Société anonyme. Share capital: €12,679,868

Registered office: 16, rue de la Ville l'Evêque –
75008 Paris

Registered in Paris under no. 342 376 332 iliad

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1. ANALYSIS OF THE GROUP'S BUSINESS AND RESULTS

KEY CONSOLIDATED FINANCIAL DATA

In € millions	**Six months to June 30, 2012**	**Six months to June 30, 2011**	**Year ended Dec. 31, 2011**
INCOME STATEMENT			
Revenues	1,444.3	1,041.6	2,122.1
EBITDA	***417.3***	***416.4***	**833.4**
Profit from ordinary activities	178.5	259.8	498.2
Other operating income and expense, net	(3.6)	-	(4.6)
Operating profit	174.9	259.8	493.6
Finance costs, net	(26.8)	(31.2)	(46.8)
Other financial income and expense, net	(15.1)	-	(34.0)
Corporate income tax	(53.4)	(83.1)	(161.0)
Profit for the period	**79.6**	**145.0**	**251.8**
BALANCE SHEET			
Non-current assets	3,582.0	2,540.1	3,204.0
Current assets	854.3	1,145.0	600.5
Of which cash and cash equivalents	*402.9*	*952.0*	*357.4*
Assets held for sale	50.6	69.4	54.9
Total assets	**4,486.9**	**3,754.5**	**3,859.4**
Total equity	1,589.9	1,213.7	1,523.9
Non-current liabilities	1,731.2	1,630.5	1,466.3
Current liabilities	1,165.9	910.3	869.2
Total equity and liabilities	**4,486.9**	**3,754.5**	**3,859.4**
CASH FLOWS			
Net cash generated from operating activities	385.3	429.4	779.6
Net cash used in investing activities	(479.0)	(398.2)	(1,156.4)
Dividends	(21.2)	-	(21.9)
Net change in cash and cash equivalents (excluding financing activities)	(150.8)	14.8	(412.9)
Cash and cash equivalents at period-end	395.8	940.0	350.5

1.1 OVERVIEW

Fueled by the success of its broadband offering marketed under the Free brand, the Iliad Group (also referred to as the "**Group**") has positioned itself as a major player in the French telecommunications market. In addition, since January 10, 2012 when it launched its mobile offerings, the Group has become an integrated operator present in both the broadband and mobile markets.

At June 30, 2012, the Group had over 5.1 million broadband subscribers and 3.6 million mobile subscribers, representing market shares of almost 24% in the ADSL segment and 5.4% in the mobile segment.

Prior to the launch of its mobile offerings in early 2012, the Group's operations were split into two segments – Broadband and Traditional Telephony (with this segment's contribution to consolidated revenues becoming increasingly lower over time).

Since the launch of its mobile offerings, the Group has redefined its business segments, with the creation of a new segment called Retail Telephony for which it now issues specific reporting data.

As substantially all of its operations are in France, the Group only has one geographic segment.

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

EBITDA – which corresponds to profit from ordinary activities before share-based payment expense, depreciation, amortization and provisions for impairment of non-current assets – is a key performance indicator for the Group and is used throughout this management report.

1.1.1 Breakdown of revenues

(a) Landline revenues

Offerings and services available under the Free and Alice brands

The Group offers its subscribers the following different Internet access solutions (at prices ranging from €9.99 to €35.98 per month), 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).

- **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 to 60 or 107 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.

- Free proposes the broadest **television offering** in the market, comprising over 400 channels (of which some 60 or 185 are included in the basic packages) with 30 high definition channels.

- Free also offers its subscribers **numerous value added services** including catch-up TV, video on demand (VOD or S-VOD) and subscription to Canal+ channels.

In line with its image as a pioneer in technological innovation, in December 2010 Free launched the **Freebox Revolution**, which allows subscribers to connect all of their terminals and offers optimal Internet access. The Freebox Revolution also includes many innovative new services, such the NAS server with a 250GB hard disk which is accessible from anywhere, a Blu-ray player, and calls to all mobile numbers in mainland France.

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

The Hosting business is structured around three service areas, each of which is represented by a brand:

- **Shared hosting services**, marketed under the Online brand, which correspond to website hosting and the purchase and resale of domain names. These services are invoiced to customers based on an annual subscription and are primarily targeted at private individuals as well as very small businesses that have relatively low data storage requirements.

- **Dedicated hosting services**, marketed under the Dedibox brand, which correspond to the provision of dedicated servers to private individuals and SMEs that wish to secure their data. This offering is invoiced based on a monthly subscription.

- **Server collocation services,** which consist of providing physical space in fully secure and accessible data centers.

(b) Mobile revenues

Since January 10, 2012, the Group has proposed two simple value-for-money mobile offerings:

- **A €2/month no-contract offering (€0 for Freebox subscribers)** for 60 minutes of voice calls in mainland France and 60 SMS per month. This plan includes services such as voice mail, caller display and usage monitoring. It was primarily designed for subscribers wanting to make voice calls at highly competitive prices. Under the plan, subscribers can opt for additional minutes or SMS as well as for calls outside France and access to the Internet.

- **A €19.99/month no-contract offering (€15.99/month for Freebox subscribers)** with unlimited voice calls, SMS, MMS and Internet (3GB fair usage policy with speeds slowed once 3GB is reached). All subscribers to this plan can make unlimited calls to landlines in 40 foreign countries and to mobiles in Canada and the United States (including Alaska and Hawaii), and also have unlimited access to the FreeWiFi network.

In tandem, the Group offers a **selection of the best mobile phones in the market**, including the Apple and Samsung ranges. With a view to being as transparent as possible, Free sells its phones separately from its subscriptions, which means that subscribers can opt for whichever plan and phone they prefer, or can choose not to purchase a phone at all. Subscribers who do purchase a phone can either pay for it upfront or in several installments (over 12, 24 or 36 months). In both cases, the Group recognizes in its financial statements the revenue generated from the sale of the mobile phones.

1.1.2 The Group's main operating costs

1.1.2.1 Operating costs

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

- **Option 1** (subscribers on an unbundled line), whereby the Group markets services entirely on its own network (excluding the local loop).

Under Option 1, direct costs per subscriber and per month, as mentioned in the basic unbundling offer, were as follows at June 30, 2012:

Operating costs (partial unbundling)

- Rental of the copper pair and the ADSL splitter: €1.57
- Other costs (backhaul cables, room rental, optical fiber leasing payments, etc.): €1.91

Operating costs (full unbundling)

- Rental of the copper pair: €8.80
- Other costs (backhaul cables, room rental, optical fiber leasing payments, etc.): €1.91

- **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 Option 5, 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.

The respective monthly fees for the "DSL Access" and "DSL Access Only" services are €4.21 (applicable since January 1, 2012) and €12.55 (since February 1, 2012), respectively.

IP transit service costs vary depending on the bit rate used by all Option 5 subscribers. The price terms applicable in first-half 2012 were as follows:

- Usage fee per Mbps: €12.00
- Access fees: €4.44

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.

- **Mobile call termination charges**

In its decision dated July 27, 2012, ARCEP (the French electronic communications regulatory authority) set the following mobile call termination rates for the period from July 1, 2012 through December 31, 2013:

(in euro cents)	**Second-half 2012**	**First-half 2013**	**Second-half 2013**
Orange	1.0	0.8	0.8
SFR	1.0	0.8	0.8
Bouygues	1.0	0.8	0.8
Free Mobile	**1.6**	**1.1**	**0.8**

- **Roaming charges**

The Group has to pay roaming charges for areas that are not directly covered by Free Mobile's own network. The roaming services provided to the Group are defined in a roaming agreement signed with France's incumbent operator during the first half of 2011. This agreement has a six-year term commencing from the commercial launch of the Group's mobile offerings and applies to 2G and 3G technologies.

The charges provided for in the roaming agreement include (i) a fixed portion corresponding to the purchase of a right of use for the period (which is recognized as capital expenditure in accordance with IFRS), and (ii) a variable portion based on volumes (minutes, SMS, MMS, Internet etc.). The volume-based variable portion represents the majority of the roaming charges paid by the Group.

As both gross margin and EBITDA margin are significantly higher for Free Mobile's own-network traffic than for roaming traffic, the Group's objective is to maximize the proportion of traffic carried directly on its own network by pursuing the rollout targets described in section 1.1.3.2 below.

1.1.3 Capital expenditure and depreciation

- **(a) Broadband**

Since the early 2000s, the Group has focused on rolling out its telecommunications network in mainland France, choosing to build a single network based on an 802.3 physical layer (Ethernet) using the various available speeds (100 Mbps, then 1 Gigabits and 10 Gigabits). In less than 15 years, having laid nearly 65,000 km of fiber, it has rolled out one of the largest IP networks in France, both in terms of coverage and traffic volumes.

A portion 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 in the Group’s balance sheet 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:

- Since December 14, 2010, subscribers have been supplied with either the Freebox HD under the traditional offering or the latest-generation Freebox under the Freebox Revolution offer. The Freebox Revolution incorporates state-of-the-art technologies such as PLC (Power Line Communication), a Blu-ray player, a gyroscopic remote control, a gamepad and loud speakers. In first-half 2012, the cost of a Freebox Revolution was around €275.

- Fees invoiced by the incumbent operator for access to unbundling services are €56 per subscriber for full unbundling and €66 for partial unbundling.

All of the above-described items (Freebox modems, access fees and logistics costs) are depreciated over a period of five years.

Under Option 5, total capital expenditure is lower as the majority of new subscribers are provided with Freebox version 5 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: €56.00
- Fees for access to the DSL Access Only service: €61.00
- 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 five years as from when the related services are provided.

(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.

In very densely populated areas, as defined by ARCEP, 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”);
- “vertical rollout”, which consists of:
  - laying optical fiber within buildings up to the front doors of each household or business for which Free Infrastructure holds the connection agreement, or
  - connecting buildings made available by third-party operators under rollout pooling agreements;
- 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 June 30, 2012 the Group had 226 such sites against 221 one year earlier. These ONs represent potential coverage of approximately 3.3 million FTTH plugs.

The horizontal rollouts are undertaken either by the Group's own teams or subcontractors. In the first half of 2012, the Group completed its rollouts in those areas where work had already started in 2011 but did not launch any works in new areas so that it could concentrate on connecting up buildings and subscribers in areas that are already covered.

Following ARCEP's finalization in 2011 of the regulatory framework for "very densely populated" areas, the Group set up a dedicated organizational structure and specific industrial production processes for connecting up buildings made available by third-party operators through pooling agreements. As a result, the pace of building connections picked up in first-half 2012 in areas where the horizontal rollout process was already completed and the Group expects these connections to speed up even further in the second half of the year. Consequently, the number of homes eligible for an FTTH offering is growing, which will in turn push up the level of subscriber connections.

For areas that do not fall within the “very densely populated” category, the Group has entered into a co-financing agreement with France Telecom-Orange for some sixty conurbations representing around 5 million homes. The agreement falls within the scope of France Telecom-Orange’s third-party operator access offer for its FTTH network outside very densely populated areas, which allows each operator to invest only to the extent of the lines needed to serve its subscribers in the local area concerned. This pooling of resources to introduce a network shared among the fiber optic providers and subscribers is aimed at expanding the service to a wider population.

(c) Rollout of a network of mobile masts

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, Free Mobile has put in place a specific organizational structure to manage and oversee its network rollout process, which notably involves:

- seeking out sites, which entails site identification and reporting on each site’s mobile coverage potential;
- undertaking discussions with all types of lessors, including private individuals, condominium owners, housing associations, corporate and institutional lessors and companies with substantial real estate portfolios such as hotel chains;
- carrying out administrative and regulatory procedures to obtain the necessary authorizations to perform works (such as preliminary planning statements, building permit applications etc.);
- organizing, planning and managing projects as well as coordinating the work of the various people and entities involved in both the validation process and subsequent site construction work, notably via a collaborative information system;
- ensuring a full understanding of and compliance with safety rules related to performing installation works at height and the use of mobile communications equipment.

By putting in place this structure the Group has been able to achieve direct coverage of more than 27% of the French population in less than two years. On December 13, 2011, having verified Free Mobile's coverage, ARCEP confirmed that the Group had complied with the coverage obligation contained in its 3G license. This meant that Free Mobile was permitted to launch its first commercial offerings.

During the first six months of 2012, the Group intensified its rollout measures, focusing wherever possible on high-traffic areas.

In view of the progress of its rollouts, the Group is standing by the objectives set in connection with Free Mobile's commitments to ARCEP, namely to achieve coverage levels of 75% of the French population by 2015 and 90% by 2018.

The aggregate amount of network expenditure forecast for the purposes of rolling out the Group's mobile network is €1 billion.

The Group's capital outlay for its mobile business in first-half 2012 notably included increased investment in the rollout of the mast network and payment of the fixed portion of the charges due under the roaming agreement.

In light of the commercial launch of the mobile business at the beginning of the year, the Group began to depreciate/amortize the various items brought into service (license, radio equipment, etc.) as from January 2012. The depreciation/amortization periods applied are as follows:

- 3G license: 18 years
- Network equipment: 4 years
- Other equipment and assets: 6 years

1.2 SIGNIFICANT EVENTS OF THE PERIOD

In € millions	Six months to June 30, 2012	Six months to June 30, 2011	% change
Consolidated revenues	**1,444.3**	**1,041.6**	**38.7%**
- *Landline business*	*1,130.4*	*1,041.6*	*8.5%*
- *Mobile business*	*319.5*	-	-
- *Inter-segment sales*	*(5.6)*	-	-
Consolidated EBITDA	**417.3**	**416.4**	**0.2%**
- *Landline business*	461.6	416.4	10.9%
- *Mobile business*	(44.3)	-	-
Profit from ordinary activities	**178.5**	**259.8**	**-31.3%**
Profit for the period	**79.6**	**145.0**	**-45.1%**
Free Cash Flow from ADSL operations	**229.4**	**196.0**	**17.0%**
Leverage ratio	**1.35x**	**0.83x**	**-**

The first half of 2012 was a milestone period for the Iliad Group, marked by (i) the commercial launch of its mobile offerings, with over 3.6 million subscribers in less than six months, (ii) an outstanding performance in the landline market in France, which helped to cement our position as the country's leading alternative operator with over 5.1 million subscribers, and (iii) a robust financial performance which enabled us to maintain an extremely solid balance sheet structure.

- **An outstanding debut for the Group's mobile offerings,** with over 3.6 million subscribers in less than six months, representing a 5.4% market share. Revenues generated by this new business came to €319.5 million for the period.

- **The landline business: a virtuous circle of profitable growth.** Against a backdrop of renewed growth in its traditional operations (which reported an 8.5% revenue increase in first-half 2012), the Group boosted its profitability by continuing to focus on unbundling and optimizing its fixed cost base. As a result, the EBITDA margin for the landline business came in at 40.8%.

- **Solid financial structure and results.** At €417 million, consolidated EBITDA was slightly up on first-half 2011, with growth in the landline business enabling the Group to absorb the dilutive impact of the negative EBITDA contribution from its mobile business.

  Profit from ordinary activities amounted to €180 million in first-half 2012, down 31% year on year. The decrease was primarily due to the beginning of depreciation/amortization for the Group's mobile assets (network, licensing, roaming etc.) and, to a lesser extent, higher depreciation/amortization related to optical fiber and the Freebox Revolution.

  In view of the above, profit for the period stood at €80 million versus €145 million in first-half 2011.

  Consolidated Free Cash Flow was a negative €151 million in the first half of 2012, reflecting the combined impacts of the following:

  - a 14% rise in operating Free Cash Flow, which topped €500 million in first-half 2012, including a €79 million change in working capital requirement;

  - a 20% increase in net cash used in investing activities, from €399 million in first-half 2011 to €479 million in the first half of 2012, chiefly as a result of higher capital expenditure for the mobile business;

  - €229 million in Free Cash Flow from ADSL operations, up nearly 17% on the same period of 2011;

  - payment of the 2011 dividend amounting to €21 million;

  - payment of the remaining tax due for 2011 and the majority of the tax due for full-year 2012, representing a combined amount of €116 million.

1.3 COMPARISON OF RESULTS FOR FIRST-HALF 2012 AND FIRST-HALF 2011

In € millions	Six months to June 30, 2012	Six months to June 30, 2011	% change
Revenues	**1,444.3**	**1,041.6**	**38.7%**
Purchases used in production	(770.0)	(461.7)	66.8%
Gross profit	**674.3**	**579.9**	**16.3%**
as a % of revenues	*46.7%*	*55.7%*	**-**
Payroll costs	(83.0)	(59.6)	39.3%
External charges	(95.8)	(74.4)	28.8%
Taxes other than on income	(14.5)	(11.5)	26.1%
Additions to provisions	(56.0)	(13.5)	-
Other income and expenses from operations, net	(7.7)	(4.5)	71.1%
EBITDA	**417.3**	**416.4**	**0.2%**
as a % of revenues	*28.9%*	*40.0%*	
Share-based payment expense	(5.8)	(4.8)	20.8%
Depreciation, amortization and provisions for impairment of non-current assets	(233.0)	(151.8)	53.5%
Profit from ordinary activities	**178.5**	**259.8**	**-31.3%**
Other operating income and expense, net	(3.6)	-	-
OPERATING PROFIT	**174.9**	**259.8**	**-32.7%**
Finance costs, net	(26.8)	(22.0)	21.8%
Other financial income and expense, net	(15.1)	(9.2)	64.1%
Corporate income tax	(53.4)	(83.1)	-35.8%
PROFIT FOR THE PERIOD	**79.6**	**145.0**	**-45.1%**

1.3.1 Analysis of consolidated results

(a) Revenues

Consolidated revenues for the six months ended June 30, 2012 climbed by more than €400 million, or nearly 40%, year on year, driven by the outstanding sales performance turned in by the landline business as well as the success of the mobile offerings launched on January 10, 2012.

The table below shows the breakdown of revenues by business and category for first-half 2012 and first-half 2011 as well as the percentage change between the two periods.

In € millions	Six months to June 30, 2012	Six months to June 30, 2011	% change
Landline business	**1,130.4**	**1,041.6**	**8.5%**
Mobile business	**319.5**	**-**	**-**
Inter-segment sales	(5.6)		
Total consolidated revenues	**1,444.3**	**1,041.6**	**38.7%**

Landline revenues

Landline revenues rose from €1,042 million in first-half 2011 to €1,130 million in the first six months of 2012, representing growth of 8.5% versus 2.6% the previous year. The increase between first-half 2012 and 2011 primarily reflects the impacts of the following:

- **an outstanding sales performance in the first six months of 2012.** With 298,000 new subscribers during the period (net of terminations and excluding migrations from Alice), the Group's market share of net adds topped 54%[1], marking a record high. This achievement once again demonstrates the appeal of the Freebox Revolution offering as well as the strong reputation of the Free brand which has been boosted by the launch of its mobile offerings;

- **acceleration of the loyalty and retention program for Alice subscribers.** In early 2011 the Group launched a program offering Alice subscribers the possibility of migrating to Free's offers (including the Freebox Revolution). A total of 90,000 Alice subscribers took up this option during the first half of 2012 versus 44,000 in the same period of 2011;

[1] Based on a total market of 551,000 ADSL recruitments over the period.

	June 30, 2012	June 30, 2011	June 30, 2010
Total broadband subscribers	**5,147,000**	**4,717,000**	**4,514,000**
- Free	4,885,000	4,245,000	3,903,000
of which migrations from Alice to Free	*90,000*	*44,000*	-
- Alice	262,000	472,000	611,000
Percentage of unbundled subscribers	**93.6%**	**90.8%**	**87.5%**

- **the negative impact in first-half 2011 of the change in the VAT regime** for triple play offers;

- **consolidation of the Group's ARPU figure (end of period) for the first half of 2012, coming in at €35.5** and notably reflecting the success of the Freebox Revolution offering which has an ARPU of over €38.

In €	June 30, 2012	June 30, 2011	June 30, 2010
ARPU	**35.5**	**35.5**	**36.3**
Freebox Revolution ARPU	**>38**	**>38**	**-**

Mobile revenues

The first half of 2012 was marked by the commercial success of the Group's mobile offerings. The mobile business generated €320 million in revenues in less than six months, chiefly driven by:

- **the considerable commercial success achieved by the innovative mobile offerings** proposed by Free, which enabled the Group to attract 3,600,000 subscribers – representing a 5.4% share of the French mobile market – in less than six months;

- **an even distribution of subscriptions** between the two available plans, between the Free community and newcomers, and between subscriptions with mobile number portability and those with a new phone number assigned.

Inter-segment sales

Inter-segment sales – which are eliminated in consolidation – essentially correspond to billings of interconnection operations between the mobile and landline businesses.

(b) Gross profit

Consolidated gross profit came to €674 million in the first half of 2012, up €94 million on the equivalent period of 2011. As a percentage of revenues, however, it decreased nearly 9 points due mainly to the dilutive impact of the mobile business. The main factors affecting gross profit during the period were:

- **the positive effects of lower operating costs and a rise in the unbundling rate in the landline business.** The Group opened over 500 new connection nodes during first-half 2012, pushing up its unbundling rate by almost 3 points year on year to over 93.6% at June 30, 2012;

- **decreases in mobile call termination charges, which boosted gross profit on Freebox Revolution subscriptions.** Following on from the slight reduction in the landline business' gross margin in second-half 2011 – due mainly to the success of the Freebox Revolution offering and the high number of calls made to mobiles – gross profit on Freebox Revolution subscriptions increased in the first six months of 2012 as a result of lower mobile call termination charges applicable from January 1;

- **dilutive impact of the mobile business on gross margin.** As the Group expected, its mobile business had a dilutive impact on gross margin;

- **the advantages of being an integrated operator.** The rapid development of the Group's mobile business has enabled it to achieve cost and revenue synergies, especially concerning interconnection charges for intra-group calls.

(c) Payroll costs

Payroll costs excluding employee benefits and capitalized costs represented 5.7% of consolidated revenues in first-half 2012, or €83 million.

Subscriber relations are a key priority for the Group, which is why it opted from the very beginning to develop its own call centers which are mainly based in France. For the launch of its mobile offerings the Group recruited some 1,400 employees in the space of one year, and at June 30, 2012 had a total headcount of 6,295.

These efforts were rewarded when Free won first prize in the Podium 2012 customer relationship management awards for mobile telephony given by BearingPoint/TNS Sofres, just five months after launching its mobile offerings.

(d) External charges

The Group's external charges came to €96 million in the first six months of 2012 versus €74 million in the same period of 2011. This item mainly includes the costs of network maintenance, equipment hosting, insurance, advertising and sub-contracting.

(e) Taxes other than on income

Taxes other than on income rose by 26% year on year to €14.5 million.

(f) Additions to provisions

Additions to provisions – which notably include provisions for bad debts – amounted to €56 million compared with €13.5 million in first-half 2011. This year-on-year increase is mainly due to the launch of the mobile business and the fact that a strict policy has been introduced for this business on the recognition of provisions for certain expenses and bad debts as it is in a very high-growth phase.

(g) Other income and expenses from operations, net

This item represented a net expense of €8 million (€4.5 million in first-half 2011), corresponding to 0.5% of consolidated revenues.

(h) EBITDA

Consolidated EBITDA rose slightly year on year to just over €417 million, with growth in the landline business enabling the Group to absorb the losses resulting from the start-up of its mobile business.

EBITDA margin contracted to 28.9%, due to the dilutive impact of EBITDA losses stemming from the launch of the mobile business.

Landline business

EBITDA from the Group's landline business totaled almost €462 million, up nearly 11% on first-half 2011. In addition, thanks to the increase in gross profit from Freebox Revolution subscriptions, the ongoing deployment of the Group's virtuous business model focused on unbundling and the economies of scale achieved in relation to the fixed cost base during the period, the landline business saw a 0.8-point year-on-year rise in its EBITDA margin to 40.8%.

Mobile business

The resounding commercial success of the Group's mobile business in first-half 2012 led to a €44 million EBITDA loss.

(i) Profit from ordinary activities

Profit from ordinary activities retreated 31% year on year, coming in at €179 million. The decrease was primarily due to the beginning of depreciation/amortization for the Group's mobile assets (network, licensing, roaming, etc.) and, to a lesser extent, higher depreciation/amortization related to optical fiber and the Freebox Revolution.

(j) Profit for the period

In view of the above, profit for the period contracted 45%, to €80 million from €145 million in first-half 2011.

1.3.2 Cash flows and capital expenditure

In € millions	**Six months to June 30, 2012**	**Six months to June 30, 2011**	**% change**
Consolidated cash flow	**422.2**	**414.3**	1.9%
Change in working capital requirement	78.7	24.1	-
Operating Free Cash Flow	**500.9**	**438.4**	**14.3%**
Net cash used in investing activities	(479.0)	(398.5)	20.2%
Income tax paid	(115.5)	(9.0)	-
Dividends	(21.2)	-	-
Other	(36.0)	(16.1)	-
Consolidated Free Cash Flow	**(150.8)**	**14.8**	-
Free Cash Flow from ADSL operations	**229.4**	**196.0**	**17.0%**
Cash and cash equivalents at period-end	**395.8**	**940.0**	**-**

Consolidated Free Cash Flow

Consolidated Free Cash Flow was a negative €151 million in the first half of 2012, reflecting the combined impacts of the following:

- a 14% rise in operating Free Cash Flow, which topped €500 million in first-half 2012, including a €79 million change in working capital requirement;
- a 20% increase in net cash used in investing activities, from €399 million in first-half 2011 to €479 million in the first half of 2012, chiefly as a result of higher capital expenditure for the mobile business;
- €229 million in Free Cash Flow from ADSL operations, up nearly 17% on the same period of 2011;
- payment of the 2011 dividend amounting to €21 million;
- payment of the remaining tax due for 2011 and the majority of the tax due for full-year 2012, representing a combined amount of €116 million.

Net change in cash and cash equivalents

The Group ended the first half of 2012 with €396 million in available cash and cash equivalents. Excluding the operating items presented above, the main changes in cash and cash equivalents during the period related to:

- the redemption on January 2, 2012 of the unconverted portion of the Group's convertible bond issue, representing €128 million;

- the start-up of a commercial paper program, of which €184 million had been used at June 30, 2012.

1.3.3 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 June 30, 2012, the Group had gross debt of €1,529 million and net debt of €1,126 million. Despite the launch of its mobile business during the period and the success of its ADSL offerings, the Group maintained a solid financial structure, with a leverage ratio of 1.35x at June 30, 2012. This enabled Iliad to retain its position as one of the European telecom operators with the least amount of debt.

The Group's gross debt primarily comprised the following at June 30, 2012:

A €500 million short-term commercial paper program

During the first half of 2012, the Iliad Group set up a €500 million commercial paper program in order to diversify the sources and maturities of its financing. This program had been used in an amount of €184 million at June 30, 2012.

A €1,400 million syndicated credit facility

On June 9, 2010 the Group set up a €1,400 million syndicated credit facility with a pool of 11 international banks. This facility comprises two tranches:

- A €600 million loan tranche to refinance the Group's net debt, of which €550 million had been drawn down at June 30, 2012.

- A revolving tranche of €800 million expiring in June 2015. None of this tranche had been drawn down at June 30, 2012.

The applicable interest rate is based on Euribor plus a margin of between 2.05% and 1.10% per year depending on the Group's leverage ratio.

A €150 million loan granted by the European Investment Bank (EIB)

The EIB has granted Iliad a €150 million loan in order to help finance the rollout of the Group's ADSL and FTTH networks for the period 2010-2012. The loan is repayable in installments with a final maturity in July 2020. This loan had been fully drawn down at June 30, 2012.

At June 30, 2012 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 roll out its FTTH network and (ii) a portion of its technical equipment.

At June 30, 2012, the Group's total obligations under finance leases amounted to €97 million.

A €500 million bond issue

On May 26, 2011 the Group issued €500 million worth of bonds paying interest at 4.875% per year.

The bonds will be redeemed at face value on June 1, 2016.

1.3.4 Ownership structure at June 30, 2012

At June 30, 2012, Iliad's share capital was made up of 57,219,543 ordinary shares, held by the following shareholders:

- Executive Management: 36,061,405 shares, representing 63.0% of the share capital;
- Public: 21,158,138 shares, representing 37.0% of the share capital.

At June 30, 2012, there were seven Iliad stock option plans in place with a total of 2,257,510 shares under option.

1.4 ADDITIONAL INFORMATION

1.4.1 Strategic objectives

In light of its strong first-half 2012 results the Group intends to continue to implement its strategy of achieving profitable growth and has set itself the following objectives:

(a) Operational objectives:

- Landline business:
  - Achieve a 25% share of the landline broadband market in the long term
  - Step up the pace of optical fiber subscriber connections
  - Pursue horizontal FTTH rollouts
- Mobile business
  - Continue and intensify site rollouts in high-traffic areas
  - Reach a coverage rate of around 75% of the French population by end-2014
  - Achieve a 15% market share in the medium term with a long-term goal of 25%

(b) Financial objectives:

- Landline business:
  - Revenue growth of over 5% in full-year 2012
  - Free Cash Flow from ADSL operations in excess of €1.1 billion between 2010 and 2012

- Group:
  - Robust revenue growth in full-year 2012
  - Revenues of over €4 billion by 2015

1.4.2 Events after the balance sheet date

The EIB has granted the Group an additional loan of €200 million.

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): Includes revenues from the flat-rate package and value-added services but excludes one-time revenues (e.g. fees for migration from one offer to another or subscription and cancellation fees), divided by the total number of broadband subscribers invoiced for the period.

Broadband subscribers: Subscribers who have signed up for the Group's ADSL or FTTH offerings.

Free cash flow from ADSL operations: Represents EBITDA plus or minus changes in working capital and minus investments made in connection with property, plant and equipment and intangible assets acquired for the Group's ADSL operations.

FTTH (fiber-to-the-home): Data delivery technology that directly connects subscribers' homes to an optical node (ON).

Gross profit: Corresponds to revenues less purchases used in production.

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

Net adds: Represents the difference between total broadband subscribers at the end of two different periods.

Total broadband subscribers: Represents, at the end of a period, the total number of subscribers identified by their telephone lines who have signed up for Free's or Alice's broadband service, excluding those recorded as having requested the termination of their subscription.

Total mobile subscribers: Represents, at the end of a period, the total number of subscribers, identified by their telephone lines, who have subscribed to a Free mobile offering, excluding those recorded as having requested the termination of their subscription.

Unbundled subscribers: ADSL subscribers who have signed up for the Group's ADSL or FTTH offerings through a telephone exchange unbundled by Free.