1,015.0	969.9	4.6%
Purchases used in production.....	(451.4)	(469.5)	(3.9%)
Gross profit	563.6	500.4	12.6%
Payroll costs	(51.8)	(58.0)	(10.7%)
External charges	(71.7)	(75.6)	(5.2%)
Taxes other than on income.....	(19.0)	(22.5)	(15.6%)
Additions to provisions	(14.8)	(27.1)	(45.4%)
Other income and expenses from operations, net	(14.7)	(9.4)	56.4%
EBITDA	391.6	307.8	27.2%
Share-based payment expense	(3.4)	(3.7)	(8.1%)
Depreciation, amortization and provisions for impairment of non-current assets.....	(153.4)	(147.1)	4.3%
Profit from ordinary activities	234.8	157.0	49.6%
Other operating income and expense, net.....	61.0	(23.1)	-
Operating profit	295.8	133.9	120.9%
Financial income and expense, net.....	(22.2)	(25.1)	(11.6%)
Corporate income tax.....	(102.2)	(37.8)	170.4%
Profit/(loss) from discontinued operations.....	0.0	1.0	(100.0%)
Profit for the period	171.4	72.0	138.1%

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 €15.4 million in first-half 2010 compared with €13.9 million in the same period of 2009.

Broadband operations now account for 99% of revenues and operating profit. An analysis of this business and its results is provided in section 1.3.1 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 2010 is also presented.

1.3.1 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 and Free brands.
- Hosting and domain-name creation services, operated under the Online, Dedibox, BookMyName, Iliad Datacenter and Iliad Entreprises brands.
- Subscriber assistance services carried out by Centrapel, Total Call, Call One, Protelco and Free.
- Optical fiber operations.
- The other B2B operations of the Iliad Entreprises 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, 2010	Six months to June 30, 2009	% change
Revenues	1,010.0	963.7	4.8%
Purchases used in production	(451.3)	(468.9)	(3.8%)
Gross profit	558.7	494.8	12.9%
Payroll costs	(49.2)	(56.3)	(12.6%)
External charges.....	(70.1)	(73.6)	(4.8%)
Taxes other than on income	(18.8)	(22.2)	(15.3%)
Additions to provisions.....	(14.7)	(27.0)	(45.6%)
Other income and expenses from operations, net	(14.5)	(9.1)	59.3%
EBITDA	391.4	306.6	27.7%
Share-based payment expense.....	(2.9)	(3.0)	(3.3%)
Depreciation, amortization and provisions for impairment of non-current assets	(153.4)	(147.1)	4.3%
Profit from ordinary activities	235.1	156.5	50.2%

The table below sets out Alice's contribution to the results of the Broadband segment in first-half 2010.

(in € millions)	Six months to June 30, 2010 Incl. Alice	Six months to June 30, 2010 Excl. Alice	Six months to June 30, 2010 Contribution by Alice
Revenues	1,010.0	869.2	140.8
Purchases used in production	(451.3)	(389.4)	(61.9)
Gross profit	558.7	479.8	78.9
EBITDA	391.4	353.4	38.0

(a) Revenues

The table below shows the breakdown by category of Broadband revenues for first-half 2010 and first-half 2009, as well as the percentage change between the two periods.

(in € millions)	Six months to June 30, 2010	Six months to June 30, 2009	% change
Broadband revenues (excluding inter-segment sales)	1,007.8	961.0	4.9%
- <i>ISP revenues (ADSL, Pay-as-you-go, 50-hour plan)</i>	987.5	941.7	4.9%
- <i>Hosting and advertising revenues</i>	13.0	12.8	1.6%
- <i>Other revenues</i>	7.3	6.5	12.3%
Inter-segment sales	2.2	2.7	(18.5%)
Total revenues	1,010.0	963.7	4.8%

Excluding inter-segment sales, Broadband revenues for first-half 2010 climbed by €46.8 million or 4.9% compared with the first six months of 2009.

ISP revenues

ISP revenues generated through both the switched telephone network and ADSL and operated under the Free and Alice brands, totaled €987.5 million for the six months ended June 30, 2010, up by 4.9% on the same period of 2009. This rise reflects the combined impact of:

- **Sustained organic growth reported by Free**, with net adds of 314,000 during first-half 2010.
- **An unfavorable impact on the Alice brand** caused by the discontinuation of Alice's Wholesale business operations and the erosion of its subscriber base.

	June 30, 2010	June 30, 2009	June 30, 2008
Total ADSL subscribers	4,514,000	4,371,000	3,134,000
- Free	3,903,000	3,589,000	3,134,000
- Alice	611,000	782,000	-
Percentage of unbundled subscribers	87.5%	81.2%	83.4%

- **A more than 6% increase in the use of value-added services.** Revenues generated by these services totaled €246.6 million in first-half 2010 compared with €231.8 million in the comparable prior-year period. This rise reflects the combined impact of (i) a decrease in the weighting of Telephony (due to a 22% drop in call termination charges during the period and the inclusion of new free countries in the flat-rate package) and (ii) continued growth in audiovisual value-added services. In the first six months of 2010 almost 4.9 million people signed up for VoD and S-VoD offerings, representing an increase of more than 24% compared with first-half 2009. New services and a higher market penetration rate played a key role in achieving this performance.

Despite the downward pressure experienced in the Telephony business, the Group's Average Revenue Per User (ARPU) was once again high in first-half 2010, coming in at €36.30.

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 €13 million in first-half 2010, up from €12.8 million in the corresponding 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 2009 due to the contraction in Traditional Telephony business volumes.

(b) Gross profit

Including Alice

Including Alice, Broadband gross profit for the period came in at €558.7 million, up 12.9% on the €494.8 million recorded in the first six months of 2009. As a percentage of revenues, it climbed 4.0 points to 55.3%, outstripping the level achieved by the Group before the Alice acquisition.

Excluding Alice

Excluding the impact of the Alice acquisition, **operating profitability continued to rise in the Broadband segment**, with gross profit climbing 14.4% to €479.8 million and advancing 1.6 points as a percentage of revenues. This increase reflects:

- **The Group's ongoing policy of pro-actively investing in unbundling the local loop.** During first-half 2010 the Group opened more than 200 new connection nodes which boosted the unbundling rate.
- **An enhanced product mix** for value-added services.
- **A decrease in certain regulated costs.**

Alice

Alice's gross profit figure was significantly higher in the first six months of 2010, rising 14.5 points year-on-year as a percentage of revenues to 56.0%. This performance was fueled by the full impact of synergies generated since the acquisition.

(c) Payroll costs

Including Alice

Payroll costs excluding employee benefits represented 4.9% of Broadband revenues in first-half 2010 – a lower percentage than in the first six months of 2009, primarily due to synergies leveraged between the Free and Alice brands.

During the first half of 2010 the Group continued to enhance its customer services by:

- Further strengthening its Local Technical Assistance Service offered by Protelco, which provides immediate trouble-shooting solutions at subscribers' homes.

- Recruiting additional call advisers in order to shorten waiting times.

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

(d) External charges

Including Alice, external charges for the Broadband segment in first-half 2010 totaled €70.1 million versus €73.6 million in the first six months of 2009. The considerable decrease in these charges was primarily due to (i) measures taken to gradually bring back in-house certain operations that were previously outsourced by Alice (e.g. management of incoming calls) and (ii) pooling marketing and network-related expenses, such as maintenance and hosting costs.

(e) Taxes other than on income

Taxes other than on income totaled €18.8 million versus €22.2 million in first-half 2009.

This item includes the Group's contribution to the COSIP support fund for the audiovisual industry and the tax set up to finance the French public television sector.

(f) Additions to provisions

Additions to provisions amounted to €14.7 million in first-half 2010 versus €27.0 million in the same period of 2009.

(g) Other income and expenses from operations, net

This item represented a net expense of €14.5 million in the first half of 2010, compared with a net expense of €9.1 million in the corresponding prior-year period.

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.

(h) EBITDA

Including Alice

Including Alice, Broadband EBITDA advanced 27.7% year-on-year to €391.4 million. The EBITDA margin came to 38.8%, up 7.0 points on the 31.8% recorded in first-half 2009.

Excluding Alice

Excluding Alice, EBITDA for the Broadband segment climbed 17.3% to €353.4 million in first-half 2010, representing a record 40.7% of revenues compared with 38.5% in the same period of 2009.

Alice

The full impact of the synergies generated since Alice's acquisition fed through in the first half of 2010, **pushing up Alice's contribution to EBITDA by €32.6 million to €38 million** from €5.4 million in the first six months of 2009. Alice had already reached the objective set by the Group of €90 million in EBITDA (on an annualized basis as from second-half 2010) by May 2010, when it reported over €7.5 million.

(i) Profit from ordinary activities

Profit from ordinary activities surged more than 50% to €235.1 million from €156.5 million in first-half 2009. This year-on-year increase reflects the enhanced profitability figures described above, as well as the fact that Alice's network assets are no longer being depreciated on an accelerated basis.

1.3.2 Key figures for the Traditional Telephony segment

The Traditional Telephony segment's contribution to Group earnings is now negligible, owing 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, 2010	Six months to June 30, 2009	% change
Revenues	20.4	20.0	2.0%
Gross profit.....	19.4	17.9	8.4%
EBITDA	0.3	1.2	(75.0%)
Profit/(loss) from ordinary activities.....	(0.3)	0.5	-

1.3.3 Cash flows and capital expenditure

The Group's main cash flow movements in first-half 2010 reflected the following:

- A 33% increase in free cash flow generated by the ADSL business, to €218 million.
- The acquisition of the 3G mobile license for €243 million.
- The refinancing of the Group's €1,200 million syndicated loan by setting up a new €1,400 million syndicated credit facility. In connection with this operation, the Group repaid €217 million worth of bank borrowings with the underlying aim of optimizing its gross debt structure.

(in € millions)	Six months to June 30, 2010	Six months to June 30, 2009
Net cash generated from operating activities.....	473.6	400.2
Net cash used in investing activities.....	(478.2)	(188.3)
Net cash (used in) generated from financing activities.....	(234.3)	30.7
Net change in cash and cash equivalents	(238.9)	242.7
Cash and cash equivalents at period-end.....	391.5	580.1

Net cash generated from operating activities

Net cash generated from operating activities totaled €473.6 million in the first half of 2010 (including exceptional income of €125 million), compared with €400.2 million (including €144 million in exceptional income) in first-half 2009.

Net cash used in investing activities

Net cash used in investing activities rose sharply to €478.2 million in the first six months of 2010 from €188.3 million in the same period of 2009. This increase reflects the Group's policy of proactively investing in growth projects, including the following:

- ADSL-related capital expenditure, which came to €135.6 million, down slightly on first-half 2009 (including network expenditure due to increased unbundling and subscriber-related expenditure for modems and other connection expenses).
- A 69% increase in FTTH-related capital expenditure, which totaled €93.6 million on account of the faster pace of horizontal rollouts undertaken by the Group and the acquisition of new ONs during the period.
- The acquisition of the 3G mobile license for €242.7 million.

Net change in cash and cash equivalents

Net cash generated from operating activities in first-half 2010 covered the vast majority of the Group's capital expenditure during the period. The €238.9 million net decrease in cash and cash equivalents was primarily attributable to the fact that the Group repaid €217 million worth of bank borrowings in order to optimize its gross debt structure when it refinanced its €1,200 million syndicated loan.

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.). The Group remains confident about its profit-making capacity.

At June 30, 2010 the Group had gross debt of €1,122.1 million and net debt of €717.2 million. Despite the acquisition of the 3G mobile license for more than €240 million during the period, Iliad still has one of the lowest debt levels among European telecom operators, with a leverage ratio of 0.96x at June 30, 2010.

The Group's gross debt comprised the following at June 30, 2010:

A €1,400 million syndicated credit facility

On June 9, 2010 the Group refinanced its €1,200 million syndicated loan by setting up a new €1,400 credit facility. Expiring on June 9, 2015, this new facility comprises two tranches:

- a €600 million term loan tranche; and
- a revolving tranche amounting to €800 million.

The interest rate on this credit facility is based on Euribor plus a margin depending on the Group's leverage ratio.

“OCEANE” bonds

On June 21, 2006, Iliad carried out an issue of 3,754,968 “OCEANE” 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%.

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, 2010, the Group's total obligations under finance leases amounted to €82.8 million, up €36 million on December 31, 2009.

1.3.5 Ownership structure at June 30, 2010

At June 30, 2010, Iliad's share capital was made up of 54,616,391 ordinary shares, held by the following shareholders:

- Executive Management: 37,371,906 shares, representing 68.4% of the share capital.
- Public: 17,244,485 shares, representing 31.6% of the share capital.

At June 30, 2010, 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	30,666
December 20, 2005	€48.44	December 20, 2009	110,929
December 20, 2005	€48.44	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	589,400
		Total	1,785,212

1.4 ADDITIONAL INFORMATION

1.4.1 Strategic objectives

In light of its excellent first-half 2010 results, the Group is standing by the operational and financial objectives it has set itself, namely:

(i) Operational objectives:

- Increase the Broadband subscriber base to around 5 million by 2011, while maintaining a low customer acquisition cost.
- An unbundling subscriber rate of approximately 90% in the medium term.

- As part of the rollout of its FTTH network, the Group:
 - expects to cover most of Paris horizontally within one year;
 - stands by its objective of covering 4 million homes horizontally by end-2012;
 - will begin connecting a large number of subscribers at end-2010.
- As part of its mobile telephony rollout, the Group has set itself the objectives of:
 - covering 27% of the French population by January 2012;
 - launching a commercial offering in 2012.

(i) Financial objectives:

- A double digit rise in consolidated EBITDA for full-year 2010 (including Alice).
- A strong increase in profit for 2010.
- Free cash flow from ADSL operations in excess of €1.1 billion between 2010 and 2012 (including Alice).

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

Net adds correspond to 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 subscribers 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 or Alice's ADSL service on a Central Office unbundled by Free.