

iliad

Société anonyme Share capital: €12,061,987.06

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)	Year ended December 31, 2009	Year ended December 31, 2008
INCOME STATEMENT		
Revenues	1,954.5	1,565.0
Operating income and expense, net	(1,595.1)	(1,362.0)
Profit from ordinary activities	359.4	203.0
Other operating income and expense, net	(26.5)	(30.7)
Operating profit	332.9	172.3
Financial income and expense, net	(49.0)	(19.5)
Corporate income tax	(109.0)	(52.3)
Profit for the period	175.9	100.4
EBITDA	661.4	524.7
BALANCE SHEET		
Non-current assets	1,623.2	1,545.0
Current assets	820.8	695.2
<i>Of which cash and cash equivalents</i>	633.9	335.7
Assets held for sale	31.5	16.8
Total assets	2,475.4	2,257.0
Total equity	764.4	597.5
Non-current liabilities	1,317.3	1,227.8
Current liabilities	393.7	431.7
Total equity and liabilities	2,475.4	2,257.0
CASH FLOWS		
Net cash generated from operating activities	734.3	474.2
Net cash used in investing activities	(424.2)	(1,159.2)
Net cash generated from (used in) financing activities	(17.1)	799.4
Net change in cash and cash equivalents	293.0	114.4
Cash and cash equivalents at year-end	630.4	337.4

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 nearly 24% in the ADSL broadband segment at December 31, 2009.

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, Alice and Dedibox brands), user assistance services (Centrapel, Total Call, Free and Protelco), Wimax activities (IFW), and operations related to the rollout of the FTTH (fiber-to-the-home) network (Free Infrastructure, IRE, Immobilière Iliad and Citéfibre).
- **The Traditional Telephony segment**, which includes switched landline telephony (One.Tel and Iliad Telecom), resale of airtime to operators (Alice), directory services (mainly the ANNU reverse look-up directory accessible by Minitel, telephone, Internet and SMS text messaging) and e-commerce operations (Assunet.com).

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 2009, the Broadband segment represented more than 98% of Group revenues.

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 balance sheet date.

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.** Since December 2003, subscribers to broadband Internet via the Freebox (in unbundled areas and subject to line eligibility) have been offered a television service with more than 300 channels, including 150 free channels at December 31, 2009. 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. Since July 31, 2007 all Free Haut Débit broadband subscribers (in unbundled and non-unbundled areas and subject to line eligibility) can access a selection of TV channels from Free's portal.
- **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 television and vodéo.tv. 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. In 2009, Free packaged this service into six 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).
- **“Pay-as-you-go” access.** For this no-subscription dial-up offer the customer pays the price of the use of the telephone line, which is invoiced by France Télécom. The share of airtime revenue passed on by France Télécom to Free is calculated on a per minute basis by France Télécom and is approved by the French telecommunications regulator (ARCEP).
- **The “50-hour plan”.** Under this offering, subscribers are entitled to 50 hours of dial-up Internet access per month for a flat fee of €14.94 (including VAT). The subscription fee is paid directly to Free by direct debit at the beginning of each month. Any additional dial-up time and charges for incomplete months are invoiced by Free at the local Internet rate. They are debited from the subscriber's account at the beginning of the following month but are recognized in revenues for the current month.
- **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 (Dedibox), which is targeted at SMEs and individuals, provides broadband Internet access for multimedia applications from €29.99 per month (including 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 and renewal of modems.

Offers and services available under the Alice brand

- **ADSL.** In 2009, the Group continued to reposition Alice's ADSL offers. At December 31, 2009 the following three ADSL access 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 (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 are offered unlimited calls in mainland France and to between 60 and 100 foreign countries.
- Since March 2009 – when AliceBox subscribers were migrated to Free's IT systems – they have had access to the same value-added services as Free subscribers, including 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).
- As part of the measures taken to refocus Alice's offerings on broadband services, in 2009 the Group decided to no longer offer dial-up internet access under the Alice brand. Consequently, the "pay-as-you-go", Alice Daytime Internet and Alice Unlimited Internet offers are no longer marketed.
- **"B2B" offer.** This offer proposed by Alice involves setting up and managing telecommunications and e-business solutions for telephony, IP connectivity, virtual private networks and hosting.

(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 Télécom 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 is billed directly by France Télécom on the user's telephone bill, and part of the fee is passed on by France Télécom to the company running the service. For ANNU, the revenue passed on by France Télécom amounts to €36.93 per hour. Revenue payments are received every other month.
- Revenues generated by **Assunet** – an online insurance broker – from commission on sales of insurance policies to private individuals and Group companies.
- Revenues from **Iliad Telecom's** carrier preselection service for companies.
- **The "Wholesale" offer.** In 2008 Alice's scope of operations included wholesale activities in the telecommunications market, consisting of buying and reselling international call terminations and bandwidth with external operators. These activities – which were carried out because Alice was a member of the Telecom Italia SPA group – were discontinued in the second half of 2009.

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 Télécom and can still make and receive telephone calls through France Télécom. Where subscribers opt for the fully unbundled service, they have no commercial ties with France Télécom 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 December 31, 2009:

Operating costs under Option 1 (partial unbundling)	
Rental of the copper pair and the ADSL splitter:	€2.90
Other costs (backhaul cables, room rental, optical fiber leasing payments, etc.):	€2.20

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.):	€2.20

- **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 €10.40 effective from January 1, 2009 and was reduced to €9.30 as from July 1, 2009.

The monthly fee for the DSL Access Only service was €17.50 between January 1 and June 30, 2009 and was cut to €16.40 as from July 1, 2009.

IP transit service costs vary depending on the bit rate used by all Option 5 subscribers. The applicable price terms set on July 1, 2009 were as follows:

- Usage fee per Mbps.....€19.00
- Access fee.....€3.80

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 second half of 2009 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 IRU contracts 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 Télécom 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 2009 the cost of the Freebox HD modems incorporating power line communication (PLC) technology and 802.11n WiFi remained stable at around €180. Since February 1, 2009 new Alice subscribers have been provided with the latest generation modems which also cost around €180.

- Fees invoiced by France Télécom 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 now depreciated over a period of four years as from the date they are brought into service, compared with the previously applicable three-year period. This change in accounting estimate – which was applied in order to more closely reflect the actual useful lives of the assets concerned – had a positive impact of approximately €77 million on the 2009 income statement.

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 now therefore correspond to access fees billed by France Télécom, 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 Group acquires its ONs through its subsidiaries IRE and Immobilière Iliad. Most of the premises purchased are held by IRE and a large proportion is financed through 12-year leases. Immobilière Iliad has, however, acquired a number of sites in its own name.

Iliad is currently focusing on the horizontal rollout phase, which is being undertaken (i) by the Group’s own teams (mainly in Paris), (ii) by subcontractors under turnkey contracts (primarily in the regions), or (iii) through France Télécom’s service offering allowing access to the incumbent operator’s existing cable ducts (also mainly in the regions).

During 2009 the Group carried out its first horizontal rollouts in areas outside Paris, using France Télécom’s service offering that allows access to the incumbent operator’s existing cable ducts. The pace of these horizontal rollouts is expected to increase in 2010. Also in 2009 the Group accepted the first deliverables provided by subcontractors under turnkey contracts.

By the end of 2009, the Group had covered 70% of Paris under the horizontal rollout program, in line with its target.

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**

Including Alice

Consolidated revenues climbed nearly 25% year-on-year to €1,954.5 million, led by growth in the Group's historic businesses and the full-year impact of consolidating Alice.

This strong revenue performance was achieved in tandem with a sharp increase in the Group's profitability, with (i) a 26.1% jump in EBITDA to €661.4 million and (ii) a 75.2% surge in profit for the period, in line with the Group's targets.

Excluding Alice

In 2009, the Group saw rapid rises in its main operating performance indicators:

- **Organic growth came to almost 13%**, fueled by (i) a 389,000 jump in Free's subscriber base during the year, (ii) an ongoing very low subscriber cancellation rate (less than 1% per month), and (iii) subscribers' increasing use of value-added services.
- **The Group's main profitability indicators climbed significantly, with EBITDA margin reaching a record 39.4%**, reflecting the combined impact of a rise in the unbundling rate and tight control over the main expense items.
- **The ADSL business reported very strong cash generation**, amounting to **€376 million** and largely outstripping the target of €300 million.

Alice

During 2009 the Group focused on rapidly turning around Alice's business by leveraging synergies identified for marketing expenditure and revenue per user as well as network and IT expenses and fixed costs. In addition, as from June, Iliad started to unbundle Alice subscribers in the areas covered by Free's network with a view to maximizing the unbundled subscriber rate and consequently lifting Alice's gross margin figure.

Thanks to these various measures, in 2009 Alice's contribution to consolidated EBITDA significantly improved, representing €23.8 million versus a negative €14.4 million for the four months of 2008 when Alice was consolidated. This performance was achieved despite an erosion in Alice's subscriber base, with a cancellation rate of over 2% a month.

In the first half of 2009 the Group recorded non-recurring income of €144.3 million corresponding to the use of a portion of Alice's tax losses and earn-out payments received from Telecom Italia.

1.3 COMPARISON OF RESULTS FOR 2009 AND 2008

(in € millions)	2009	2008	% change
Revenues	1,954.5	1,565.0	24.9%
Purchases used in production	(920.3)	(781.5)	17.8%
Gross profit	1,034.2	783.5	32.0%
Payroll costs	(108.6)	(79.8)	36.1%
External charges	(154.0)	(109.5)	40.6%
Taxes other than on income	(42.9)	(27.9)	53.8%
Additions to provisions	(29.3)	(25.2)	16.3%
Other income and expenses from operations, net	(38.0)	(16.4)	131.7%
EBITDA	661.4	524.7	26.1%
Share-based payment expense	(7.3)	(5.4)	35.2%
Depreciation, amortization and provisions for impairment of non-current assets	(294.7)	(316.3)	-6.8%
Profit from ordinary activities	359.4	203.0	77.0%
Other operating income and expense, net	(26.5)	(30.7)	-13.7%
Operating profit	332.9	172.3	93.2%
Financial income and expense, net	(49.0)	(19.5)	151.3%
Corporate income tax	(109.0)	(52.3)	108.4%
Profit/(loss) from discontinued operations	1.0	(0.1)	-
Profit for the period	175.9	100.4	75.2%

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 consists of billings to the Traditional Telephony segment of telecommunications services provided over the Free network. In all, inter-segment transactions amounted to €29.1 million in 2009 compared with €32.4 million in 2008.

Broadband operations now account for 98% of revenues and operating profit. An analysis of this business and its results is provided in section 1.1.3.1 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 2009 is also presented.

Consolidated profit surged 75.2% to €175.9 million from €100.4 million in 2008, in line with the Group's targets.

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, Free, Free Haut Débit and Free Télécom brands.

- Hosting and domain-name creation services, operated under the Online, Dedibox, BookMyName and Alice brands.
- Call center operations, carried out by Centrapel, Total Call and Free.
- Optical fiber operations.
- The B2B operations of the Alice brand.
- Wimax activities operated by IFW.

Free is the subsidiary responsible for operating the Group's telecommunications network.

(in € millions)	2009	2008	% change
Revenues	1,943.4	1,540.8	26.1%
Purchases used in production	(919.8)	(771.6)	19.2%
Gross profit	1,023.6	769.2	33.1%
Payroll costs	(104.1)	(73.7)	41.2%
External charges	(149.3)	(105.4)	41.7%
Taxes other than on income	(42.4)	(27.5)	54.2%
Additions to provisions	(28.9)	(25.2)	14.7%
Other income and expenses from operations, net	(37.8)	(15.9)	137.7%
EBITDA	661.1	521.5	26.8%
Share-based payment expense	(6.0)	(4.6)	30.4%
Depreciation, amortization and provisions for impairment of non-current assets	(294.6)	(316.2)	-6.8%
Profit from ordinary activities	360.5	200.8	79.5%
Other operating income and expense, net	(26.5)	(30.7)	-13.7%
Operating profit	334.0	170.1	96.4%

The table below sets out Alice's contribution to the results of the Broadband segment in 2009.

(in € millions)	2009 Incl. Alice	2009 Excl. Alice	2009 Contribution by Alice
Revenues	1,943.4	1,609.1	334.3
Purchases used in production	(919.8)	(730.3)	(189.5)
Gross profit	1,023.6	878.8	144.8
Payroll costs	(104.1)	(62.8)	(41.3)
External charges	(149.3)	(89.9)	(59.4)
Taxes other than on income	(42.4)	(36.1)	(6.3)
Additions to provisions	(28.9)	(17.6)	(11.3)
Other income and expenses from operations, net	(37.8)	(35.1)	(2.7)
EBITDA	661.1	637.3	23.8
Share-based payment expense	(6.0)	(6.0)	-
Depreciation, amortization and provisions for impairment of non-current assets	(294.6)	(213.7)	(80.9)
Profit/(loss) from ordinary activities	360.5	417.6	(57.1)
Other operating income and expense, net	(26.5)	-	(26.5)
Operating profit/(loss)	334.0	417.6	(83.6)

(a) Revenues

The table below shows the breakdown by category of Broadband revenues for 2009 and 2008, as well as the percentage change between the two periods.

(in € millions)	2009	2008	% change
Broadband revenues (excluding inter-segment sales)	1,938.3	1,533.3	26.4%
- ISP revenues (ADSL, Pay-as-you-go, 50-hour plan)	1,900.9	1,499.5	26.8%
- Hosting and advertising revenues	24.0	20.1	19.4%
- Other revenues	13.4	13.7	-2.2%
Inter-segment sales	5.2	7.5	-30.7%
Total revenues	1,943.5	1,540.8	26.1%

Excluding inter-segment sales, Broadband revenues for 2009 rose by €405.0 million or over 26% compared with 2008, boosted by the success of Free's ADSL broadband offer and the consolidation of Alice's ADSL operations.

ISP revenues

ISP revenues generated through both the switched telephone network and ADSL and operated under the Free, Alice, Free Télécom and Free Haut Débit brands, totaled €1,900.9 million for 2009, up by 26.8% on the previous year. This rise reflects:

- **Strong sales momentum by Free**, with net adds of 389,000, representing almost one new subscriber in four in the French market.
- **The full-year impact of the acquisition of Alice**. At year-end 2009, Alice had 678,000 subscribers.

	2009	2008	2007
Total ADSL subscribers	4,456,000	4,225,000	2,904,000
- Free	3,778,000	3,389,000	2,904,000
- Alice	678,000	836,000	-
Percentage of unbundled subscribers	85.4%	78.7%	81.5%

- **An increase in the use of value-added services** available to Free and Alice subscribers. Revenues generated by these services in 2009 totaled €474.7 million, versus €376.7 million for 2008, representing an increase of more than 26%. The year-on-year contribution of video services also rose with more than 8.5 million subscribers signing on for VoD and S-VoD, representing over 31% growth.

The commercial success of the Free offering and the synergies achieved on the integration of Alice enabled the Group to record ARPU of €36.50 for the fourth quarter of 2009, which is on a par with the figure achieved by Free prior to the Alice acquisition.

(in €)	Q4 2007	Q4 2008	Q4 2009
	Excl. Alice	Excl. Alice	Incl. Alice
ARPU	36.3	36.9	36.5

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 €24 million in 2009, up from €20.1 million in 2008.

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 2008 due to the contraction in Traditional Telephony business volumes.

(b) Gross profit

Including Alice

Including Alice, Broadband gross profit came in at €1,023.6 million, up 33.1% on the €769.2 million recorded in 2008. As a percentage of revenues, it climbed 2.7 points, spurred by (i) an ongoing rise in operating profitability for the Group's historical entities and (ii) the successful synergies put in place for Alice.

Excluding Alice

Excluding the impact of the Alice acquisition, **operating profitability continued to rise in the Broadband segment**, with gross profit jumping 21.7% to €878.8 million and advancing 3.7 points as a percentage of revenues. This increase reflects:

- **The positive effect** of the rise in the unbundling rate on the back of strong sales momentum by Free and the launch of over 400 new connection nodes in 2009, which drove up the unbundling rate for Free subscribers.
- **A decrease in operating costs** under both Option 1 and Option 5.
- **Growth in optional value-added services** as described above.

Alice

Alice's gross profit figure was significantly higher in 2009, and as a percentage of revenues it rose 4.5 points year-on-year to 43.3%. This performance was fueled by network synergies which involved the migration of Alice's subscribers to Free's network and the unbundling of eligible lines.

(c) Payroll costs

Including Alice

Payroll costs excluding employee benefits represented 5.4% of Broadband revenues in 2009, up 0.6 points on 2008. This increase is mainly due to the integration of Alice employees following the acquisition.

Excluding Alice

During 2009, the Group continued to enhance its customer services and on April 2, Free was awarded NF Service certification for its call centers by AFNOR (France's standard-setting agency). In addition, it extended its Local Technical Assistance service to cover 250 towns and cities, providing immediate

trouble-shooting solutions at subscribers' homes. And lastly, additional call advisers were recruited in order to shorten waiting times.

As a result of these measures, payroll costs increased slightly during the year, representing 3.9% of Broadband revenues versus 3.8% in 2008.

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 totaled €149.3 million compared with €105.4 million in 2008. This sharp increase is chiefly due to the impact of consolidating Alice, as a number of Alice's operations are routinely outsourced.

(e) Taxes other than on income

Taxes other than on income rose to €42.4 million in 2009 from €27.5 million the previous year. The increase primarily reflects (i) higher contributions to the COSIP support fund, in direct correlation with the Group's rise in revenue; and (ii) payment from March 7, 2009 of the new tax set up in France to finance the public audiovisual sector.

(f) Additions to provisions

Additions to provisions amounted to €28.9 million versus €25.2 million in 2008. This rise is mainly attributable to provisions for doubtful customer accounts relating to the consolidation of Alice as well as certain provisions for contingencies recorded by other Group companies.

(g) Other income and expenses from operations, net

This item represented a net expense of €37.8 million, compared with a net expense of €15.9 million in 2008.

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

Broadband EBITDA advanced 26.8% to €661.1 million. The EBITDA margin came to 34.0% versus 33.8% in 2008 (36.2% in the second half of 2009).

Excluding Alice

Excluding Alice, EBITDA for the Broadband segment rose by 19.1% to €637.3 million, representing a record 39.6% of revenues compared with 37.7% in 2008. This increase in operating profitability was led by (i) the above-described rise in gross profit and (ii) the absorption of fixed costs by fast-paced business growth.

Alice

In 2009 the Group pursued its measures to integrate Alice by leveraging synergies identified for marketing expenditure and revenue per user as well as network and IT expenses and fixed costs. The main measures put in place during the year were:

- Simplifying and repositioning Alice's commercial offerings.

- Streamlining the Alice network and optimizing costs paid to external parties.
- Migrating the Alice subscriber monitoring process to Free's IT system.
- Migrating Alice subscribers in the areas covered by Free's network to unbundled offerings, with a view to enhancing subscriber service and growing the Group's gross profit.

As a result of these measures, Alice contributed €23.8 million to consolidated EBITDA in 2009 versus a negative €13.7 million for the four months of 2008 when it was consolidated.

(i) Operating profit

Including Alice

Operating profit for the Broadband segment almost doubled year-on-year, surging to €334 million from €170 million, despite the €83.6 million dilutive effect of consolidating Alice.

Excluding Alice

Excluding Alice, operating profit topped the €400 million mark in 2009, jumping 59% to €417.6 million. This performance was achieved as a result of depreciation and amortization expense growing at a slower pace than revenues in 2009, reflecting:

- The fact that the cost of Freebox HD modems remained stable, at €180, despite subscribers being widely provided with PLC technology and 802.11n WiFi.
- An increase in the depreciation period for access fees, modems and related costs, from three to four years.

In view of these factors, operating profit as a percentage of revenues advanced by 7.4 points year-on-year to a record 26%.

Alice

Although Alice made a positive contribution to the Broadband segment's EBITDA in 2009, its contribution to operating profit was a negative €83.6 million, due to:

- An €80.9 million depreciation expense recognized on certain network assets. Depreciation expense is expected to decrease sharply following migration of Alice's subscriber base to Free's network.

The recognition of a €26.5 million expense to cover restructuring costs.

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)	2009	2008	% change
Revenues	40.2	56.7	-29.1%
Gross profit	36.8	38.0	-3.2%
EBITDA	0.2	3.2	-93.8%
Profit/(loss) from ordinary activities.....	(1.1)	2.2	-

1.3.3 Cash flows and capital expenditure

(in € millions)	2009	2008
Net cash generated from operating activities.....	734.3	474.2
Net cash used in investing activities.....	(424.2)	(1,159.2)
Net cash generated from (used in) financing activities.....	(17.1)	799.4
Net change in cash and cash equivalents	293.0	114.4
Cash and cash equivalents at year-end.....	630.4	337.4

Including Alice

The Group's cash flow generation was very strong in 2009, primarily reflecting the combined impacts of:

- €734.3 million in net cash generated from operating activities, including a number of non-recurring inflows.
- A €166 million year-on-year increase in free cash flow generated by Free's ADSL operations, which came in at €376 million.
- Non-recurring outflows of €26.3 million relating to restructuring operations within Alice.

Excluding Alice

Excluding Alice, net cash generated from operating activities – after tax and changes in working capital, but before capital expenditure – came to €643.6 million.

Disbursements in respect of acquisitions of property, plant and equipment and intangible assets (net of disposal proceeds) totaled €379.8 million, breaking down as follows:

- €220.6 million in ADSL-related development expenditure (including Freebox modems and DSLAMs, access fees to the France Télécom service and portability service fees). This outlay was on a par with the previous year due to measures taken to build up a stock of boxes in order to improve customer service by reducing delivery lead times.
- €46.9 million in network expenditure (including IRU contracts, France Télécom co-location rooms, civil engineering work and transmission equipment).
- €111.7 million in FTTH optical fiber network expenditure. The majority of premises used to house optical nodes (ONs) as well as certain network equipment have been acquired under finance leases. The amounts paid in relation to these leases – which totaled €21.8 million in 2009 – are not classified as capital expenditure in the accounts.

Free cash flow generated by ADSL operations was an extremely high €376 million, which enabled the Group to (i) self-finance its FTTH optical fiber network expenditure (€111.7 million) and (ii) strengthen its cash position.

Alice

Alice's contribution to consolidated cash flows in 2009 was as follows:

- €22 million in cash flows from operations.
- A €30.1 million decrease in working capital requirement, reflecting the impact of restructuring operations
- €40.4 million in ADSL-related network and development expenditure covering items such as modems, access fees to the France Télécom service, portability service fees and commissions paid to sub-contractors for signing up new subscribers, as well as subscriber migrations and an increase in the subscriber unbundling rate.
- non-recurring disbursements for restructuring relating to Alice in the amount of €26.3 million.

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.). As of the date of this report, the Group's business had not been affected by the economic crisis and it remains confident about its profit-making capacity.

The Group's gross debt primarily comprised the following at December 31, 2009:

A €1,200 million syndicated loan

On July 31, 2008, as part of its acquisition of the LSG Group, Iliad set up a €1,200 million syndicated credit facility with 12 European banks, breaking down as:

- A line dedicated to the acquisition and restructuring costs, repayable in installments up to June 25, 2013. At December 31, 2009, €895.1 million of this credit line had been used.
- A €250 million revolving credit facility available until June 25, 2013. None of this facility had been used at December 31, 2009.

The interest rate on these credit facilities is based on Euribor plus a margin ranging between 1.45% and 0.70% 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

At December 31, 2009, the Group had drawn down €40.3 million of the real estate finance lease facility entered into with Genefim to acquire ONs. During the year the Group set up leases worth €21.8 million with Genefim and Cisco to finance the acquisition of FTTH equipment.

At December 31, 2009, the Group had gross debt of €1,298.8 million and net debt of €664.9 million. Its leverage ratio (net debt to EBITDA) was 1.0, down sharply on the ratio of 1.7 reported at December 31, 2008.

1.3.5 Ownership structure at December 31, 2009

At December 31, 2009, Iliad's share capital was made up of 54,583,440 ordinary shares, held by the following shareholders:

- Executive Management: 38,229,061 shares, representing 70% of the share capital.
- Public: 16,354,379 shares, representing 30% of the share capital.

At December 31, 2009, 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	33,371
December 20, 2005	€48.44	December 20, 2009	141,176
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			1,818,163

1.4 ADDITIONAL INFORMATION

1.4.1 Strategic objectives

In light of its 2009 results the Group intends to continue to implement its strategy of achieving profitable growth and has set itself the following objectives:

(i) Operational objectives:

- Increase Broadband subscriber base to around 5 million by 2011, while maintaining a low customer acquisition cost.
- An unbundling subscriber rate of around 90% in the medium term.
- As part of the rollout of its FTTH network, the Group is standing by its objective of covering 4 million homes horizontally by end-2012.
- 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.

(ii) Financial objectives:

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

- A strong increase in profit for 2010.
- Incremental EBITDA of €90 million (annualized basis) for Alice as of the second half of 2010.

1.4.2 Events after the balance sheet date

On December 18, 2009, the French telecommunications regulator (ARCEP) announced that it intended to award the Iliad subsidiary, Free Mobile, the fourth 3G mobile telecommunications license for mainland France.

On January 12, 2010 ARCEP issued decision no. 2010-043 which officially authorized Free Mobile to use the necessary frequencies to set up and operate a third generation telecommunications network. The €240 million cost of the license was paid by Free Mobile on January 13, 2010. This transaction did not have any impact on the 2009 consolidated financial statements.

Between January 1, 2010 and the date on which the accounts were approved, no other events occurred that would be likely to have a material impact on the financial statements for the year ended December 31, 2009.

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) 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 a data delivery technology that directly connects subscribers' homes to an optical node.

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

Net adds corresponds 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's ADSL service on a Central Office unbundled by Free.