Société anonyme. Share capital: €12,640,545
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1. ANALYSIS OF THE GROUP'S BUSINESS AND RESULTS

KEY CONSOLIDATED FINANCIAL DATA

In € millions	Year ended December 31, 2011	Year ended December 31, 2010	Year ended December 31, 2009
INCOME STATEMENT			
Revenues	2,122.1	2,038.3	1,954.5
Operating income and expense, net	(1,623.9)	(1,560.4)	(1,595.1)
Gross profit	**1,170.4**	**1,138.8**	**1,034.2**
EBITDA	***833.4***	***798.1***	***661.4***
Profit from ordinary activities	498.2	477.9	359.4
Other operating income and expense, net	(4.6)	61.0	(26.5)
Operating profit	493.6	538.9	332.9
Finance costs, net	(46.8)	(41.7)	(50.7)
Other financial income and expense, net	(34.0)	(7.8)	1.7
Corporate income tax	(161.0)	(176.3)	(109.0)
Profit for the period	251.8	313.1	175.9
Profit for the period before non-recurring items	**254.8**	**273.2**	**193.3**
BALANCE SHEET			
Non-current assets	3,204.0	1,904.4	1,602.9
Current assets	600.5	516.2	820.8
Of which cash and cash equivalents	*357.4*	*347.5*	*633.9*
Assets held for sale	54.9	71.6	31.5
Total assets	**3,859.4**	**2,492.2**	**2,455.2**
Total equity	1,523.9	1,078.3	764.4
Non-current liabilities	1,466.3	1,016.0	1,140.5
Current liabilities	869.2	397.9	550.3
Total equity and liabilities	**3,859.4**	**2,492.2**	**2,455.2**
CASH FLOWS			
Net cash generated from operating activities	779.6	874.9	734.3
Net cash used in investing activities	(1,156.4)	(793.7)	(424.2)
Net cash generated from (used in) financing activities	389.8	(374.1)	(17.1)
Net change in cash and cash equivalents	13.0	(292.9)	293.0
Cash and cash equivalents at year-end	350.5	337.5	630.4

1.1 OVERVIEW

The Iliad Group (also referred to as the “Group”) is a major player in the telecommunications market in France, with a market share of 23% in the ADSL broadband segment at December 31, 2011.

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), operations related to the rollout of the FTTH (fiber-to-the-home) network (Free Infrastructure, IRE, Immobilière Iliad and Citéfibre), mobile telephony activities (Free Mobile), and 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 2011, 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, particularly following the commercial launch of its mobile operations on January 10, 2012.

The consolidated financial statements of the Iliad Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union at the end of the reporting period.

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 (excluding the local loop);

  - **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 57, 100 or 101 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.
  The Group also has the most comprehensive catch-up TV offering in the market, through which subscribers can watch or re-watch programs shown on 39 channels within seven days of their initial broadcast. This service is offered at no extra charge for channels included in the subscriber's television package, subject to availability.
  The Group was the first operator in France to broadcast genuine 3D channels (with a total of five at December 31, 2011, including two in the basic package) – a move that has reaffirmed its technological edge over its competitors.
  Since April 2011, the Group has offered its subscribers the possibility of building up their own Disney and ABC collections. Through this exclusive service – which is the first of its kind in France – subscribers can watch films and series via streaming as many times as they like and can also download content and transfer it onto any DivX® certified hardware.
  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, Cinéma[s] à la demande, M6 VOD and Vodeo.tv. 3D content is also offered on several platforms.
  This service enables subscribers to access a catalog of movies at prices starting at €0.99 per movie 24 hours a day, seven 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 for movies and TV series. Thanks to the Group's partnership with Allociné, subscribers to this offering can 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 2011, 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 offer enables subscribers to access games directly via their televisions. Through its partnerships with Gameloft – a leading worldwide developer and publisher of downloadable video games – and TransGaming – the global leader in the multiplatform deployment of 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 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 hosting provided on the Iliad Group's web site equipment as well as the purchase and resale of domain names. These services are invoiced to customers based on an annual subscription. They are referred to as "shared" hosting services because the same server is used to host several sites for several different subscribers. This offering is primarily targeted at private individuals and very small businesses that have relatively low data storage requirements.

- **Dedicated hosting services**, marketed under the Dedibox brand, which correspond to the provision of a dedicated server hosted on the Group's premises. This offering – which is invoiced based on a monthly subscription – proposes a wide range of servers and related prices depending on subscribers' data storage requirements. Subscribers manage their servers and hosted data remotely. The offering responds to a broad spectrum of needs, ranging from private individuals who wish to secure their backups to SMEs that require a large amount of secure data storage space.

- **Server collocation services**, marketed under the Iliad Enterprises brand, which are solely proposed to businesses. This offer consists of providing physical space in our datacenters to house subscribers' bays and servers in a fully secure and accessible space. The amount of space rented can vary from a few square meters to a large-scale dedicated area that can house numerous server bays. In addition to these services Iliad Entreprises offers outsourcing solutions and the purchase and resale of hosting equipment if required by the subscriber.

The Group implemented a capital expenditure program for its Hosting business in 2011, acquiring a new 12,000 sq.m site and increasing the server housing capacity at its first datacenter.

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 unbundled offers and modem renewals. In 2010, ARJEL (France's online gaming regulator) licensed the Group's 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 are generated through the following offerings:

- One.Tel's no-subscription carrier preselection offering.

- Other offerings including ANNU (the reverse look-up directory accessible by Minitel, telephone, Internet and SMS text messaging), Assunet (an insurance broker) and Iliad Telecom (a 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, 2011:

Operating costs under Option 1 (partial unbundling)

- Rental of the copper pair and the ADSL splitter: €1.70

- Other costs (backhaul cables, room rental, optical fiber leasing payments, etc.): €1.99

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.): €1.99

- **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 monthly subscription fee for the DSL Access service was set at €7.30 effective from July 1, 2010 and was reduced to €4.25 as from September 1, 2011.

For the DSL Access Only service the monthly subscription fee was set at €14.15 effective from July 1, 2010 and was reduced to €12.37 as from September 1, 2011.

IP transit service costs vary depending on the bit rate used by all Option 5 subscribers. The price terms applicable in 2011 were as follows:

- Usage fee per Mbps: €30.00
- Access fees: €3.20

On November 1, 2011 access fees were raised to €3.90 per month.

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 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. At the time of its launch, the cost of a Freebox Revolution was around €300. However, during 2011 the Group implemented measures to optimize its production costs, which enabled it to reduce the cost of a Freebox Revolution to around €275.

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

In view of the numerous innovations incorporated into the Freebox Revolution, the depreciation period for these boxes has been set at five years compared with four years for the previous version, the Freebox HD.

In view of the features of the Group's subscriber base as well as the average useful life of the hardware concerned and the current market dynamics, the Group decided to increase the depreciation period for access fees and logistics costs from four to five years as from January 1, 2011.

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 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 December 31, 2011 the Group had 225 such sites against 209 one year earlier.

In 2011 the Group continued to focus on horizontal rollouts – undertaken either by the Group's own teams or subcontractors and particularly 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.

In view of the delays experienced with implementing the pooling agreements entered into with other operators in relation to the vertical phase, there were slightly fewer in-building rollouts than expected in 2011, which meant that the Group had to revise downwards its target of some 100,000 connected subscribers by the year-end. However, Iliad expects its in-building rollouts to pick up pace over the course of 2012. To date, the Group acts as “building operator” for over 300,000 households and has access to a base of over 1,700,000 householders that are connected up by Orange, SFR or other operators.

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 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 strengthened its own teams, especially in mobile engineering, rollout management and real estate negotiations. The company has also built up a network of service providers specialized in the various rollout phases of a site, ranging from seeking out and identifying potential sites to infrastructure and installation work.

Through these various teams, 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 was able to achieve direct coverage of more than 27% of the French population. 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.

Based on the 1,000 sites that have already been set up and its rollout plan of 6,000 sites, the Group is standing by the objectives set in connection with Free Mobile's commitments to ARCEP, namely to achieve population 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. In 2011, total capital outlay for the mobile business came to €417 million, including €274.5 million for the 4G license. Thanks to the frequencies allocated under this license, Free Mobile will be able to propose its mobile telephony services to a greater number of subscribers and rapidly build up a 4G mobile web offering. It will also be able to meet the growing demand for ever-higher transmission speeds by offering the highest speeds available in the market, and to strengthen its technical and pricing innovation capacity over the long term. The network currently being rolled out by Free Mobile is already 4G compatible.

Lastly, during the first half of 2011, the Group signed a 2G and 3G roaming agreement with France Telecom with a six-year term effective from the launch of the Group's mobile offering.

1.2 SIGNIFICANT EVENTS OF THE YEAR

In € millions	**2011**	**2010**	**% change**
Consolidated revenues	**2,122**	**2,038**	**4%**
EBITDA	**833**	**798**	**4%**
as a % of revenues	*39.3%*	*39.2%*	
Profit from ordinary activities	**498**	**478**	**4%**
Profit for the period	252	313	-20%
Profit for the period before non-recurring items	**255**	**273**	**-7%**
Free Cash Flow from ADSL operations	**307**	**436**	**-30%**
Leverage ratio	**1.16x**	**0.87x**	

The year 2011 saw (i) the commercial success of the Freebox Revolution offer, enabling the Group to achieve a record market share with over 27% of the market's new subscribers, and (ii) a change in the VAT regime applicable to triple play offers. At the same time, the Group was able to maintain its solid financial structure.

Against this backdrop, Iliad managed to step up its pace of growth, while maintaining high profitability levels. Consolidated revenues for the year as a whole climbed 4% to €2,122 million, buoyed by a 5.6% increase in the second half.

The Group's high profitability levels in 2011 were achieved despite the dilutive impact of (i) calls to mobile numbers and to Algeria being included in the Freebox Revolution offer, (ii) the change in the VAT regime, and (iii) the losses incurred on the mobile business. By continuing to apply the virtuous business model focused on unbundling and implementing cost optimization measures across the Group's expense items, Iliad was able to post a consolidated EBITDA margin of 39.3%, slightly higher than the record level reported in 2010.

Profit from ordinary activities rose by just over 4% in 2011 to €498 million from €478 million the previous year. This increase was driven by both the enhanced profitability mentioned above as well as the fact that the depreciation-to-revenues ratio remained stable.

Profit for the period before non-recurring items totaled €255 million, down 7% on 2010. The overall profit figure for 2010 was boosted by more than €39 million as a result of non-recurring income received during the year.

In line with Group forecasts, free cash flow cash from ADSL operations contracted to €307 million from €436 million in 2010 due to the commercial success of the Freebox Revolution offer.

In spite of the Group's pro-active capital expenditure plan, its financial structure was extremely solid at December 31, 2011, with:

- a leverage ratio of 1.16x compared with 0.87x at December 31, 2010;

- a near-€200 million increase in consolidated equity due to the conversion of two thirds of the OCEANE bonds issued in 2006; and

- a successful first bond issue representing €500 million.

1.3 COMPARISON OF RESULTS FOR 2011 AND 2010

In € millions	2011	2010	% change
Revenues	**2,122.1**	**2,038.3**	**4.1%**
Purchases used in production	(951.7)	(899.5)	5.8%
Gross profit	**1,170.4**	**1,138.8**	**2.8%**
as a % of revenues	*55.2%*	*55.9%*	
Payroll costs	(129.0)	(104.4)	23.6%
External charges	(147.3)	(144.1)	2.2%
Taxes other than on income	(17.3)	(37.3)	-53.6%
Additions to provisions	(29.6)	(29.0)	2.1%
Other income and expenses from operations, net	(13.8)	(25.9)	-46.7%
EBITDA	**833.4**	**798.1**	**4.4%**
as a % of revenues	*39.3%*	*39.2%*	
Share-based payment expense	(10.0)	(8.1)	23.5%
Depreciation, amortization and provisions for impairment of non-current assets	(325.2)	(312.1)	4.2%
Profit from ordinary activities	**498.2**	**477.9**	**4.2%**
Other operating income and expense, net	(4.6)	61.0	-
OPERATING PROFIT	**493.6**	**538.9**	**-8.4%**
Finance costs, net	(46.8)	(41.7)	12.2%
Other financial income and expense, net	(34.0)	(7.8)	-
Corporate income tax	(161.0)	(176.3)	-8.7%
Profit for the period	**251.8**	**313.1**	**-19.6%**
PROFIT FOR THE PERIOD BEFORE NON-RECURRING ITEMS	**254.8**	**273.2**	**-6.7%**

1.3.1 Analysis of consolidated results

(a) Revenues

The table below shows the breakdown of revenues by segment and category for 2011 and 2010 as well as the percentage change between the two years.

In € millions	**2011**	**2010**	**% change**
ISP revenues (ADSL, Pay-as-you-go, dial-up packages)	2,058.4	1,975.9	4.2%
Hosting and advertising revenues	32.4	26.4	22.7%
Other revenues	20.5	22.6	-9.3%
Inter-segment sales	*2.4*	*3.8*	*-36.8%*
Total Broadband revenues	**2,113.8**	**2,028.7**	**4.2%**
Traditional Telephony revenues (excluding inter-segment sales)	10.7	13.4	-20.1%
Inter-segment sales	*23.5*	*27.7*	*-15.2%*
Total Traditional Telephony revenues	**34.2**	**41.1**	**-16.8%**
Elimination of inter-segment sales	**(25.9)**	**(31.5)**	**-17.8%**
Total consolidated revenues	**2,122.1**	**2,038.3**	**4.1%**

Consolidated revenues climbed €83.8 million or 4.1% in 2011, topping the €2 billion mark once again due to ongoing growth in the Broadband segment. Meanwhile, revenue contribution from the Traditional Telephony segment continued to represent an increasingly negligible amount.

ISP revenues

ISP revenues rose 4.2% from €1,975.9 million to €2,058.4 million. This increase was achieved despite the negative impact caused by the change in VAT regime, which was particularly felt in January, and primarily reflects the combined effects of the following:

- **An excellent sales performance, fueled by the success of the Freebox Revolution offer.** Free gained 407,000 new subscribers in 2011 (net of terminations and excluding Alice subscriber migrations), with this high number reflecting both the very strong appeal of the Freebox Revolution offer and the Group's capacity to innovate and stand out from its competitors. This put Free's market share of net adds at nearly 35%[1], representing a record high for the brand.

- **Ongoing implementation of the loyalty and retention program for Alice subscribers.** In early 2011 the Group launched a program offering Alice subscribers the possibility of

[1] Based on a total market of 1,147,000 net ADSL adds (source: ARCEP)

migrating to Free's offers (including the Freebox Revolution). A total of 85,000 Alice subscribers took up this option during the year and moved to one of Free's offers.

	December 31, 2011	December 31, 2010	December 31, 2009
Total broadband subscribers	**4,849,000**	**4,534,000**	**4,456,000**
- Free	4,461,000	3,969,000	3,778,000
Of which migrations from Alice to Free	*85,000*	-	-
- Alice	388,000	565,000	678,000
Percentage of unbundled subscribers	**92.2%**	**89.2%**	**85.4%**

- **A decrease in the Traditional Telephony segment's contribution concerning value added services**, as a result of (i) a reduction of some 31% in landline call termination charges over the year, (ii) the incorporation of new international destinations in the basic package, and (iii) the inclusion within the Freebox Revolution and Freebox offers (in non-unbundled areas) of calls to mobiles on the networks of all mainland France's national operators.

Based on the factors described above, the Group's Average Revenue Per User (ARPU) came in at €35.5 at end-2011. ARPU for Freebox Revolution subscribers stood at more than €38, in line with the Group's expectations.

In €	End-2011	End-2010	End-2009
ARPU	**35.5**	**36.1**	**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 €32.4 million in 2011, up by more than 22% on the €26.4 million recorded for 2010. This year-on-year increase reflects the capital expenditure and business development plan put in place by the Group in 2011.

Other Broadband revenues

Other Broadband revenues mainly comprise income from the sale of WiFi cards, related equipment and other components. These revenues contracted year on year but the decrease did not significantly affect 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 weighting 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 €25.9 million in 2011 versus €31.5 million in 2010.

(b) Gross profit

Consolidated gross profit came to €1,170.4 million against €1,138.8 million in 2010 but as a percentage of revenues it edged down to 55.2%. The year-on-year change in these figures was attributable to the combination of:

- **The dilutive effect on gross profit of calls to mobile numbers and to Algeria being included in the Freebox Revolution offer.** As the Group expected, the success of the Freebox Revolution offer and the high number of calls made to mobile numbers weighed slightly on the Group's gross margin. This impact should taper off in line with the announced reductions in call termination charges.
- **The negative impact of the change in VAT regime for triple play offers**, which took effect on January 1, 2011 whereas the Group only started billing subscribers using the new pricing structure in February 2011.
- **The positive effect of lower operating costs and a rise in the unbundling rate.** The Group opened over 560 new connection nodes during 2011, pushing up its unbundling rate by 2.9 points to 92.1% by the year-end and reaching the target originally set.

(c) Payroll costs

Payroll costs excluding employee benefits and capitalized costs represented 6.1% of consolidated revenues in 2011.

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

The payroll costs figure for 2011 includes the impact of recruitments carried out in connection with developing the Group's mobile operations. In the fourth quarter of the year the Group took on over 900 new employees with a view to ensuring that the launch of its mobile offers would be a success.

(d) External charges

The Group's external charges stood at €147.3 million in 2011 against €144.1 million in 2010. 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 decreased in 2011 to €17.3 million from €37.3 million in 2010.

(f) Additions to provisions

At €29.6 million, additions to provisions – which primarily correspond to provisions for bad debts – were on a par with the €29.0 million recorded in 2010.

(g) Other income and expenses from operations, net

This item represented a net expense of €13.8 million, compared with a net expense of €25.9 million in 2010. The total includes royalties, bad debt writedowns (net of provision reversals) and gains and losses on asset disposals.

(h) EBITDA

Consolidated EBITDA climbed 4.4% year on year to €833.4 million. The EBITDA margin edged up to 39.3%, primarily reflecting the combined impact of:

- the above-described slight decline in gross margin;
- the negative effect of losses arising due to the launch of the mobile business, mainly in the second half of the year;
- pro-active management of the fixed costs base.

(i) Profit from ordinary activities

Profit from ordinary activities rose 4.2% to €498.2 million in 2011 from €477.9 million the previous year, propelled by:

- the above-described increase in EBITDA;
- the fact that the depreciation-to-revenues ratio remained stable at 15.3% in 2011, unchanged from 2010.

(j) Profit for the period

In 2011, profit for the period before non-recurring items amounted to €254.8 million, down 6.7% year on year. The overall profit figure for 2010 was boosted by more than €39 million as a result of non-recurring income received during the year.

1.3.2 Breakdown of results by segment for 2011 and 2010

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	**2011**	**2010**	**% change**
Revenues	**2,113.8**	**2,028.7**	**4.2%**
Purchases used in production	(951.6)	(899.5)	5.8%
Gross profit	**1,162.2**	**1,129.2**	**2.9%**
as a % of revenues	*55.0%*	*55.7%*	
Payroll costs	(123.5)	(99.1)	24.6%
External charges	(138.0)	(140.2)	-1.6%
Taxes other than on income	(16.9)	(36.8)	-54.1%
Additions to provisions	(29.3)	(28.6)	2.4%
Other income and expenses from operations, net	(13.7)	(25.7)	-46.7%
EBITDA	**840.8**	**798.8**	**5.3%**
as a % of revenues	*39.8%*	*39.4%*	
Share-based payment expense	(8.7)	(6.9)	26.1%
Depreciation, amortization and provisions for impairment of non-current assets	(324.9)	(311.9)	4.2%
Profit from ordinary activities	**507.2**	**480.0**	**5.7%**
Other operating income and expense, net	(4.6)	50.6	-
Operating profit	**502.6**	**530.6**	**-5.3%**

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

In € millions	**2011**	**2010**	**% change**
Revenues	**34.2**	**41.1**	**-16.8%**
Gross profit	**33.2**	**39.3**	**-15.5%**
EBITDA	**(7.4)**	**(0.7)**	**-**
Profit/(loss) from ordinary activities	**(9.0)**	**(2.0)**	**-**
Other operating income and expense, net	-	10.4	**-**
Operating profit/(loss)	**(9.0)**	**8.4**	

1.3.3. Cash flows and capital expenditure

In € millions	2011	2010	% change
Consolidated cash flow	**828.9**	**778.6**	**6.5%**
Change in working capital requirement	47.9	(17.1)	-
ADSL-related capital expenditure	(569.7)	(326.0)	74.8%
Free Cash Flow from ADSL operations	**307.1**	**435.5**	**-29.5%**
FTTH-related capital expenditure	(156.1)	(193.7)	-19.4%
Mobile-related capital expenditure	(416.9)	(262.3)	58.9%
Hosting-related capital expenditure	(11.8)	-	-
Other	(135.2)	53.5	-
Consolidated Free Cash Flow	**(412.9)**	**33.0**	**-**
Net cash generated from/(used in) financing activities	425.9	(326.0)	-
Net change in cash and cash equivalents	**13.0**	**(292.9)**	**-**
Cash and cash equivalents at year-end	**350.5**	**337.5**	**3.8%**

Free Cash Flow from ADSL operations

The overall consolidated cash flow figure climbed by more than 6% in 2011, driven by the Group's enhanced profitability levels.

ADSL-related capital expenditure (including network expenditure due to increased unbundling and subscriber-related expenditure for modems and other connection expenses) came to €570 million in 2011 compared with €326 million for the previous year, directly reflecting the commercial success of the Freebox Revolution offer launched in December 2010. Consequently, Free Cash Flow from ADSL operations amounted to €307 million in 2011, down on the 2010 figure of €436 million.

Consolidated Free Cash Flow

In line with the Group's expectations, consolidated Free Cash Flow came in at a negative €413 million in 2011, as a result of:

- **The commercial success of the Freebox Revolution offer** (as described above).
- **Ongoing capital expenditure for the rollout of the FTTH project**. During the year the Group invested €156.1 million in its FTTH project. This figure was lower than in 2010 reflecting (i) delays experienced in 2011 in implementing the agreements signed with other operators for pooling the vertical rollout phase, and (ii) sales of real estate assets that are held for sale and are not being used for the FTTH rollout.
- **A sharp rise in mobile-related capital expenditure,** including the purchase of the 4G license for €274.5 million and the acceleration of the mobile network rollout (which represented an outlay of €142.4 million in 2011 versus €20 million in 2010).
- **The payment of a €97 million tax charge.**

Net change in cash and cash equivalents:

The €13 million net increase in cash and cash equivalents in 2011 was primarily due to the successful €500 million bond issue carried out during the year.

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, 2011 the Group had gross debt of €1,326.9 million and net debt of €969.4 million. Despite its pro-active capital expenditure plan implemented during the year (due to the Freebox Revolution launch and FTTH and mobile rollouts) the Group maintained a solid financial structure:

- The Group's leverage ratio stood at 1.2x at December 31, 2011 (compared with 0.9x one year earlier), confirming its position as one of the European telecom operators with the lowest debt levels.

- Consolidated equity rose by almost €200 million due to the partial conversion of the OCEANE bonds issued on June 21, 2006. Based on the number of conversion applications received by the final exercise date of December 22, 2011 the Group issued 2,260,524 new shares during the year. The June 21, 2006 bond issue involved a total of 3,754,968 OCEANE bonds (convertible into new or existing shares) with a face value of €88.05 per bond, and gave rise to net proceeds of €326.3 million.

The Group's gross debt primarily comprised the following at end-2011:

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 €400 million had been drawn down at December 31, 2011.

- A revolving tranche of €800 million expiring in June 2015. None of this tranche had been drawn down at December 31, 2011.

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.

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. The loan – which has a 10-year term and is repayable in installments – had been fully drawn down at December 31, 2011.

At December 31, 2011 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 December 31, 2011, the Group's total obligations under finance leases amounted to €97.1 million, up €1.5 million on December 31, 2010.

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.

1.3.5 Ownership structure at December 31, 2011

Following the issue of 2,260,524 shares in 2011 for the conversion of OCEANE bonds, at the year-end Iliad's share capital was made up of 57,042,092 ordinary shares, held by the following shareholders:

- Executive Management: 36,093,445 shares, representing 63.3% of the share capital.
- Public: 20,948,647 shares, representing 36.7% of the share capital.

At December 31, 2011, there were seven Iliad stock option plans in place with the following main characteristics:

Grant date	Exercise price	Exercise date	Number of shares under option
January 20, 2004	€16.30	January 20, 2008	6,870
December 20, 2005	€48.44	December 20, 2009/ December 20, 2010/	164,259
June 14, 2007	€74.62	June 13, 2012	162,455
August 30, 2007	€68.17	August 30, 2012	663,222
November 5, 2008	€53.79	November 5, 2013	564,200
August 30, 2010	€67.67	August 29, 2014	162,450
August 30, 2010	€67.67	August 29, 2015	379,050
November 7, 2011	€84.03	November 6, 2016	398,200
			2,500,706

1.4 ADDITIONAL INFORMATION

1.4.1 Strategic objectives

In light of its strong 2011 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
  - 25% share of the landline Broadband market in the long term.
- FTTH business
  - Step-up in the pace of subscriber connections;
  - Ongoing horizontal rollouts.
- Mobile business
  - Intensified rollout, with the aim of having 2,500 equipped sites at the end of 2012.

(b) Financial objectives:

- Landline business
  - Revenue growth of over 5% in 2012;
  - Free Cash Flow from ADSL operations in excess of €1.1 billion between 2010 and 2012.
- Group
  - Robust revenue growth in 2012;
  - Revenues of over €4 billion by 2015.

1.4.2 Events after the balance sheet date

In line with its commitments, the Group launched its first commercial mobile offerings on January 10, 2012.

In addition, at the beginning of 2012 Free Mobile entered into agreements with manufacturers for the supply of mobile telephones.

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., 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: subscribers who have signed up for the Group's ADSL or FTTH offer.

Free Cash Flow from ADSL operations: represents EBITDA plus or minus changes in working capital requirement 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).

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 individual 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.

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