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)	**Year ended Dec. 31, 2010**	**Year ended Dec. 31, 2009**	**Year ended Dec. 31, 2008**
INCOME STATEMENT			
Revenues	**2,038.3**	**1,954.5**	**1,565.0**
Operating income and expense, net	(1,560.4)	(1,595.1)	(1,362.0)
Profit from ordinary activities	477.9	359.4	203.0
Other operating income and expense, net	61.0	(26.5)	(30.7)
Operating profit	538.9	332.9	172.3
Financial income and expense, net	(49.5)	(49.0)	(19.5)
Corporate income tax	(176.3)	(109.0)	(52.3)
Profit for the period	313.1	175.9	100.4
EBITDA	**798.1**	**661.4**	**524.7**
BALANCE SHEET			
Non-current assets	1,904.4	1,602.9	1,545.0
Current assets	516.2	820.8	695.2
Of which cash and cash equivalents	*347.5*	*633.9*	*335.7*
Assets held for sale	71.6	31.5	16.8
Total assets	**2,492.2**	**2,455.2**	**2,257.0**
Total equity	1,078.3	764.4	597.5
Non-current liabilities	1,016.0	1,140.5	1,227.8
Current liabilities	397.9	550.3	431.7
Total equity and liabilities	**2,492.2**	**2,455.2**	**2,257.0**
CASH FLOWS			
Net cash generated from operating activities	874.9	734.3	474.2
Net cash used in investing activities	(793.7)	(424.2)	(1,159.2)
Net cash generated from (used in) financing activities	(374.1)	(17.1)	799.4
Net change in cash and cash equivalents	(292.9)	293.0	114.4
Cash and cash equivalents at year-end	337.5	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 23% in the Broadband segment at December 31, 2010.

The Group's operations are made up of two business segments, defined based on operating criteria:

- **the Broadband segment**, which includes Internet service provider operations (marketed under the Free and Alice brands), hosting services (marketed under the Online, BookMyName, Dedibox and Iliad Entreprises brands), user assistance services (Centrapel, Total Call, Free, Protelco and Call One BPO), Wimax activities (IFW), mobile telephony activities (Free Mobile), operations related to the rollout of the FTTH (Fiber To The Home) network (Free Infrastructure, IRE, Immobilière Iliad and Citéfibre), and online gambling games and sports betting (Iliad Gaming);

- **the Traditional Telephony segment**, which includes switched landline telephony (One.Tel and Iliad Telecom), directory services (mainly the ANNU reverse look-up directory accessible by Minitel, telephone, Internet and SMS text messaging) and insurance brokerage operations (Assunet).

ADSL Broadband and value-added services, combined within the Broadband segment, represent the dominant source of revenue, while revenues from the Group's other offerings, combined within the Traditional Telephony segment, are declining as planned. In 2010, the Broadband segment represented more than 99% of Group revenues.

These segments may change in the future, depending on operating criteria and the development of the Group's businesses.

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 year-end.

The following items are key performance indicators for the Group and are used throughout this management report:

- *Gross profit*, which corresponds to revenues less purchases used in production;

- *EBITDA*, which corresponds to profit from ordinary activities before share-based payment expense, depreciation, amortization and provisions for impairment of non-current assets.

1.1.1 Breakdown of revenues

(a) Broadband revenues

Offerings and services available under the Free and Alice brands

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

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

- **Option 1** (subscribers on an unbundled line), whereby the Group markets services on its own network,
- **Option 5** (subscribers not on an unbundled line), whereby the Group sells on to subscribers a wholesale offer proposed by the incumbent operator;

- **FTTH very high-speed Broadband.** This offering – which is available in selected areas chosen by Free – provides subscribers with very high-speed Internet access (100 Mbps download and 50 Mbps upload).

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

- **Telephony.** All subscribers are provided with a telephone service under which they can make completely free calls through their modem to landline numbers in mainland France (apart from short numbers and special numbers), as well as Reunion Island, Guadeloupe and 60 or 100 foreign countries depending on the terms of their offer. In addition, certain of the Group's offers include free calls or packaged deals for calls to mobile numbers in mainland France;

- the Group has the broadest **television offering** in the market, comprising over 400 channels (of which 60 to 180 are included in the basic packages) with 30 high definition channels.
  In late June 2010, the Group launched Freebox TVReplay – the most comprehensive catch-up TV offering in the market. Through this service users can watch or re-watch programs shown on 34 channels within seven days of their initial broadcast. Freebox TVReplay is offered at no extra charge for channels included in the Free television package, subject to availability.
  Also in 2010, having offered subscribers 3D programs for the Football World Cup, in September the Group announced the launch of several 3D channels. This move made Free the first operator in France to broadcast genuine 3D channels (with a total of five at end-2010, including two in the basic package) and reaffirmed its technological edge over its competitors.
  Subscribers can also sign up to watch Canal+ channels through their Freebox or Alicebox;

- **Video on Demand (VoD).** Subscribers to the Group's Internet offerings (in unbundled areas and subject to line eligibility) are provided a video on demand service that includes Canalplay, TF1 Vision, Cinema-on-demand, M6 VoD and Vodeo.tv. This service enables subscribers to access a catalog of movies at a price of €0.99 per movie 24 hours a day, 7 days a week and view them on their television. The movies – which are ordered using the subscriber's remote control – include DVD player features and may be viewed for a period of 48 hours.
  Freebox Revolution – the Group's latest offering – provides subscribers with a cinematographic encyclopedia at the tip of their remote controls, containing the world's second largest database of movies and TV series. Thanks to the Group's partnership with Allociné, subscribers to this offering use their televisions to access information sheets on nearly 80,000 movies and 7,000 TV series;

- **Subscription-based Video on Demand (S-VoD).** Subscribers to the Group's Internet offerings (in unbundled areas and subject to line eligibility) can take out a monthly subscription starting at €0.99 for video on demand content. In 2010, Free packaged this service into thirteen offers whereby subscribers have unlimited access to themed content comprising numerous videos and TV series that are regularly updated;

- **HD games.** The Freebox Revolution offering enables subscribers to access games directly via their televisions. Through its partnership with Gameloft – a leading worldwide developer and publisher of downloadable video games – the Group has once again demonstrated its pioneering approach by bringing out the first-ever HD games offer on a triple-play box.

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

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

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

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

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

Other Broadband activities

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

(b) Traditional Telephony revenues

Traditional Telephony segment revenues 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 subscriber authorizes the company to make a preselection request to the incumbent operator so that all calls made from the designated landline can be transferred to and billed by One.Tel (excluding special numbers). This enables the subscriber 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 subscriber 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 Telecom on the user's telephone bill, and part of the fee is passed on by the incumbent operator to the company running the service. For ANNU, the revenue passed on by the incumbent operator 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;

- revenues from **Iliad Telecom**'s carrier preselection service for companies;

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

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

- **Option 1** (subscribers on an unbundled line), whereby Free and Alice offers are carried entirely by the Group's network. Subscribers can choose between a partially or fully unbundled service. In the case of the partially unbundled service, users subscribe to the broadband offering but continue to pay the telephone line rental to the incumbent operator and can still make and receive telephone calls through that operator. Where subscribers opt for the fully unbundled service, they have no commercial ties with the incumbent operator and do not therefore pay a telephone line rental charge. In this case, all telephone calls transit through the broadband connection.

Under Option 1, direct costs per subscriber and per month, as mentioned in the basic unbundling offer, were as follows at December 31, 2010:

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.):...€2.10

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.):...€2.10

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

Under this option, for a subscription that is sold at the same price, costs per subscriber and per month are made up of access costs and the costs of the IP transit service.

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.

IP 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.

1.1.3 Capital expenditure and depreciation

(a) Broadband

The Group has rolled out a telecommunications network in mainland France. Most of the underlying optical fiber for this network was obtained under IRU (Indefeasible Right of Use) contracts with terms ranging from 10 to 27 years that involve a single upfront payment when the fiber is made available. These IRUs are recognized as property, plant and equipment and are depreciated over the life of the contract.

Just as operating costs differ significantly between Option 1 and Option 5, so do levels of capital expenditure.

Under Option 1, the Group is required to provide Freebox or Alicebox modems and Freebox DSLAMs and to pay fees to the incumbent operator for access to unbundling services (which are also known as cabling costs or access fees). In addition, it incurs logistics and modem shipping costs:

- during 2010, subscribers were supplied with the HD modems, whose cost remained stable at around €180. Since December 14, 2010, subscribers have also been offered the Freebox Revolution – a latest-generation box that incorporates state-of-the-art technologies such as PLC, 250 Gb NAS, a Blu-ray player, a gyroscopic remote control, a gamepad and loud speakers, all at a cost of around €300;

- fees invoiced by the incumbent operator for access to unbundling services are €50 per subscriber for full unbundling and €60 for partial unbundling.

Access fees as well as logistics, Freebox HD and DSLAM costs were depreciated over a period of four years as from the date they are brought into service in 2010.

In 2010, under Option 5, total capital expenditure is lower as the majority of new subscribers are provided with Freebox version 4 modems, which are already in the process of being depreciated. The main capitalized costs therefore correspond to access fees billed by the incumbent operator, breaking down as follows:

- Fees for access to the DSL Access service €49.00
- Fees for access to the DSL Access Only service €54.00
- Fees for access to the DSL Access Only service
(where operator access was already in place) €17.00

Capitalized access fees are also depreciated over four years as from the date they are brought into service.

(b) Rollout of an FTTH network

To support the rollout of its FTTH (Fiber To The Home) optical fiber network, the Group is making fresh investments in network infrastructure through its subsidiaries Free Infrastructure, IRE and Immobilière Iliad.

This network is being rolled out in four phases:

- acquiring premises to house optical nodes (ONs);
- laying fiber optic cable between the ONs and buildings (“horizontal rollout”);
- installing optical fiber within those buildings, up to the front door of each business or household (“vertical rollout”);
- connecting subscribers to the network.

The majority of the Group’s ON acquisitions are financed through twelve-year leases, with only certain sites purchased in Iliad’s own name. At December 31, 2010, the Group had 209 such sites against 109 one year earlier.

Iliad is currently focusing on the “horizontal rollout” phase, which is being undertaken either by the Group’s own teams or by subcontractors and using the incumbent operator’s service offering allowing access to its existing cable ducts.

During 2010, the Group (i) continued the rollout drive in Paris to meet its objective of horizontally covering the majority of the city by the year-end, and (ii) stepped up the pace of “horizontal rollouts” in areas outside Paris, using the incumbent operator’s service offering allowing access to its existing cable ducts.

The Group currently has some 3.6 million FTTH plugs that have been rolled out or are in the process of being rolled out in 100 French towns and cities. At end-December 2010, the Group had started its “vertical" rollout phase under agreements signed by different operators to pool their separate rollout projects. Iliad expects its rollouts within buildings to gather pace in 2011. Consequently, it has signed agreements with over 500,000 households to act as the "building operator" and has access to a base of over one million households that are connected up by Orange and SFR.

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

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

Since this license was acquired – at a price of €242.7 million – Free Mobile has selected its main service providers for both its equipment and for implementing the actual rollout, as well as the major lessors (including TDF) for its base transceiver stations. Free Mobile has already signed numerous contracts relating to this network rollout, with nearly 90 companies, which means that around 3,000 people are currently working on the Free Mobile project.

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

In 2010, total capital outlay for the mobile business came to €262 million, including €242.7 million for the license. 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 for 2011 are expected to be between €150 million and €200 million.

1.2 SIGNIFICANT EVENTS OF THE YEAR

Consolidated data

In 2010, consolidated revenues topped the 2 billion mark for the first time ever, climbing 4.3% to €2,038.3 million. The year-on-year increase was attributable to robust growth reported by Free and the dilutive effect on the prior-year figure of consolidating Alice.

Profitability was up significantly in 2010, with EBITDA advancing 20.7% against 2009, fueled by ongoing profitable growth in the Group’s historic businesses and a swift turnaround in Alice’s financial position.

Profit from ordinary activities rose 33% in 2010, coming in at €477.9 million against €359.4 million the previous year. This increase was driven by both the enhanced profitability achieved as mentioned above, as well as by the fact that the depreciation-to-revenues ratio remained more or less stable year on year.

Consolidated profit for the year ended December 31, 2010 jumped to €313.1 million from €175.9 million, powered by 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 in relation to the acquisition and integration of Alice.

The rise in consolidated profitability was achieved in tandem with **very strong cash generation by the ADSL business**, with the Group generating €436 million during 2010 (versus €328 million in 2009). Consequently, in 2010 consolidated free cash flow was at breakeven, despite the Group's major capital spending projects.

Excluding Alice

In 2010, the Group continued its growth trajectory while enhancing profitability:

- **organic revenue growth came to 9%;**
- **EBITDA margin reached a record high of more than 40%, up 1.1 points on 2009**, reflecting the positive impact of unbundling operations and tight control over the main expense items.

Alice

Alice swiftly turned around its financial position in 2010, due to:

- **the full-year favorable impact of measures taken in 2009**, particularly in terms of reducing 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 resulted in **Alice contributing €83.2 million to consolidated EBITDA**, versus €23.7 million in 2009. Alice also had an accretive impact on consolidated profit and free cash flow in 2010.

1.3 COMPARISON OF RESULTS FOR 2010 AND 2009

(in € millions)	Dec. 2010, 31	Dec. 2009, 31	% change
Revenues	**2,038.3**	**1,954.5**	**4.3%**
Purchases used in production	(899.5)	(920.3)	-2.3%
Gross profit	**1,138.8** 55.9%	**1,034.2** 52.9%	**10.1%** -
Payroll costs	(104.4)	(108.6)	-3.9%
External charges	(144.1)	(154.0)	-6.4%
Taxes other than on income	(37.3)	(42.9)	-13.1%
Additions to provisions	(29.0)	(29.3)	-1.0%
Other income and expenses from operations, net	(25.9)	(38.0)	-31.8%
EBITDA	**798.1** 39.2%	**661.4** 33.8%	**20.7%** -
Share-based payment expense	(8.1)	(7.3)	11.0%
Depreciation, amortization and provisions for impairment of non-current assets	(312.1)	(294.7)	5.9%
Profit from ordinary activities	**477.9**	**359.4**	**33.0%**
Other operating income and expense, net	61.0	(26.5)	-330.2%
Operating profit	**538.9** 26.4%	**332.9** 17.0%	**61.9%** -
Financial income and expense, net	(49.5)	(49.0)	1.0%
Corporate income tax	(176.3)	(109.0)	61.7%
Profit/(loss) from discontinued operations	0.0	1.0	-100.0%
Profit for the period	**313.1**	**175.9**	**78.0%**

1.3.1 Analysis of consolidated results

Consolidated profit surged 78% to €313.1 million in 2010 from €175.9 million in 2009, in line with the Group's targets.

(a) Revenues

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

(in € millions)	Dec. 2010, 31	Dec. 2009, 31	% change
Broadband revenues (excluding inter-segment sales)	2,024.9	1,938.3	4.5%
- ISP revenues (ADSL, Pay-as-you-go, dial-up packages)	*1,975.9*	*1,900.9*	*3.9%*
- Hosting and advertising revenues	*26.4*	*24.0*	*10.0%*
- Other revenues	*22.6*	*13.4*	*68.7%*
Inter-segment sales	3.8	5.1	-25.5%
Total Broadband revenues	**2,028.7**	**1,943.4**	**4.4%**
Traditional Telephony revenues (excluding inter-segment sales)	13.4	16.2	-17.3%
Inter-segment sales	27.7	24.0	15.4%
Total Traditional Telephony revenues	**41.1**	**40.2**	**2.2%**
Elimination of inter-segment sales	(31.5)	(29.1)	8.2%
Total consolidated revenues	**2,038.3**	**1,954.5**	**4.3%**

Consolidated revenues climbed €83.8 million or 4.3% in 2010, topping €2 billion for the first time due to sustained growth in the Broadband segment. Meanwhile, the Traditional Telephony segment's weighting within the consolidated revenue figure has become increasingly lower.

ISP revenues

ISP revenues rose 3.9% from €1,900.9 million to €1,975.9 million, reflecting the combined impacts of:

- **5% organic growth from Free**, with the subscriber base up by 191,000 over the period;
- **the unfavorable impact on the Alice brand** (a negative 16.7% in 2010) caused by the discontinuation of Alice's wholesale business operations and the erosion of its subscriber base;

	Dec. 2010, 31	Dec. 2009, 31	Dec. 2008, 31
Total Broadband subscribers	**4,534,000**	**4,456,000**	**4,225,000**
- Free	3,969,000	3,778,000	3,389,000
- Alice	565,000	678,000	836,000
Percentage of unbundled subscribers	**89.2%**	**85.4%**	**78.7%**

- **an increase in the use of value-added services.** Revenues generated by these services in 2010 totaled €489.3 million, versus €474.7 million for 2009, representing an increase of more than 3%. This overall rise reflects the combined effects of (i) a decrease in the weighting of Telephony (due to a 23.5% drop in landline call termination charges during the year and the inclusion of new countries in the flat-rate package and (ii) continued growth in the contribution from audiovisual value-added services. During 2010, more than 10 million subscribers signed on for VoD and S-VoD offerings, representing year-on-year growth of almost 18%.

The commercial success of the Free offering and the synergies achieved on the integration of Alice enabled the Group to keep ARPU at above €36 for the fourth quarter of 2010, at €36.1.

(in €)	**Q4 2010 Incl. Alice**	**Q4 2009 Incl. Alice**	**Q4 2008 Incl. Alice**
ARPU...........................	36.1	36.5	35.9

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 €26.4 million in 2010, up from €24 million in 2009.

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

Traditional Telephony revenues (excluding inter-segment sales)

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

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

Inter-segment sales

The bulk of inter-segment sales consists of billings to the Traditional Telephony segment of telecommunications services provided over the Free network. Total inter-segment sales – which are eliminated in consolidation – amounted to €31.5 million in 2010 versus €29.1 million in 2009.

(b) Gross profit

Consolidated gross profit came to €1,138.8 million in 2010, up 10.1% on the €1,034.2 million recorded in 2009. As a percentage of revenues, it climbed 3.0 points to 55.9%, spurred by:

- **the positive effect** of the rise in the unbundling rate on the back of strong sales momentum by Free and the launch of over 700 new connection nodes in 2010, which drove up the unbundling rate by 3.8 points. At December 31, 2010, the Group's unbundling rate was 89.2%, well above the original target;

- **a decrease in operating costs**;

- the above-described **growth in audiovisual value-added services**;

- **the successful synergies** put in place for Alice.

(c) Payroll costs

Payroll costs excluding employee benefits represented 5.1% of consolidated revenues in 2010.

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

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

(d) External charges

The Group's external charges stood at €144.1 million in 2010 against €154 million in 2009. This decrease is mainly attributable to the Group's efforts to gradually bring in-house functions that were outsourced by Alice prior to being integrated into the Group.

(e) Taxes other than on income

Taxes other than on income decreased in 2010 to €37.3 million from €42.9 million in 2009. This item mainly comprises the contributions to the COSIP support fund for the audiovisual industry and the tax set up in France for financing the public audiovisual sector.

(f) Additions to provisions

Additions to provisions amounted to €29.0 million versus €29.3 million in 2009. This decrease was chiefly due to lower provisions recorded for doubtful customer accounts relating to the Alice brand.

(g) Other income and expenses from operations, net

This item represented a net expense of €25.9 million, compared with a net expense of €38 million in 2009. The total includes royalties, bad debt writedowns (net of provision reversals) and gains and losses on asset disposals. The sharp year-on-year decrease mainly reflects a reduction in bad debts written off for the Alice brand.

(h) EBITDA

Consolidated EBITDA climbed 20.7% to €798.1 million. The EBITDA margin came to 39.2%, up 5.4 points on the 33.8% recorded in 2009. This strong increase was attributable to:

- the above-described rise in gross profit;
- the absorption of fixed costs by business growth;
- an €83.2 million contribution to consolidated EBITDA by Alice, outstripping targets.

(i) Operating profit

Operating profit surged 61.9% to €538.9 million in 2010 from €332.9 million the previous year, propelled by:

- the above-described increase in EBITDA;
- the fact that the depreciation-to-revenues ratio remained more or less stable, representing 15.3% in 2010 versus 15.1% in 2009, as the cost of the Freeboxes was kept at €180 during the period;
- the fact that no further restructuring costs were recorded for Alice.

(j) Profit for the period

Thanks to the steep rise in operating profit, and taking into account non-recurring items, the Group ended 2010 with €313.1 million in profit, representing a 78% jump compared to the €175.9 million profit figure for 2009.

1.3.2 Breakdown of results by segment for 2010 and 2009

Consolidated revenues and operating expenses disclosed in the financial statements do not match the sum of the segment revenues and expenses set out below, due to the elimination of inter-segment transactions.

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

(in € millions)	Dec. 2010, 31	Dec. 2009, 31	% change
Revenues	**2,028.7**	**1,943.4**	**4.4%**
Purchases used in production	(899.5)	(919.8)	-2.2%
Gross profit	**1,129.2** 55.7%	**1,023.6** 52.7%	**10.3%**
Payroll costs	(99.1)	(104.1)	-4.8%
External charges	(140.2)	(149.3)	-6.1%
Taxes other than on income	(36.8)	(42.4)	-13.2%
Additions to provisions	(28.6)	(28.9)	-1.0%
Other income and expenses from operations, net	(25.7)	(37.8)	-32.0%
EBITDA	**798.8** 39.4%	**661.1** 34.0%	**20.8%**
Share-based payment expense	(6.9)	(6.0)	15.0%
Depreciation, amortization and provisions for impairment of non-current assets	(311.9)	(294.6)	5.9%
Profit from ordinary activities	**480.0**	**360.5**	**33.1%**
Other operating income and expense, net	50.6	(26.5)	-
Operating profit	**530.6**	**334.0**	**58.9%**

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

(in € millions)	Dec. 2010, 31	Dec. 2009, 31	% change
Revenues	**41.1**	**40.2**	**2.2%**
Gross profit	**39.3**	**36.8**	**6.8%**
EBITDA	**(0.7)**	**0.2**	**-**
Profit/(loss) from ordinary activities	**(2.0)**	**(1.1)**	**-**
Other operating income and expense, net	10.4	0.0	-
Operating profit/(loss)	**8.4**	**(1.1)**	**-**

1.3.3 Cash flows and capital expenditure

The Group's cash flow and liquidity position were mainly affected by the following factors in 2010:

- a near-33% increase in free cash flow generated by the ADSL business, to €436 million;
- €262 million in cash outflows recorded in connection with the rollout of the mobile network;
- a balanced Free Cash Flow;
- an extension to the Group's sources of liquidity, as a result of (i) refinancing the €1,200 million syndicated loan by setting up a new €1,400 million syndicated credit facility, and (ii) setting up a €150 million loan from the European Investment Bank.

(in € millions)	Dec. 2010, 31	Dec. 2009, 31
Net cash generated from operating activities	874.9	734.3
Net cash used in investing activities	(793.7)	(424.2)
Net cash used in financing activities	(374.1)	(17.1)
Net change in cash and cash equivalents............	**(292.9)**	**293.0**
Cash and cash equivalents at year-end.....................	337.5	630.4

Net cash generated from operating activities:

Net cash generated from operating activities totaled €874.9 million in 2010 (including non-recurring income of €125 million), compared with €734.3 million (including €144 million in non-recurring income) in 2009.

Net cash used in investing activities:

Net cash used in investing activities rose sharply to €793.7 million in 2010 from €424.2 million in 2009, reflecting the Group's policy of proactively investing in growth projects, including the following:

- ADSL-related capital expenditure (including network expenditure due to increased unbundling and subscriber-related expenditure for modems and other connection expenses), which came to €326 million compared with €308 million in 2009. This slight rise was due to building up Freebox Revolution inventories in the last quarter of 2010, representing €50 million, in order to be able to fill orders for this new box as from January 3, 2011;
- a 73% year-on-year increase in FTTH-related capital expenditure excluding finance leases, which totaled €194 million on account of the faster pace of horizontal rollouts carried out by the Group. In 2010, expenditures under finance leases as part of the FTTH project amounted to €50 million;
- the acquisition of the 3G mobile license for €242.7 million, and some €20 million in other mobile-related capital expenditure undertaken in 2010 – an amount which was contained thanks to favorable conditions negotiated with suppliers.

Net change in cash and cash equivalents:

The € 292.9 million net decrease in cash and cash equivalents was primarily attributable to the fact that the Group repaid €325 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.).

At December 31, 2010, the Group had gross debt of €1,036.2 million and net debt of €691.3 million. Despite the acquisition of the 3G mobile license for more than €240 million during the year, Iliad still has one of the lowest debt levels among European telecom operators, with a leverage ratio of 0.87x at December 31, 2010 versus 1.01x at the previous year-end.

The Group's gross debt primarily comprised the following at end-2010:

"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%.

A €1,400 million syndicated credit facility

On June 9, 2010, the Group refinanced the €1,200 million loan granted when it acquired Liberty Surf Group in 2008 by setting up a new €1,400 million syndicated credit facility. This new facility – which was arranged with a pool of 11 international banks – comprises two tranches:

- a €600 million loan tranche to refinance the Group's net debt, which was fully drawn down at December 31, 2010;
- a revolving tranche of €800 million expiring in June 2015. None of this tranche had been drawn down at December 31, 2010.

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

Loan granted by the European Investment Bank (EIB)

During the year Iliad was granted a €150 million loan from the EIB in order to help finance the rollout of ADSL and FTTH networks. The loan has a 10-year term and is repayable in installments. None of the loan had been used at December 31, 2010.

At December 31, 2010 all of the covenants on the Group's credit facilities were respected.

Finance lease commitments

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

At December 31, 2010, the Group's total obligations under finance leases amounted to €95.6 million, up €43 million on December 31, 2009.

1.3.5 Ownership structure at December 31, 2010

At December 31, 2010, Iliad's share capital was made up of 54,696,740 ordinary shares, held by the following shareholders:

- Executive Management: 37,341,890 shares, representing 68.3% of the share capital;
- Public: 17,354,850 shares, representing 31.7% of the share capital.

At December 31, 2010, there were six Iliad stock option plans in place with the following main characteristics:

	Grant date	Exercise price	Exercise date	Number of shares under option
Options	January 20, 2004	€16.30	January 20, 2008	28,245
Options	December 20, 2005	€48.44	December 20, 2009/ December 20, 2010	227,712
Options	June 14, 2007	€74.62	June 13, 2012	162,455
Options	August 30, 2007	€68.17	August 30, 2012	680,300
Options	November 5, 2008	€53.79	November 5, 2013	577,400
Options	August 30, 2010	€67.67	August 29, 2014	182,250
Options	August 30, 2010	€67.67	August 29, 2015	425,250
Total			**Total**	**2,283,612**

1.4 ADDITIONAL INFORMATION

1.4.1 Strategic objectives

In light of its strong 2010 results the Group intends to continue to implement its strategy of achieving profitable growth and has set itself the following objectives:

(a) Operational objectives:

- as part of the rollout of its FTTH network, the Group:
  - expects to have around 100,000 FTTH subscribers by end-2011,
  - is standing by its objective of covering 4 million homes horizontally by end-2012;
- as part of its mobile telephony project the Group's objectives are:
  - to cover 27% of the French population by January 2012,
  - to launch a commercial offering in early 2012;

- to reach a subscriber unbundling rate of around 90% in the medium term;
- to attain a 24%-25% share of the Broadband market in the long term.

(b) Financial objectives:

- to achieve free cash flow from ADSL operations in excess of €1.1 billion between 2010 and 2012 (including Alice);
- to double Group revenues by 2015.

1.4.2 Events after the balance sheet date

In accordance with the terms of the UMTS licenses, Free Mobile (Iliad Group) and Orange signed a national 2G mobile roaming agreement on March 2, 2011. Free Mobile and Orange have decided to extend this agreement to 3G.

This agreement will take effect once Free Mobile – having committed under the terms of its license to the rollout of its own network covering at least 90% of the French population by 2018 – has achieved coverage of at least 25% of the French population.

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 Broadband subscribers invoiced for the period.

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

Free cash flow from ADSL operations represents EBITDA less investments made in connection with property, plant and equipment and intangible assets acquired for the Group's ADSL operations.

FTTH (Fiber To The Home) 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 Broadband subscribers at the end of two different periods.

Total Broadband 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 Broadband service, excluding those recorded as having requested the termination of their subscription.

Unbundled subscribers are subscribers who have signed up for the Group's ADSL service on a Central Office unbundled by Free.