



Société anonyme. Share capital: €12,095,706.82
Registered office: 8, rue de la Ville l'Evêque – 75008 Paris, France
Registered at the Paris Trade and Companies Registry under number 342 376 332

REGISTRATION DOCUMENT AND FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 2009

DISCLAIMER

The English language version of this document is a free translation from the original, which was prepared in French. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions expressed therein the original language version of the document in French takes precedence over this translation.



AUTORITÉ
DES MARCHÉS FINANCIERS

In accordance with the General Regulations of the Autorité des Marchés Financiers (AMF), including Article 212-13, the original French version of this registration document was filed with the AMF on April 29, 2010.

This registration document may not be used in support of a financial transaction unless it is accompanied by a *note d'opération* (offering circular) approved by the AMF. It was prepared by the issuer and the signatories thereto are liable for its content.

Copies of this registration document can be obtained free of charge from the Company's registered office (8, rue de la Ville l'Evêque - 75008 Paris, France - Tel.: +33 1 73 50 20 00) and may also be viewed on the Company's website (www.iliad.fr) as well as on the website of the AMF (www.amf-france.org).

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1. PERSONS RESPONSIBLE

1.1 PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

1. PERSONS RESPONSIBLE

1.1 PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

Maxime Lombardini, Chief Executive Officer of Iliad.

1.2 STATEMENT BY THE PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

"I hereby declare that having taken all reasonable care to ensure that such is the case, the information contained in this registration document is, to the best of my knowledge, in accordance with the facts and contains no omission likely to affect its import.

I further declare that, to the best of my knowledge, the financial statements for 2009 have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and results of the Company and the consolidated group as a whole, and that the information contained in the Management Report whose various sections are presented in the concordance table on page (217) provides a fair review of the business, results and financial position of the Company and the consolidated group as a whole, as well as a description of the principal risks and uncertainties that they face.

The Statutory Auditors' report on the consolidated financial statements for the year ended December 31, 2008 contains an observation set out on page 174 of the 2008 registration document filed with the AMF on April 30, 2009 under number D.09-0366.

I obtained a statement from the Statutory Auditors at the end of their engagement affirming that they have read the whole of the registration document and examined the information about the financial position and the accounts contained therein".

*Maxime Lombardini
Chief Executive Officer of Iliad*

1.3 PERSON RESPONSIBLE FOR FINANCIAL INFORMATION

Thomas Reynaud
Senior Vice President and Chief Financial Officer

Iliad
8, rue de la Ville l'Evêque
75008 Paris
France

Telephone: +33 1 73 50 20 00
www.iliad.fr

1.4 PROVISIONAL TIMETABLE FOR PUBLICATION OF FINANCIAL INFORMATION

May 25, 2010:	Annual Shareholders' Meeting
By August 13, 2010:	First-half 2010 revenues
By August 31, 2010:	First-half 2010 earnings
By November 12, 2010:	Revenues for the first nine months of 2010

2. AUDITORS

2.1 STATUTORY AUDITORS

2. AUDITORS

2.1 STATUTORY AUDITORS

PricewaterhouseCoopers Audit
Represented by Xavier Cauchois
63, rue de Villiers
92208 Neuilly sur Seine Cedex, France

Boissière Expertise Audit
Represented by Jean-Luc Cohen
57, rue Boissière
75116 Paris, France

First appointed at the Annual Shareholders' Meeting of October 19, 2000. Re-appointed at the Annual Shareholders' Meeting of May 29, 2006 for a term expiring at the close of the Annual Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2011.

First appointed at the Annual Shareholders' Meeting of December 30, 1997. Re-appointed at the Annual Shareholders' Meeting of June 23, 2009 for a term expiring at the close of the Annual Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2014.

Member of a professional organization:

PricewaterhouseCoopers Audit is a member of the Versailles Compagnie Régionale des Commissaires aux Comptes.

Member of a professional organization:

Boissière Expertise Audit is a member of the Paris Compagnie Régionale des Commissaires aux Comptes.

2.2 ALTERNATE AUDITORS

Etienne Boris
63, rue de Villiers
92208 Neuilly sur Seine Cedex, France

PSK Audit
Represented by Pierre Kuperberg
134, rue de Courcelles
75017 Paris, France

First appointed at the Annual Shareholders' Meeting of May 29, 2006. Current term expires at the close of the Annual Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2011.

First appointed at the Annual Shareholders' Meeting of June 23, 2009. Current term expires at the close of the Annual Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2014.

2.3 FEES PAID BY THE GROUP TO THE STATUTORY AUDITORS AND MEMBERS OF THEIR NETWORKS

ILIAD

Year ended December 31, 2009

Table of fees paid to the Statutory Auditors

(in € thousands)

	PricewaterhouseCoopers Audit				Boissière Expertise Audit			
	Amount		%		Amount		%	
	2009	2008	2009	2008	2009	2008	2009	2008
Audit								
Statutory and contractual audits	427.6	399.6	95%	85%	190.3	164.7	100%	95%
Issuer	132.6	119.9	30%	24%	103.0	83.0	54%	48%
Fully-consolidated subsidiaries	295.1	287.7	66%	61%	87.3	81.7	46%	47%
Audit-related work	21.1	68.7	5%	15%	0.0	9.0	0%	5%
Issuer	21.1	54.9	5%	12%	0.0	9.0	0%	5%
Fully-consolidated subsidiaries	0.0	13.8	0%	3%	0.0	0.0	0%	0%
<i>Sub-total</i>	<u>448.8</u>	<u>468.2</u>	<u>100%</u>	<u>100%</u>	<u>190.3</u>	<u>173.7</u>	<u>100%</u>	<u>100%</u>
Other services provided by the networks to fully-consolidated subsidiaries								
Legal and tax advisory services								
IT consulting								
<i>Sub-total</i>	<u>0.0</u>	<u>0.0</u>	<u>0%</u>	<u>0%</u>	<u>0.0</u>	<u>0.0</u>	<u>0%</u>	<u>0%</u>
TOTAL	<u>448.8</u>	<u>468.2</u>	<u>100%</u>	<u>100%</u>	<u>190.3</u>	<u>173.7</u>	<u>100%</u>	<u>100%</u>

3. SELECTED FINANCIAL INFORMATION

3. SELECTED FINANCIAL INFORMATION

(in € millions)	<u>2007</u>	<u>2008</u>	<u>2009</u>
INCOME STATEMENT			
Revenues	1,212.4	1,565.0	1,954.5
Operating income and expense, net	(998.6)	(1,362.0)	(1,595.1)
Profit from ordinary activities	213.8	203.0	359.4
Other operating income and expense, net	(2.0)	(30.7)	(26.5)
Operating profit	211.8	172.3	332.9
Financial income and expense, net	(3.5)	(19.5)	(49.0)
Corporate income tax	(72.0)	(52.3)	(109.0)
Profit, net of taxes, from divested operations	13.9	—	—
Profit for the period	150.2	100.4	175.9
Diluted earnings per share (in €)	2.73	1.84	3.22
EBITDA ¹	443.6	524.7	661.4
BALANCE SHEET			
Non-current assets	771.2	1,545.0	1,623.2
Current assets	375.9	695.2	820.8
<i>Of which cash and cash equivalents</i>	<i>234.8</i>	<i>335.7</i>	<i>633.9</i>
Assets held for sale	8.1	16.8	31.5
Total assets	1,155.2	2,257.0	2,475.4
Total equity	516.7	597.5	764.4
Non-current liabilities	362.5	1,227.8	1,317.3
Current liabilities	276.0	431.7	393.7
Total equity and liabilities	1,155.2	2,257.0	2,475.4
CASH FLOWS			
Net cash generated from operating activities	317.1	474.2	734.3
Net cash used in investing activities	(351.8)	(1 159.2)	(424.2)
Net cash generated from (used in) financing activities	(18.6)	799.4	(17.1)
Net change in cash and cash equivalents	(53.2)	114.4	293.0
Cash and cash equivalents at year-end	223.1	337.4	630.4

During 2009:

(i) The Group's main operating and financial performance indicators (excluding the impact of the Alice acquisition) continued to rise significantly and steadily:

- **Organic revenue growth came to almost 13%**, fueled by (i) a 389,000 jump in Free's ADSL subscriber base, (ii) an ongoing very low subscriber cancellation rate (less than 1% a month), and (iii) subscribers' ever-increasing use of value-added services.
- **The Group's main profitability indicators climbed sharply**, reflecting the combined impact of (i) a higher unbundling rate, (ii) the subscriber acquisition cost level, which is still the lowest in the market, and (iii) tight control over the main expense items, which enabled the Group to achieve a record **EBITDA² margin of 39.4%**.
- **Cash flow generation for Free's ADSL operations was very high, coming in at €376 million** and largely outstripping the €300 million target set for the business. This enabled the Group to self finance its FTTH capital expenditure and to strengthen its cash position.

¹ See definition in the Glossary on page 213 of this registration document.

² See definition in the Glossary on page 214 of this registration document.

3. SELECTED FINANCIAL INFORMATION

(ii) Alice's financial performance was swiftly turned around

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

Thanks to these various measures, in 2009 Alice's contribution to consolidated EBITDA significantly improved – representing €23.8 million – despite an erosion in Alice's subscriber base, with a cancellation rate of over 2% a month.

(iii) The Group's debt was significantly scaled back

Thanks to a high level of cash flow generated by operating activities, as well as non-recurring income from earn-out payments concerning the Alice acquisition, and the use of Alice's tax loss carryforwards, the Group's leverage ratio³ decreased sharply in 2009, representing 1.0 x EBITDA at the year-end versus 1.7 x EBITDA at December 31, 2008.

³ See definition in Section 9.4.3 of this registration document.

4. RISK FACTORS

4.1 RISKS RELATING TO THE GROUP AND ITS STRUCTURE

4. RISK FACTORS

The Group carries on business in an environment which is undergoing rapid change and which poses a number of risks for the Group, some of which are outside its control. Investors are advised to give careful consideration to all the risks set out below and to all the information contained in this registration document. The risks and uncertainties presented below are not the only ones facing the Group, as other risks and uncertainties of which the Group is not currently aware or which it does not consider to be significant could also have a negative impact on its business, financial position or results. The Group's risk management procedures are set out in Section 16.4 of this registration document.

4.1 RISKS RELATING TO THE GROUP AND ITS STRUCTURE

4.1.1 *Dependence on managers and key employees*

The Group's success is highly dependent on maintaining its relationship with Xavier Niel, a director and Senior Vice-President of Iliad and the Group's majority shareholder, as well as with the other managers and key employees. The Group has a culture which fosters teamwork and motivation. Its key employees have an ownership stake in Iliad's share capital, which significantly contributes to employee loyalty. However, there can be no assurance that these key employees will remain with the Group in the strong growth environment that currently exists and is expected to continue.

In order to guarantee the long-term future of its business, the Group takes particular care to ensure that the engineers and technicians working on its platform and network, and on designing and developing the Freebox modem and Freebox DSLAM, are skilled in a number of different areas. The Group's future success will depend in particular on its ability to attract, train, retain and motivate highly qualified employees and managers. However, since competition to attract employees with such qualifications is intense, there can be no assurance that the Group will be able to do so.

The loss of one or more key employees or a manager or the Group's inability to replace them or to attract other qualified employees could have a material adverse effect on the Group's revenues, results and financial position.

4.1.2 *Dependence on the principal shareholder*

Xavier Niel holds a substantial percentage of the Company's share capital and is Senior Vice-President. He is thus in a position to have a decisive influence over most of the Group's corporate decisions and in particular those requiring shareholder approval (such as the appointment and removal of directors, payment of dividends, amendments to the bylaws and decisions concerning important Group transactions, including share issues).

4.1.3 *Risks relating to the availability of equipment for the development of the broadband Internet access offering*

The Group considers that the components used in its Freebox modems and DSLAMs are standardized and substitutable and that its component purchasing policy allows it to anticipate growth in demand for broadband Internet access. Nevertheless, a shortage in the availability of these components or a significant increase in their price could hinder the Group's ability to provide new subscribers, in a timely manner, with the Freebox modem required to access value-added broadband services, which could have an adverse effect on the Group's growth.

4.1.4 *Risks relating to the impact of acquisitions or investments*

As part of its external growth strategy, which may take the form of acquisitions, partnerships or alliances, the Group may make acquisitions or investments in any of its business segments. Part of these acquisitions or investments could be paid for by the issuance of Iliad shares, which would result in dilution for the Group's existing shareholders. Such acquisitions and investments, whether paid for in cash or shares, could have an adverse effect on the market price of Iliad's shares.

4. RISK FACTORS

4.1 RISKS RELATING TO THE GROUP AND ITS STRUCTURE

4.1.5 Risks relating to the need to improve the technical features and functions of the services offered by the Group

The Internet market is characterized by very rapid changes in technology and in the types of services and features offered to subscribers. To remain competitive, the Group will continually have to improve the speed with which it responds to technological or other changes, as well as the functions and features of its products and services. It will also have to develop new products and services that are attractive to its subscribers. The Group may not succeed in making these improvements or developments in a timely manner, which would have an adverse effect on its business, financial position and results of operations, and on its ability to meet its objectives.

4.2 RISKS RELATING TO THE GROUP'S ACTIVITIES

4.2.1 Risks relating to the growth of the Internet market in France

A major portion of the Group's revenues depends on the number of subscribers to its Internet access service, which is closely linked, directly or indirectly, to the increase in France in the number of Internet users in general and the number of broadband users in particular. The level of future revenues generated through subscriptions is therefore difficult to predict. If the number of Internet users in France does not increase as quickly as expected, the Group's business, results of operations and financial position could be seriously affected and the Group could be unable to meet all or some of its objectives.

4.2.2 Risks relating to the difficulty in upgrading the capacity of the platform for online access to the Group's services in line with the growth in Internet traffic

Until now the Group has been able to upgrade the capacity of its technical platform for online access in line with the growth in Internet traffic. Given the generally accepted forecasts for the growth of Internet traffic in France, however, and the objectives that the Group has set for itself in terms of both increasing the number of users of its services (particularly for broadband Internet access) and expanding its network, the Group will require the resources necessary to provide a corresponding increase in the capacity of its access infrastructures. There can be no assurance that the Group will be able to obtain such resources.

4.2.3 Risks relating to the rapid changes in pricing and technical aspects of Internet access offerings

The Internet access services market is characterized by very rapidly changing pricing structures (such as usage-based charges, unlimited use packages and free access) and technical access methods (such as dial-up access, ADSL, etc.). The Group's access services are currently available on or through almost all the pricing terms and technical methods described below. The development of new pricing structures and access methods based on different economic models, unforeseen changes in the relative importance of the various existing access service offerings or growth in use of existing replacement technologies could undermine the economic assumptions on which the Group's development plan is based. This in turn could have an adverse effect on the Group's business, results of operations and financial position and on its ability to meet its objectives.

4.2.4 Risks relating to competition

Internet

Competition for Internet access services subscribers is intense and is likely to increase significantly in the future. The Group anticipates that competition in its market will increase due to (i) the continued growth of Internet use in France, (ii) the further increase in the number of strategic and capital alliances among the Group's competitors, (iii) the introduction by some of the Group's competitors of pricing policies intended to counter Free's aggressive offerings, (iv) the presence in the market of certain multinational companies with greater financial resources than those of the Group, and (v) the fact that new competitors may enter the market.

Telephony

The fixed telephony sector in France is a mature market and therefore not likely to undergo rapid expansion. It is heavily dominated by the incumbent operator. Although the Group considers that it possesses a number of

competitive advantages in this market, including in particular the use of its own network, it cannot guarantee that it will manage to continue to develop its fixed telephony business as planned in a sector where the players are principally multinational companies whose financial resources exceed those of the Group and whose capacity for investment, particularly in advertising, presents a considerable advantage.

Television – Audiovisual content

In the ADSL broadband television and video sector, competition was fierce during 2009, and is likely to intensify. Although the Group considers that it has a competitive edge in this market, particularly through the use of its HD Freebox, which protects the transmission of audiovisual content, it cannot guarantee that it will be able to develop its audiovisual business as planned. Any such development will depend on the audiovisual content being broadcast and on being able to expand unbundling into new areas.

Other services

The ANNU service is based essentially on the lists of subscribers provided by telephone service operators and on revenues from connections to the service via Minitel. Iliad can provide no assurance that its revenues from the Minitel market, which are already in decline, will not fall more rapidly than anticipated.

4.2.5 Risks relating to security and confidentiality of information on the Internet

The need to secure communications and transactions on the Internet has been a major obstacle to the development of the Internet in general. Internet use may decrease if the level of protection of communications and transactions achieved proves to be inadequate or diminishes. The Group has taken and continues to take significant measures to guarantee the reliability of its security system and to limit problems that may be caused by security failures or a breach of the security system. Unauthorized persons may attempt to penetrate the Group's network security system and, if successful, may appropriate privileged information about the users of the Group's services or cause the service to be suspended. Some leading sites and suppliers of Internet services have suffered from "denial of service" attacks – in which very large numbers of requests for information are sent to the site with the aim of overloading its servers – or have been the victims of Internet viruses. Although the Group is taking the necessary steps to protect itself against such attacks, there can be no assurance that future attacks would not result in loss or damage for the Group, even if only in terms of image. Consequently, the Group might be required to increase its expenditures and its efforts to protect itself against these risks or to alleviate their consequences, which could have a material adverse effect on its business, financial position and results of operations and on its ability to meet its objectives.

4.2.6 Risks relating to the rollout of the optical fiber network

The rollout of the optical fiber network is conditional upon (i) obtaining the necessary authorizations (occupancy of public property, right of entry into buildings, etc.), (ii) the completion of the work entrusted to third party service providers, and (iii) in very densely populated areas, the implementation of Decision 2009-1106 issued by the ARCEP on December 22, 2009 concerning the rollout of optical fiber in very densely areas. The Group's FTTH rollout plan could be held up if there are delays in obtaining the requisite authorizations or carrying out the work concerned, or if all FTTH operators delay in implementing ARCEP Decision 2009-1106. In the light of regulatory and operational uncertainties, the Group can provide no assurance that it will be able to meet its objectives.

4.2.7 Risks relating to the acquisition of Liberty Surf Group

On August 26, 2008, Iliad acquired the entire capital and voting rights of Liberty Surf Group SAS from Telecom Italia S.p.A. Liberty Surf Group SAS primarily operates internet service provider activities in France, marketed under the Alice brand. At the time of the acquisition, Liberty Surf Group was in a difficult financial and operating position, with a history of significant losses as its unbundling rate was much too low and its fixed cost base far too high.

The Group intends to continue to improve this position. However, problems that may be experienced during the integration phase could have an adverse effect on the Group's business, results of operations and financial position and on its ability to meet its objectives.

4. RISK FACTORS

4.2 RISKS RELATING TO THE GROUP'S ACTIVITIES

4.2.8 Risks relating to the rollout of a third-generation mobile communications network

The rollout of a third-generation mobile communications network is contingent, for each base transceiver station, on (i) obtaining the requisite authorizations (e.g., occupancy of public or private property, urban planning permits, authorization from the French National Frequencies Agency, etc.) and (ii) the completion of the work entrusted to third party service providers. Delays in obtaining such authorizations or the completion of such work could hold up the rollout schedule.

In addition, negative public opinion about the potential health hazards caused by mobile phone masts could result in further difficulties in rolling out a third-generation mobile communications network and/or an increase in the number of legal disputes which could hold up the rollout.

Any such delays in the rollout schedule could result in the Group not being able to meet its regulatory coverage requirements (see ARCEP Decision 2010-0043 dated January 12, 2010, authorizing Free Mobile to use frequencies to set up and operate a third-generation mobile communications network open to public use).

4.2.9 Risks relating to changes in third-generation mobile communications networks

Any failings in the architecture of the third-generation network selected by Free Mobile could delay the Group's commercial launch of its mobile operations and could consequently impact its financial performance. In addition, any problems that may arise in the future for adapting the third-generation network currently under construction to new technological developments and changes in consumer behavior could have an adverse impact on the Group's business, operating results, financial position and ability to achieve its objectives.

4.3 FINANCIAL RISKS

4.3.1 Foreign exchange, interest rate and liquidity risks

These risks are described in full in Notes 29 and 34 to the consolidated financial statements for the year ended December 31, 2009.

4.3.2 Equity risks

4.3.2.1 Significant percentage of capital and voting rights held by the Company's principal shareholder

At the date this registration document was filed, Xavier Niel, the Company's principal shareholder held 64.04% of the capital and 61.90% of the voting rights. The fact that a significant portion of the Company's capital and voting rights is held by a single shareholder, and that said shareholder may freely dispose of all or part of his interest in the Company, could have a material adverse effect on the price of the Company's shares.

Equity risk is minimal as the Group does not have any significant equity portfolios.

4.3.2.2 Share price volatility

The Company's share price may be highly volatile and could be impacted by a number of events affecting the Company, its competitors, the telecommunications and Internet industry or the financial markets. The Company's share price could fluctuate significantly in response to the following types of events:

- changes in the Group's financial performance or that of its competitors;
- the announcement by the Company of the success or failure of the commercial launch of a new product;
- announcements by competitors or announcements concerning the telecommunications or Internet industry;
- announcements regarding changes in the Group's management or key personnel.

In the last few years, the financial markets have experienced significant volatility that, at times, has had no relationship to the financial performance of listed companies. Market volatility, as well as general economic conditions, could affect the Company's share price.

4.3.2.3 Subsequent sale of shares by significant shareholders

The Company's principal shareholders are Xavier Niel and its managers. If any of these shareholders were to sell a large number of shares on the market, Iliad's share price could be affected, depending on the market conditions at the time of the sale, the number of shares sold and the reasons for and the terms of the sale, as well as the public's perception of such sales.

4.4 LEGAL RISKS

4.4.1 Risks relating to the Group's relations with the incumbent operator

Despite the legal and regulatory framework requiring the incumbent operator, France Telecom, to permit the development of local loop unbundling and to grant the Group access to its installations, the Group may be confronted by situations where there is a conflict of interest with France Telecom as its dominant competitor and principal supplier. France Telecom could therefore exercise significant influence over the Group's operations and strategy, with potentially adverse effects, and could also restrict its capacity for growth.

The Group's profitability depends in part on the pricing and technical conditions established by France Telecom in its Reference Interconnect Offer (revised each year) and in its Reference Unbundling Offer (revised from time to time). Any significant increase in the prices or change in the technical conditions set out in the Reference Interconnect Offer or the Reference Unbundling Offer, as approved by the French telecommunications regulatory authority, ARCEP, could have a material adverse effect on the Group's business, financial position and results of operations and its ability to meet objectives.

4.4.2 Risks relating to liability for content

In the past, a number of suits have been filed in France and other countries against Internet service or hosting providers because of the content of the information transmitted or made available online (in particular for press-related violations, invasion of privacy and trademark infringement). Free and Online may be subject to similar suits and could incur significant costs in order to defend themselves against such claims. Analysis of the claims and the preparation of an appropriate defense could prove to be costly even if Free or Online were not ultimately held liable. Finally, any such proceedings could have an adverse effect on the Group's reputation. In accordance with French rules and regulations as further described in Section 6.6.2 below, the Group has set up forms on the Free portal home page which can be used to report unlawful content, and has established a procedure for reporting any violation of human dignity, so that web users can report any illegal content and Free can respond promptly to any complaints.

4.4.3 Risks relating to intellectual property rights

The Group can provide no assurance that measures taken in France and abroad to protect its intellectual property rights, particularly its trademarks, logos and domain names, will be effective or that third parties will not infringe or misappropriate its intellectual property rights. Furthermore, in view of the worldwide reach of the Internet, the Group's trademarks – particularly Iliad, Free, Alice, Free Mobile and ANNU – and other forms of intellectual property, could be distributed in countries offering less intellectual property protection than European countries or the United States. Given the importance for the Group of the recognition of its trademarks, any infringement or misappropriation of this kind could adversely affect the Group's business, results of operations and financial position and its ability to meet its objectives.

In addition, certain of the Group's trademarks (particularly Free and Online) co-exist with other identical trademarks registered by third parties for similar telecommunications services. Due to this situation, it is likely that the Group will be required, in the long-term, to co-exist on its market with trademarks similar to its own. There is a risk that this co-existence could result in a dilution of these trademarks on the market, which could adversely affect the Group's business, results of operations and financial position and its ability to meet its objectives.

Lastly, given the hi-tech nature of the Group's business, it can provide no assurance that it is not infringing the intellectual property rights of third parties. This is an inherent risk for all operators in the telecommunications, audiovisual and Internet sectors and is typically resolved through licensing agreements with the holders of the relevant intellectual property rights. The Group undertakes all necessary measures to ensure that intellectual property rights – particularly concerning trademarks – are respected, and there are no significant claims or legal proceedings in progress concerning such rights.

4. RISK FACTORS

4.4 LEGAL RISKS

4.4.4 Risks relating to the use of open source software

The Group develops its own software programs on the basis of open source software, and in particular Linux. Open source software consists of programs made available to users either free of charge or for a small fee. Based on the concepts of sharing and free use of source codes, such software is distributed under a specific type of license (such as the GNU General Public License) generally allowing the user to modify and re-use the software without having to obtain prior permission from the holder of the related rights. Any software development which uses open source software must, in turn, be freely accessible to and re-usable by third parties under the same conditions as the integrated open source software.

Open source software allows the user to benefit from the expertise of a community of developers at a lower cost than that charged for other commercially available software. However, it does not come with a contractual warranty and the chain of ownership of the copyright to open source software is uncertain. Consequently, the Group may be subject to a liability claim in the event of the failure of an open source software program, or an infringement action by a third party claiming to be the holder of intellectual property rights relating to such a program.

Due to the nature of open source software and the absence of a strict legal framework, claims may be initiated by third parties.

4.4.5 Links with or dependence on other companies

In order to achieve the transmission capacity and quality levels required to respond to the increase in the number of subscribers and to meet their requirements, the Group relies partly on the use of passive telecommunications infrastructures belonging to SFR and other operators such as France Telecom and Completel or of networks operated by certain local authorities. Contracts entered into by the Group relating to the use of these infrastructures and networks are described in Sections 6.4.2 and 6.4.4 of this registration document.

4.4.6 Operating assets not owned by Iliad

Other than networks to which Iliad is interconnected as well as certain interconnection equipment and the dark fibers used by its network under long-term Indefeasible Right of Use (IRU) agreements⁴ (described in Section 6.1.3 of this registration document), the Group considers that it is the owner of all the assets required for carrying out its business operations. At December 31, 2009, the Group had access to 51,800 kilometers of fibers, including 29,940 under IRU agreements. The expiration dates of these IRU agreements are set out in Section 6.1.3 below.

4.4.7 Industrial and environmental risks

The sector in which Iliad operates does not represent a major source of harm to the natural environment, does not require any significant use of natural resources, and does not have any significant impact on the quality of the environment.

4.4.8 Risks relating to the loss of licenses and frequencies

Under the licenses granted to them, certain Group companies have undertaken to comply with specific obligations or to make significant investments in relation to various networks in order to offer new products and services to their customers. If the Group does not comply with its undertakings, these licenses could be terminated, which in certain cases could render the Group liable for payment of compensation to the French government or other parties. All of these risks could have a material adverse effect on the Group's results or financial position.

The main licenses held by the Group are the L.33 and L.34 telecom licenses as well as the 3G license and the BLR license (known as the Wimax license), and the Group's related commitments are defined in decisions issued by ARCEP.

⁴ See definition on page 214 of this registration document.

4. RISK FACTORS

4.4 LEGAL RISKS

Free Mobile has made a number of commitments to ARCEP in relation to its license to operate a third-generation mobile communications network, particularly concerning population coverage. The most significant of these commitments are described in Section 6.1 below. If Free Mobile fails to respect its commitments, ARCEP may impose the sanctions provided for in the French Post and Electronic Communications Code (*Code des postes et communications électroniques*), as described in Section 6.6 below.

In 2009, Bouygues Telecom and SFR lodged an application with the French Conseil d'Etat requesting the cancellation of all the decrees, orders and rulings authorizing Free Mobile to set up and operate a third-generation mobile communications network. In addition, the incumbent mobile telecom operators filed a complaint with the European Commission against the French State, claiming that the French government effectively provided state aid to Free Mobile. Both of these proceedings are currently in process and the related rulings are expected in either 2010 or 2011. Free Mobile considers that the claims made by the applicants in both of these cases are unfounded.

There are no specific conditions attached to the general authorizations granted under the L.33-1 and L.34-1 licenses other than a duty to respect the principles set out in the French Post and Electronic Communications Code (Decree No. 2005-862 of July 26, 2005 relating to the conditions for establishing and operating networks and supplying electronic communication services). These principles are based on the general concepts included in the EU "Authorization" Directive, including:

- Payment of taxes and royalties
- Contributions to the Universal Service Fund
- Respecting correspondence privacy
- Carrying emergency calls

ARCEP decision 03-1294 dated December 9, 2003 authorizes IFW to operate microwave frequencies in the 3.5 GHz bandwidth, provided it complies with specifications that include a number of requirements relating to network rollout and population coverage. An ARCEP inspection on IFW's compliance with its commitments took place on December 31, 2008. The next such inspection will be performed by June 30, 2010 at the latest. If ARCEP finds that IFW has not complied with the specifications, it may impose the sanctions provided for in the French Post and Electronic Communications Code.

The Company does not consider that it is exposed to any specific risks in relation to the other regulatory requirements described in Section 6.6 below.

4.5 RISKS RELATING TO CLAIMS AND LITIGATION

In the normal course of its business, the Group is involved in a certain number of legal proceedings. The Group considers that the provisions set up to cover such contingencies, litigation or disputes known of or in progress at December 31, 2009 are sufficient to ensure that there would be no material impact on the consolidated financial position of the Group in the event of unfavorable outcomes. To the best of the Company's knowledge, there are no current or pending governmental, legal or arbitration proceedings that could have, or have in the past twelve months, a material impact on the financial position, results of operations, business and assets and liabilities of the Company or the Group.

The claims and legal proceedings between Free and its subscribers are not significant in number in relation to Free's subscriber base and do not represent material amounts.

The Group's companies are involved in inquiries, claims and legal proceedings with regulatory authorities, competitors and other parties. The Group considers that the provisions set up to cover such contingencies, litigation or disputes known of or in progress at December 31, 2009 are sufficient to ensure that there would be no material impact on the Group's consolidated financial position in the event of unfavorable outcomes (see Note 28 to the consolidated financial statements).

4. RISK FACTORS

4.5 RISKS RELATING TO CLAIMS AND LITIGATION

Like other players operating in its sector, the Group is frequently served with writs as part of claims instigated by subscribers in relation to the provision of services. In general, the financial risk posed by each of these claims is relatively small. However, any proliferation of such claims could constitute a risk for the Group. In such cases, the Group tries to negotiate an out-of-court settlement, which helps to reduce the final total cost of these proceedings considerably. The Group considers that the number of these claims is not significant compared to the number of its subscribers.

In addition, as the Group holds radio access licenses, in view of the concerns raised by the potential (but not scientifically proven) health effects that could arise from exposure to mobile telecommunications equipment, the Group is subject to the risk of legal proceedings in relation to its operations.

Lastly, the claim filed in February 2007 against the Company and certain of its senior managers by Wal Services and two former Iliad employees – Messrs. Chami and Gohon – is currently pending before the Paris Commercial Court. On March 25, 2009, the Court ordered a stay of proceedings until the Brussels Commercial Court rules whether or not Wal Services actually exists as a company. Although the outcome of this dispute is still uncertain, Iliad still considers that the claims filed by Wal Services and Messrs. Chami and Gohon are unfounded and that despite their allegations, the plaintiffs were subject neither to fraud nor to any form of duress.

4.6 INSURANCE AND RISK COVERAGE

The Group's strategy is to obtain insurance from external sources to cover the risks which can be insured at reasonable cost. Its current insurance policies cover Group companies' assets and third party liability, under standard terms.

The cost of Iliad's insurance cover for all Group companies came to approximately €3 million in 2009, representing all the insurance premiums paid. In order to obtain the best possible coverage for all the Group's companies, Iliad uses the services of its online insurance brokerage company, Assunet, which negotiates the insurance policies on its behalf.

The Group's main policy covers third party liability in the event of fire as required by France Telecom in respect of its occupancy of co-location facilities. The rollouts of the FTTH and third-generation mobile communications networks are covered by a principal contractor's liability insurance policy. Work carried out on the optical nodes (ONs) is covered by "non-builder developer" (*constructeur non réalisateur*) insurance.

The Group has taken out specific insurance policies to cover the operation of the active and inactive telecommunications network. Its business as a fixed-line telephony operator is covered by a professional liability insurance policy, which has been amended to include hosting operations for private and professional websites.

The Group has also taken out two insurance policies to cover industrial risks and equipment breakage for (i) all locations where its equipment is housed (Points of Presence, subscriber connection nodes, optical nodes), and at the head office, and (ii) all of its LTO-ONs. In addition, in March 2008, the Group renewed the directors' and officers' liability insurance policy taken out in March 2005 which covers all forms of such liability claims.

Iliad considers that this insurance cover takes into account the nature of the risks incurred by Group companies and matches the scope of other insurance cover currently available on the market for groups of a similar size and with similar business activities.

5. INFORMATION ABOUT THE COMPANY AND THE GROUP

5.1 HISTORY AND DEVELOPMENT

5. INFORMATION ABOUT THE COMPANY AND THE GROUP

5.1 HISTORY AND DEVELOPMENT

5.1.1 *Company name*

The Company's name is Iliad.

5.1.2 *Registration details*

The Company is registered at the Paris Trade and Companies Registry under number 342 376 332.

5.1.3 *Date of incorporation and term*

The Company's business sector A.P.E. code is 5814Z – Publication of Reviews and Periodicals.

The Company was incorporated on August 31, 1987 for a fixed period of ninety-nine years from its registration date at the Trade and Companies Registry, expiring on October 15, 2086 unless said period is extended or the Company is wound up in advance.

5.1.4 *Registered office, legal form and applicable law*

Registered office: 8, rue de la Ville l'Evêque – 75008 Paris, France
Telephone: +33 1 73 50 20 00

The Company is a French *société anonyme* governed by the French Commercial Code (*Code de Commerce*).

5.1.5 *Key dates*

The key dates in the Group's development are as follows:

- | | |
|------|---|
| 1996 | • Launch of the reverse look-up directory 3617 ANNU |
| 1999 | • Creation of the Internet service provider Free |
| | • The Group is granted category L.33-1 and L.34-1 telecommunications licenses, authorizing it to roll out a telecommunications network and to provide telecommunications services to the public |
| 2000 | • Sale of the Group's Minitel business (excluding ANNU) |
| 2001 | • Launch of the Freebox (modem and DSLAM) research and development project |
| | • Acquisition of the French subsidiary of the Australian telecommunications operator One.Tel (December 2001) |
| 2002 | • Launch of Free's broadband service |
| | • Start of local loop unbundling (LLU) operations in Paris |
| 2003 | • Launch of the ADSL fixed telephony service using the Freebox modem in August 2003 (under Option 1) |
| | • Launch of an ADSL-based audiovisual content service offering in December 2003 |

5. INFORMATION ABOUT THE COMPANY AND THE GROUP

5.1 HISTORY AND DEVELOPMENT

- 2004
- Iliad's initial public offering. Listing on the Euronext Paris Premier Marché on January 30, 2004
 - Launch in March 2004 of voice over ADSL services under Option 5 using the Freebox modem
 - Launch of a fully unbundled service offering (June 2004)
 - Launch of the ADSL 2+ service offering (October 2004)
- 2005
- Acquisition of Altitude Telecom which held the only national WiMAX license for France (3.5 GHz) (November 2005)
 - Launch of the Video on Demand (VoD) offering on the Freebox, in conjunction with Canalplay (December 2005)
- 2006
- Launch of the new HD Freebox TV service, DTT Tuner (TF1 and M6 accessible), WiFi Mimo and mobile telephony over WiFi (April 2006)
 - Launch of Dedibox – a dedicated server hosting service available to private individuals (May 2006)
 - Issue of bonds convertible for new shares and/or exchangeable for existing shares (OCEANE) representing a total nominal value of €330,624,932.40 (June 2006)
 - Internet bandwidth increased for unbundled Freebox subscribers offering speeds of up to 28 Mbit/s (July 2006)
 - Telephone line rental included in the Freebox subscription (€29.99 per month) in non-unbundled areas (August 2006)
 - Launch of HD Freebox Digital Video Recorder (September 2006)
 - Free announces its fiber-to-the-home (FTTH) rollout program (September 2006)
 - Acquisition of Citéfibre (October 2006)
- 2007
- Free signs an agreement with UPS for the delivery of the HD Freebox (May 2007)
 - Launch of Free Home Vidéo, a subscription-based Video on Demand (S-VoD) service (June 2007)
 - Launch of TV Perso Freebox, first service in the world enabling Free subscribers to create their own television channel (June 2007)
 - Iliad applies for France's fourth mobile phone license which is rejected by ARCEP as it includes a request for a deferred payment arrangement (July 2007)
 - TV accessible to all Free subscribers (July 2007)
 - Launch of Free's FTTH offer, Internet access at a speed of 100 Mbit/s, telephony and audiovisual services for €29.99 per month (August 2007)

5. INFORMATION ABOUT THE COMPANY AND THE GROUP

5.1 HISTORY AND DEVELOPMENT

- 2008
- Launch of Freeplugs which use standard power line communication (PLC) technology to link Freebox HD modems (January 2008)
 - Speeds of up to 22 Mbit/s (ATM speeds) offered on the Freebox in non-unbundled areas (March 2008)
 - Canal+ On Demand available for the first time on television through Freebox TV (May 2008)
 - Iliad sets up a €1.2 billion syndicated credit facility (July 2008)
 - Iliad acquires the entire capital and voting rights of Liberty Surf Group SAS (Alice)
 - Free extends its Local Technical Support nationwide (August 2008)
 - Free launches the Multi TV service on the Freebox (September 2008)
 - Liberty Surf Group (LSG) – a wholly-owned Iliad subsidiary – sells Intercall SA (November 2008)
- 2009
- Set-up of a strategic partnership with Chiligaming (part of the Gaminvest Holding Ltd group) pending the opening up of the online gaming and betting market in France.
 - Alice presents the new AliceBox (February 2009)
 - Launch of an offer to purchase Citéfibre's shares with a view to delisting the company from the Marché Libre (February 2009)
 - Citéfibre shares delisted from the Marché Libre (April 2009)
 - Free makes it easier to broadcast digital content on TV by launching a new service based on the Universal Plug & Play (UPnP AV) protocol (May 2009)
 - Free opens its Free-Wifi network (May 2009)
 - Free Mobile files an application for France's fourth 3G mobile telecommunications license (October 2009)
 - Free launches the first upgradeable video game offering on a Box (November 2009)
 - Alice launches the first true triple-play package in the world for less than €20 per month (December 2009)
 - Free unveils its FTTH (fiber-to-the-home) network in Valenciennes, France (December 2009)
 - Free continues to innovate with the launch of remote TV program recording (December 2009)
 - Free Mobile becomes the fourth 3G mobile operator in France (December 2009)
 - Free includes unlimited calls to Morocco in its flat rate package (December 2009)

5.1.6 Important events in the development of the Group's business

Since its formation in 1991, thanks to its expertise in telecommunications networks and the commercial appeal of its mass-market offerings provided under the Free brand, the Group has become a major Internet and telecommunications player in France.

5. INFORMATION ABOUT THE COMPANY AND THE GROUP

5.1 HISTORY AND DEVELOPMENT

5.1.6.1 *A leading Internet service provider in France*

In April 1999, Free entered the Internet service provider (ISP) market with a simple, no-subscription service. This commercial strategy was at first based solely on providing “Pay-as-you-go” access and enabled Free to win a large share of the dial-up market with relatively small advertising outlay as compared to its competitors.

After completing the rollout of its telecommunications network and interconnecting with the France Telecom network in April 2001, Free was in a position to control the cost structure of an offering based on Internet connection time. It therefore launched an attractive and profitable dial-up package, charging a fixed rate of €14.94 for 50 hours of Internet usage per month. It is one of the few such providers to have become profitable through the provision of ISP services having first posted a profit in April 2001, only 24 months after the start-up of its business.

Free has capitalized on the different nuances of its brand name, transforming it from a name implying that the offering is free of charge into a name associated with high-quality paid services and the freedom offered to users of these services. This new brand image was enhanced with the launch in October 2002 of Free’s ADSL broadband offering for €29.99 per month. Through the use of its network and by building on its experience in dial-up offerings, Free has developed a high-quality broadband access offering which is attractively priced and, where possible, makes the most of the opportunities afforded by the unbundling of the local loop.

On August 26, 2008, Iliad acquired the entire capital and voting rights of Liberty Surf Group (Alice) with a view to speeding up its business expansion and strengthening its strategic positioning in the ADSL market in France.

Today Iliad has a number of Internet access offerings marketed under the Free and Alice brands. All of these offerings are characterized by their simplicity, attractive pricing and recognized technical quality. They also provide tools allowing subscribers to take full advantage of the Internet’s many features, including portals, search engines, email, personal website construction tools and account management systems.

5.1.6.2 *Local loop unbundling and the rollout of the fiber-to-the-home (FTTH) network: a key strategy for the profitable growth of the Group*

5.1.6.2.1 Local loop unbundling

The unbundling of the local loop is a technical operation which allows operators to control the access to their subscribers and thereby free themselves to a great extent from their dependence on France Telecom’s network. Local loop unbundling (LLU) is vital for the Group’s ADSL services, as this enables it to take full advantage of the density and quality of its network and to set up end-to-end management of the infrastructures connecting it to its subscribers.

LLU allows the Group to offer its subscribers attractive prices (currently €29.99 per month for the ADSL broadband Internet access package, with speeds of up to 28 Mbit/s) and a competitive range of services, providing higher transmission speeds combined with telephony and audiovisual services for subscribers with a Freebox modem.

LLU is a key element for the profitability of the Group due to the high margins that can be generated. At present, most of the recurring charges paid to France Telecom relate to the rental of equipment used for connecting the subscriber’s modem to the corresponding DSLAM belonging to the Group.

Iliad intends to continue the unbundling of new distribution frames to increase the number of unbundled lines. This will enable the Group to strengthen its competitive position in new unbundled areas and increase its profitability.

5.1.6.2.2 Rollout of the fiber-to-the-home (FTTH) network

In 2006, the Group launched a project to roll out an optical fiber network. The purpose of this roll out is to provide access to an optical fiber local loop, thereby improving the quality of the services and delivering faster transmission speeds. These investments will be profitable to the extent that they are first made in areas with a high density of Free subscribers. The rollout strategy will reduce unbundling costs and strengthen the Group’s strategic positioning. Iliad intends to horizontally cover 4 million homes by 2012, representing an investment of about €1 billion.

5. INFORMATION ABOUT THE COMPANY AND THE GROUP

5.1 HISTORY AND DEVELOPMENT

5.1.6.3 *The Group becomes a major mobile telephony player*

Following the bid process for France's fourth 3G mobile telecommunications license launched on August 1, 2009, on January 12, 2010, ARCEP issued Decision 2010-0043 authorizing the Iliad subsidiary Free Mobile 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.

Mobile communications represents a significant avenue of growth for the Group as it expects to generate major synergies with its landline network in terms of both costs and revenues.

As described in Section 6.1.1 below, the Group started to roll out its 3G network as from early 2010. Its objective is to cover 27% of France's population by early 2012, 75% by end 2015 and 90% by end-2018.

The commercial launch of its mobile offering, planned for 2012, will enable the Group to propose a wide range of mobile voice solutions and innovative multimedia mobile services.

In addition to the 3G license, since November 2005, through its subsidiary IFW, the Group has held the sole license to use frequencies in the 3.5 GHz band for the whole of mainland France. As such, it is able to use WiMAX technology (IMT-2000). In 2009, the Group performed various tests on this technology, which is currently in the development stage. This license may be used to support or round out the third-generation network that is currently being rolled out by Free Mobile.

5.2 INVESTMENTS

5.2.1 *Principal investments over the last three fiscal years*

Over the last three years the Group has continued to rapidly expand its broadband operations, by pursuing a pro-active capital expenditure strategy, involving the following principal investments:

- Growth-related expenditure for the ADSL business, mainly corresponding to Freebox and Alicebox modems, DSLAMs used for the broadband Internet access offering, and France Telecom cabling costs (access fees).
- Network-related expenditure, primarily incurred to increase network density and invested jointly with private operators or local authorities, or under IRU agreements.
- Expenditure related to rolling out an FTTH network, including for purchasing and fitting out sites, laying optical fiber, and connecting up subscribers.

Acquisitions of property, plant and equipment and intangible assets (net of asset disposals) break down as follows over the last three fiscal years:

<u>Non-current assets (in € millions)</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Growth-related expenditure	281	276	251
Network-related expenditure	52	40	57
FTTH expenditure	33	65	112
TOTAL	<u>366</u>	<u>381</u>	<u>420</u>

Investments in other companies over the last three fiscal years were as follows:

- On August 26, 2008 the Group acquired the entire capital and voting rights of Liberty Surf Group SAS for an initial amount of €775 million. Including the various earn-out payments received in 2008 and 2009, the final price of the acquisition was approximately €700 million.

5. INFORMATION ABOUT THE COMPANY AND THE GROUP

5.2 INVESTMENTS

5.2.2 *Principal investments in progress*

In 2009, the Group's principal investments represented (i) growth-related expenditure which directly depends on the number of new subscribers won, (ii) network-related expenditure incurred from ongoing work to unbundle the local loop, (iii) FTTH expenditure, and (iv) expenditure relating to the rollout of the third-generation mobile communications network, including the payment on January 13, 2010 of €240 million in fees due for the right to use frequencies in the 2.1 GHz band (see Section 20.1).

5.2.3 *Principal future investments*

(i) ADSL expenditure: The Group plans to undertake further ADSL capital expenditure with a view to (i) producing both the current and future versions of the Freebox and AliceBox modems and distributing these modems to its subscribers and (ii) increasing its network density by installing additional Freebox DSLAMs at France Telecom sites and operating new sections of optical fiber. With respect to the unbundling of the local loop, the Group is using the information in its possession regarding the geographical breakdown of its broadband subscribers to give priority to unbundling the local loops at those France Telecom sites serving the greatest number of subscribers and thus secure a rapid and satisfactory return on its investment. The Group intends to continue to extend its local loop unbundling operations by connecting up between 300 and 400 new France Telecom sites a year over the coming two years. In so doing, the Group expects to reach a subscriber unbundling rate of approximately 90% in the medium term.

(ii) FTTH expenditure: In late 2009, the Group affirmed its previously stated intention of investing €1 billion in FTTH operations between 2006 and 2012. During the coming years, the Group will therefore continue with its horizontal rollouts (mainly outside Paris), using France Telecom's service offering that allows access to the incumbent operator's existing cable ducts, and will speed up the process of connecting up subscribers thanks to agreements signed among the various operators to pool their vertical rollouts in densely populated areas. At end-2009 the Group had invested almost €300 million of the 2006-2012 FTTH investment plan.

(iii) Mobile communications expenditure: Since it received the go-ahead in early 2010 to set up and operate a third-generation mobile communications network in mainland France, the Group has launched the rollout of this network. The aggregate amount of expenditure planned for the rollout is around €1 billion.

Financing

The combination of (i) the significant amount of free cash flow at end-2009, (ii) the strong cash flows generated from the ADSL business and (iii) a low level of debt, means that the Group can self finance its business development.

5.3 THE FREE CORPORATE FOUNDATION

Established in 2006, the Free Corporate Foundation is dedicated to reducing the digital divide and developing open source software.

To this end it helps disadvantaged people and public-interest bodies to access web-based services and technology, through a wide range of measures aimed at supplying funds, equipment and hosting capacity. The Foundation also provides these people and bodies with access to open source software. All of these steps help society's most underprivileged populations to gain access to education, as well as to cultural and leisure activities.

The Foundation has been allocated a budget of around €3 million for five years.

Computer and internet use contributes to educating young people, exchanging knowledge and more generally to boosting social and economic development. Despite all of these advantages, full-population access to Information and Communication Technologies (ICT) is still far from being a reality. In a bid to help remedy this situation, the Free Corporate Foundation supports Workshops without Borders (Ateliers sans Frontières) and its ASSOCLIC project, and has distributed over 1,000 IT packs for 109 projects organized by not-for-profit associations.

5. INFORMATION ABOUT THE COMPANY AND THE GROUP

5.3 THE FREE CORPORATE FOUNDATION

In 2009, the Free Corporate Foundation provided financial support to a wide range of projects set up by not-for-profit associations, including:

La délégation du Val de Marne du Secours Catholique

Le Centre d'Hébergement d'Urgence du Fort de Nogent de l'Armée du Salut

Les Ateliers Sans Frontières

Sport dans la ville

Unicité

Fraternité Numérique

L'Agence pour le Développement des Emplois de Proximité (ADEP)

Association Science Technologie Société (ASTS)

Mon Jardin Numérique

La Junior Association Oxy Radio

Le CCAS Espace Condorcet

Renaissance Numérique

L'Association Science et Culture Pour Tous

Le Centre Régional de Documentation Pédagogique de Versailles

Le Centre Expérimental Orthophonique et Pédagogique (CEOP)

L'Open Source Developers Conference, (OSDC)

InterTICE (salon du carrefour des usages pédagogiques du numérique)

The Foundation also supports a number of associations – particularly those of business and engineering schools – by donating computers, such as for the Association des Elèves de l'Ecole Polytechnique, Supélec Rezo Rennes, Central Réseaux, I-Resam, CR@NS (*Cachan Réseaux @ Normale Sup*), ResEl (Telecom Bretagne) and the Association Nature Humaine.

Lastly, the Foundation hosts and provides the use of some fifty servers for various associations including APRIL (Association pour la Promotion et la Recherche en Informatique Libre), TuxFamily.org, Centrale Réseaux, Linux62, APINC (Association Pour l'Internet Non Commercial), AFAU (Association Française des Amateurs d'Usenet), and OxyRadio (a not-for-profit webradio station that promotes artists who allow free online access to their works).

As part of the measures put in place to distribute open source software, the Foundation has set up FTP and HTTP mirror sites for software (Linux ubuntu, Linux debian, FreeBSD and Videolan) and provides hosting services in France for SourceForge projects. The SourceForge repository hosts over 250,000 projects and has more than 2 million registered users, making it the largest collection of OpenSource applications available online.

The following are examples of projects supported by the Free Foundation:

- The Salvation Army's emergency accommodation center at Fort de Nogent, which was able to set up an NICT workshop for the center's 160 residents.
- Lyonnaise Sport dans la Ville association, which, through the support provided by the Free Corporate Foundation, was able to offer 150 young people the possibility of taking part in an employment placement program called "Job dans la Ville", as well as 20 entrepreneurs the opportunity of obtaining IT equipment for their ventures, as part of the "Entrepreneurs dans la Ville" program.
- The Fraternité Numérique association, which was able to offer IT introductory sessions to seniors during France's national "seniors week" that in 2009 was focused on the internet.

The Free Corporate Foundation also continued to work in partnership with the Agence Nouvelle des Solidarités Actives (ANSA) in 2009 to support the projects of the TicActives program.

Other areas of the Foundation's involvement include IT and communications awareness-raising campaigns at events organized with Renaissance Numérique – the Internet citizen Think Tank – and the Centre Régional de Documentation Pédagogique of the Versailles educational authorities for the InterTICE trade fair.

Working in partnership with the Délégation aux Usages de l'Internet (DUI) and the Agence Nouvelle des Solidarités Actives (ANSA), the Foundation has also lent its support to a social welfare center in the Eure region of France as part of a project aimed at providing IT training and equipment for disadvantaged people.

6. OVERVIEW OF THE GROUP'S BUSINESS

6.1 PRINCIPAL ACTIVITIES

6. OVERVIEW OF THE GROUP'S BUSINESS

6.1 PRINCIPAL ACTIVITIES

6.1.1 Strategy

Leveraging the competitive strengths described in Section 6.1.2 of this registration document, the Group's strategy is based on the principles described below.

Continuing to provide the most competitive broadband Internet access offerings in France

In order to continue the growth of its market share, the Group plans to pursue its strategy of winning new ADSL broadband subscribers by combining a competitive pricing policy with a focus on the quality of its services (for example by offering ever-increasing bandwidth and innovative services, such as ADSL-based or voice over IP telephony and audiovisual content), as well as on technical and customer support solutions. This subscriber recruitment policy forms part of the Group's overall strategy to further enhance its profitability. On August 26, 2008 Iliad acquired Liberty Surf Group SAS (Alice) in a strategic move that consolidates the Group's position as France's leading alternative operator with over 4.4 million ADSL subscribers at December 31, 2009. The acquisition will enable the Group to enhance its return on investment for various projects, including ADSL and optical fiber networks, and will also help it to strengthen its appeal among audiovisual partners.

Increasing the number of subscribers on unbundled lines (Option 1)

The Group intends to increase the number of subscribers on unbundled lines in two complementary ways. First, it plans to grow its market share in areas which have already been unbundled by continuing to offer its Freebox and AliceBox services directly to new subscribers under Option 1. Second, it plans to encourage the migration of the maximum possible number of Option 5 subscribers (on non-unbundled lines) to Option 1 (unbundled lines) by expanding the density of its network. This network expansion will take into account any applicable technical restrictions and will entail prioritizing the areas to be unbundled, focusing on those that already have a large number of subscribers, to ensure a rapid return on investment. Given the significant difference in profitability between unbundled subscriber lines and other lines, the expansion of local loop unbundling (to migrate existing subscribers or win new subscribers) is designed to substantially increase the Group's profit margins.

Iliad aims to improve the unbundling rate of Alice's subscriber base, whose low level of around 45% at the acquisition date of August 26, 2008 was an operational and strategic obstacle. By raising the unbundling rate Iliad will achieve a three-pronged objective of enhancing Alice's underlying offering, boosting the Group's margins and reducing the subscriber cancellation rate. In the second half of 2009 the Group was able to continue migrating part of Alice's subscriber base from Option 5 to Option 1 thanks to the density of its network. At December 31, 2009, the Group's unbundling rate was 85.4% compared with 78.7% one year earlier.

Promoting the use of optional value-added services provided through the Freebox and AliceBox

Since the launch of its ADSL-based telephony service in August 2003, the Group has consistently added new free and pay-per-use services for subscribers with Freebox modems in unbundled areas. In 2005, the Freeplayer media center service was added, along with a multi-device offering and Video on Demand provided in partnership with Canalplay. The new HD Freebox was launched in 2006, enabling subscribers with access to this technology to have digital video facilities and watch programs in high definition. Also in 2006, Free's Video on Demand offering was strengthened with the addition of new content for adults, children (Canalplay Kids) and music-lovers (i Concerts). In 2007, a fax service was added to the Freebox offering, along with a new "TV Perso" service enabling subscribers equipped with the HD Freebox to create their own personal television channel. On-demand content was also expanded through the launch of a subscription-based, unlimited-use Video on Demand service (S-VoD) offering known as Free Home Video. In 2008, Free extended its S-VoD offering with the launch of Free Home Video Premium and strengthened its audiovisual offering by adding new channels and new high-definition content. New services were also launched for the Freebox during 2008 such as a "Multi-TV" service enabling subscribers to access Free's audiovisual offering on several TV sets.

Also in 2008, Free introduced new cutting-edge technology by integrating Power Line Communication (PLC) into the power supply for Freebox HD modems (Freeplugs) as well as the latest generation of WiFi (802.11n) into ADSL modems.

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These new technologies are proposed to all new unbundled subscribers as part of Free's standard ADSL offering charged at €29.99 per month. In line with its well-established strategy, Free also offers existing subscribers the option of renewing their terminals (in accordance with its general sales conditions) so that they can enjoy the latest Freebox HD technological innovations. In 2009, Free continued to innovate by offering new Freebox HD services, such as the launch of remote TV program recording, the opening of a Wifi hotspot network (FreeWifi), and the launch of the first upgradeable video game offering on a Box.

The Group considers that these services strengthen the appeal of its ADSL broadband offering and help foster customer loyalty. The Group's strategy is therefore focused on increasing the number of such services and making sure that they are easy to use, notably by simplifying interfaces and invoice procedures.

A new AliceBox was launched in early 2009 integrating new functions that provide ever more services and higher performance levels with optimum quality conditions, including WiFi MiMo, an integrated router and Power Line Communication (PLC) for the new HD TV Decoder Video Recorder (available under the Premium TV Service).

Alice's offering was also strengthened by introducing higher transmission rates (up to 28 Mbits in unbundled areas and up to 22 Mbits in non-unbundled areas), as well as by including 27 new countries for telephone services and an extra 70 channels for subscribers eligible for the TV offering.

Lastly, Iliad set up a strategic partnership with Chiligaming with a view to offering on-line gaming facilities in France when permitted by the applicable regulations following the opening up of the French on-line gaming market. The idea behind this partnership is to act as a vehicle for increasing both the use of optional services and the average revenue per subscriber.

Rolling out an FTTH network in areas with high subscriber density

In September 2006, the Group announced that it planned to roll out an optical fiber network in order to provide a direct connection to the homes of its subscribers using fiber-to-the-home (FTTH) technology. This technology offers significantly faster data transmission rates than ADSL and will give subscribers access to new services. At the same time, it will enable the Group to operate totally independently from France Telecom's local loop. Iliad intends to optimize its capital expenditure by focusing on areas with high subscriber density. In mid-September 2007, Free announced the features of its FTTH high speed broadband offering (see Section 6.1.4.1.1), which it will continue to roll out in a bid to expand the number of eligible households.

Rolling out a third-generation mobile communications network

On January 12, 2010, Free Mobile was awarded the fourth 3G mobile telecommunications license in mainland France under Decision 2010-0043 issued by the French Telecommunications Regulatory Authority (ARCEP). Under this decision, Free Mobile is authorized to use frequencies in the 2.1 GHz and 900 MHz bands to set up and operate a third-generation mobile communications network for public use.

Since the ARCEP Decision was issued, Free Mobile has undertaken a process of selecting service and equipment providers for the rollout, and has approached a number of lessors in order to negotiate occupancy rights for base transceiver stations.

Keeping on the lookout for acquisition opportunities to drive growth

Although it places internal growth at the core of its strategy, the Group pursues a policy of external expansion if targeted opportunities arise in areas that strongly complement its existing business or would result in improved use of the Group's network.

6.1.2 Competitive advantages

The Group benefits from a number of competitive advantages which should enable it to sustain its profitable growth and maintain its position as a leading provider of broadband Internet access in France. The Group believes it is well placed to take full advantage of the growth potential in the Internet and telecommunications sectors thanks to the strengths described below.

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Free – an Internet service provider established since 1999, with a well-known brand in France

As a result of the success of its consumer market services, Free has positioned itself as a major player in the Internet access market in France since its creation in 1999. Free's successive launch of its dial-up "Pay-as-you-go" and "50-hour plan" offerings and its €29.99 per month broadband service have firmly established the credibility and recognition of the brand. It is clearly associated with the concepts of freedom, cutting-edge technology and value-for-money.

Technically sophisticated and attractively priced service offerings

The Group's network enables it to design sustainable service offerings that are easy to understand, technically sophisticated and attractively priced. The broadband and high speed broadband Internet access offerings at €29.99 per month are among the most competitively priced on the market in their respective segments while providing a high quality of service. This positioning is a central factor in the Group's strategy and is aimed at creating the right environment for lasting and profitable growth of Iliad's business.

A high-performance national network supporting both Internet service provider and fixed telephony operations for the consumer market

In order to be able to offer high-performance and innovative services to its subscribers and to guarantee the profitability of its business operations, in 1999 the Group decided to establish its own telecommunications network, which would allow it to control the technical aspects and pricing of its services for the routing of both data (Internet) and voice (over IP or circuit-switched). Since early in the second half of 2001, the Group has been gradually rolling out and operating its own optical fiber network. The skills and experience acquired by the Group's network teams now mean that it is able to use its own resources to operate and maintain a nationwide network and guarantee its Internet subscribers a level of quality and connection speeds recognized as among the best on the market. The specific technical features of the network and its high density are key factors for the success and profitability of the Group's service offerings in both Internet access and telephony. The size, design and scalable architecture of the Group's network make it capable of serving all potential subscribers simultaneously using the Group's telephony, broadband and audiovisual services in areas where the local loop has been unbundled.

A leading player in local loop unbundling

The Group considers that local loop unbundling lies at the heart of its ability to offer original, sustainable and profitable broadband Internet access services. At December 31, 2009 the Group had 3,805,840 unbundled lines thanks to the installation of approximately 4,523 Freebox DSLAMs in 2,631 facilities located in or alongside France Telecom exchanges. The Group intends to leverage its experience and enlarge the number of unbundled areas in order to offer differentiated services to its subscribers.

Targeted research and development focusing on the consumer market

The Group's investment in research and development of hardware and software products has enabled it to position itself as a frontrunner in the implementation of innovative technological solutions on the consumer market. The success of this policy is based largely on management's commitment to providing high-quality technical equipment and retaining flexibility in its choice of hardware. This in turn has resulted in the design of hardware specifically suited to the Group's service offerings and using cutting-edge technologies such as the Freebox modem/DSLAM unit, as well as in the development of innovative software solutions (such as billing software and Cisco SS7 interconnect software). By relying largely on internal resources, the Group has been able to optimize its capital expenditure from the outset.

An in-depth understanding of key regulatory issues

The Group has demonstrated its in-depth understanding of regulatory issues by establishing a constructive dialogue with ARCEP, particularly in the context of the local loop and interconnect working groups set up by ARCEP. The Group has also shown its ability to take full advantage of the appeal procedures offered by ARCEP in order to defend its interests. Iliad believes that it has a good overall understanding of the current legislative and regulatory environment, as well as of the proposals under discussion which could have an impact on its activities as an Internet service provider and telecommunications operator.

A proven ability to generate profits in periods of high revenue growth

The Group has posted profits each year since 2001, despite its significant investments in interconnection and LLU operations and the intense competition in its markets. It has demonstrated its capacity to finance the majority of its capital expenditure and new business start-up costs internally, while continuing to pay dividends. With its high-performance network and large subscriber base, the Group believes it will be able to continue to pursue its strategy of profitable growth.

The ability to build on its experience

As the different parts of the Group's network complement and are integrated with one another, Iliad is able to put its experience in certain areas of its business to work in the development of other services. By way of example, the Group's expertise in fixed telephony acquired in the course of restructuring and running One.Tel enabled Free to launch France's first fixed telephony over ADSL services for the consumer market beginning in August 2003, without changing the prices of its broadband Internet access offering.

Licenses

The Group has held a WiMAX license since 2005 and in early 2010 was granted France's fourth 3G mobile communications license.

An experienced management team with complementary skills

Over the last few years, the management team has succeeded in positioning the Group as one of France's leading alternative Internet service providers, while sustaining profitability and pursuing a strategy of internally financed growth. This success is due largely to the experience and highly complementary skills of the management team in the following areas: knowledge of the Internet and telecommunications sector, in-depth understanding of key regulatory issues, consumer marketing know-how, strong technological expertise, sound financial management and commitment to a graduated investment policy.

6.1.3 A network servicing the Group's Internet and telephony operations

In order to access the Internet, data must be routed between the user's computer and the Internet. Such Internet access is traditionally provided by Internet service providers using interconnect services, i.e., by connecting to the incumbent operator's network or to that of other licensed operators.

Right from the initial formation of Free, the Group believed it was critical to have control over as many network elements used for connecting its subscribers to the Internet as possible. This decision meant that Free could operate its own network infrastructure, which quickly resulted in an influx of recurrent revenues from its "Pay-as-you-go" services and ensured the Company's profitability (largely as a result of reducing its spend on interconnection charges).

The Group began its network rollout strategy in December 1999 when it obtained licenses awarded under Articles L.33-1 and L.34-1 of the French Post and Telecommunications Code (*Code des postes et télécommunications*), which in July 2004 was renamed the Post and Electronic Communications Code (*Code des postes et des communications électroniques*), authorizing Free Telecom (known at that time as Linx) to build and operate a telecommunications network and to provide telecommunications services to the public. Free's strategy was based on accessing and operating optical fibers already installed by other operators, particularly by entering into long-term Indefeasible Right of Use (IRU) agreements for dark optical fibers. This enabled Free to optimize its capital expenditure and guarantee a rapid interconnection with the incumbent operator's network.

The Group's network has been developed in several phases:

- August 2000 – April 2001: interconnection with the digital main switching units and all digital local exchanges in the Paris urban area for the collection of data traffic.
- April 2001 – August 2002: interconnection at a number of digital local exchanges outside Paris and upgrading for routing of voice traffic.

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- Since September 2002: unbundling of the local loop and expansion of the national network.
- Since September 2006: rollout of an FTTH network.
- Since February 2010: rollout of a third-generation (3G) mobile communications network.

These development phases demonstrate the Group's constant efforts to achieve an appropriate balance between network density and return on investment.

6.1.3.1 General principles of interconnection and local loop unbundling in France

6.1.3.1.1 Interconnection

Interconnection means the linking together of several telecommunications networks in order to allow uninterrupted routing of communications between them.

France Telecom network showing the 18 trunk exchange areas



Source: Iliad

In order to interconnect to the incumbent operator's network in a given trunk exchange area, the alternative operator must install a physical connection from a Point of Presence (POP) to a France Telecom switch located in one of the 18 France Telecom digital main switching units.

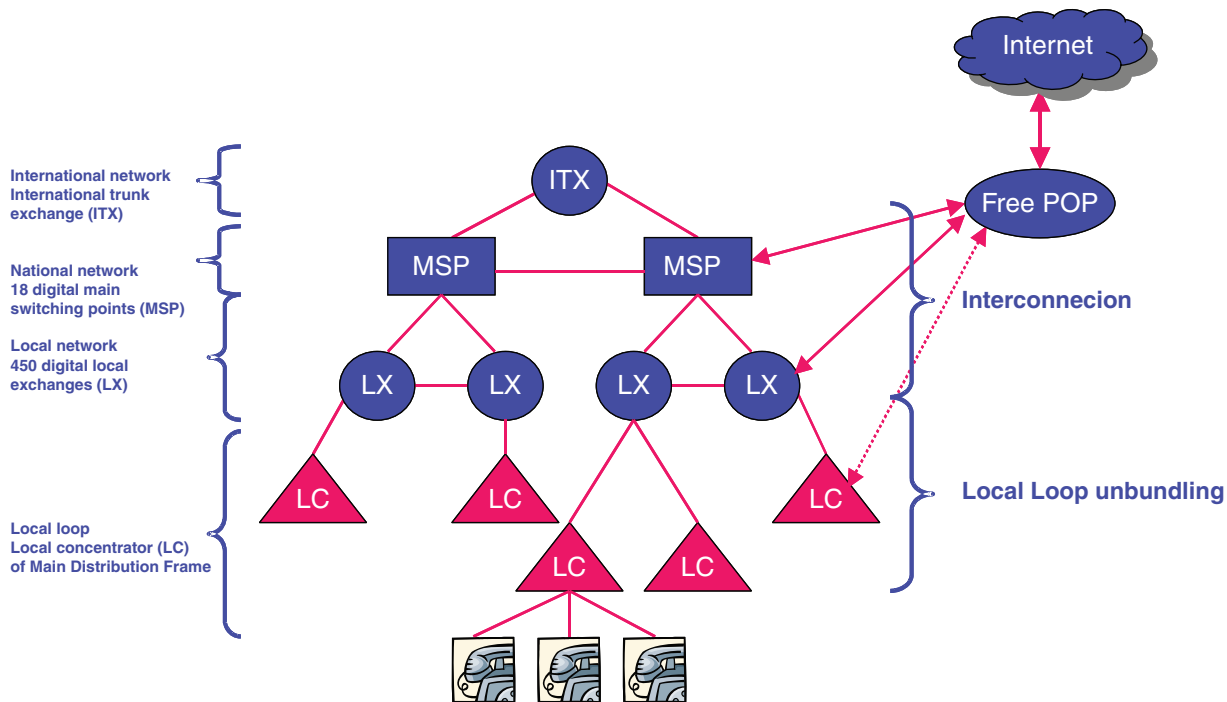
The alternative operator may also connect to the lowest hierarchical level of switches installed on the network, i.e., the digital local exchange, which is the switch closest to the user.

In turn, each user is connected to a digital local exchange by means of a local concentrator.

Under an interconnect agreement, the incumbent operator charges the alternative operator on the basis of the transmission capacity placed at its disposal, measured in digital blocks (E1, a unit of measure corresponding to approximately 2 Mbit/s).

The OLO (Other Licensed Operator) can choose the level at which it wishes to make the interconnection, i.e., at the main switching unit or the local exchange, and the number of E1 blocks it wishes to reserve at each level. The higher the level in the France Telecom network at which traffic delivery takes place, the higher the interconnection charges and the charges for transport and collection of data billed by the incumbent operator to the alternative operator.

Schematic diagram of France Telecom's switched network



6.1.3.1.2 Local loop unbundling

The local loop is the part of the network located between the telephone socket on the subscriber's premises and the main distribution frame (or local concentrator) to which the subscriber's line is connected.

The incumbent operator must, upon request, provide any Other Licensed Operator (OLO) with direct access to the local loop. This access, which is referred to as unbundling, allows the OLOs to control access to their subscribers by operating their own equipment.

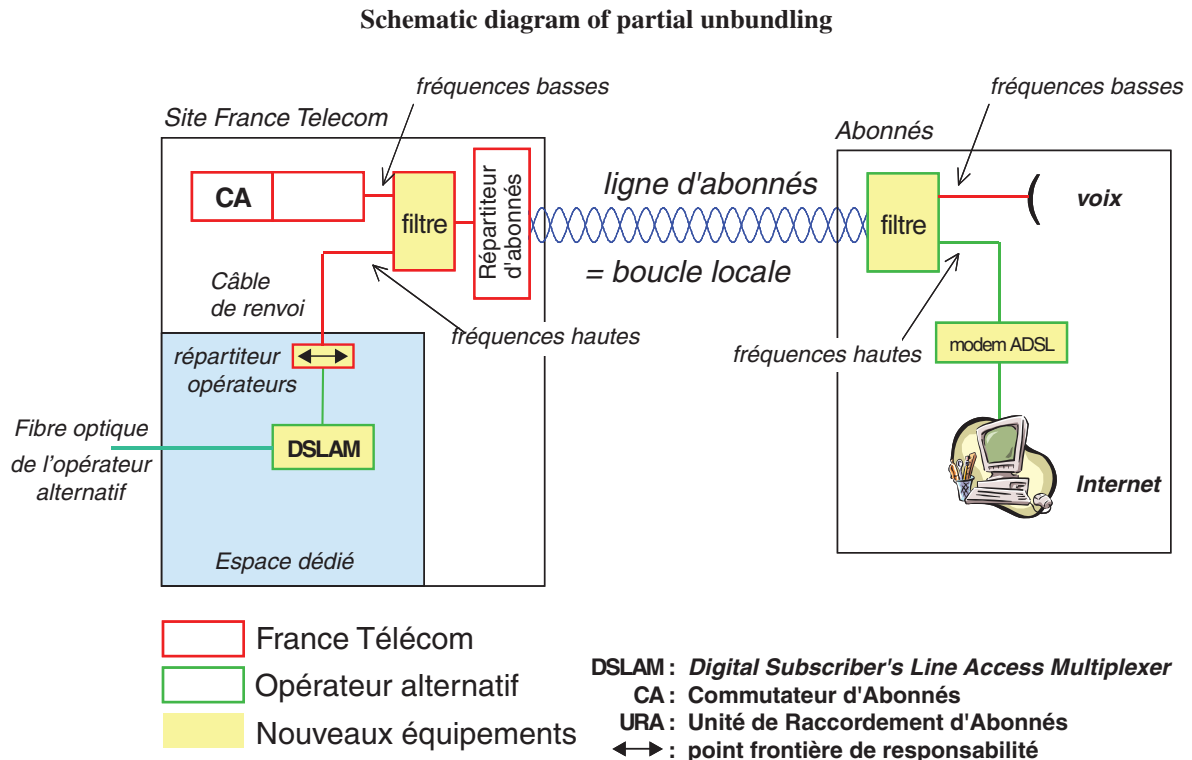
In an unbundled system, the copper pair (the part of the subscriber's line which connects the subscriber to the closest digital local exchange) is not connected directly to the equipment managed by France Telecom, but rather to an ADSL line concentrator (also called a DSLAM) installed in co-location facilities or dedicated spaces provided for this purpose in the France Telecom exchanges and managed by the operator chosen by the subscriber. A special modem is installed on the subscriber's premises to allow the subscriber to receive data transmissions at a speed of up to 28 Mbit/s.

In the case of partial unbundling, the alternative operator uses only the "high" frequencies of the copper pair needed for transporting data, while the "low" frequencies are still used by France Telecom to provide the ordinary telephone service. In this case, the user still pays the telephone line rental to France Telecom.

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The following diagram shows the technical architecture used for this type of access.



In practice, an alternative operator needs to use an optical fiber network which terminates in France Telecom's premises and install its own DSLAM equipment in co-location facilities or in dedicated spaces.

Local loop unbundling completely frees an operator from dependence on France Telecom's network. The recurring charges payable to France Telecom relate primarily to the rental of the copper pair, the splitter and the copper tie cable linking the subscriber's modem to the operator's DSLAM⁵.

In the case of full unbundling, the alternative operator uses all the frequencies of a particular copper pair. In this case the user no longer pays telephone line rental to France Telecom and splitters are no longer necessary.

For the purposes of simplification, the following sections contain the abbreviations MSU (for the digital main switching unit) and LX (for the digital local exchange) in relation to interconnection and the term "France Telecom site" in relation to local loop unbundling.

6.1.3.2 Development phases of the Group's network

6.1.3.2.1 Interconnection at the MSUs and all LXs in the Paris urban area

The first development phase of the Group's network, implemented between August 2000 and April 2001, was the interconnection at the digital main switching units (MSU) and all digital local exchanges (LXs) in the Paris urban area for the collection of data traffic.

Initially, the Group's main objective was to interconnect its network to that of France Telecom in order to obtain a minimum level of national coverage. This required the Group to be connected to at least the 18 France Telecom MSUs covering all the regions of mainland France. The Group's network at that time consisted of modem servers operated by Free and capable of meeting the needs of dial-up Internet subscribers.

Between August 2000, the date of the first interconnection in Lille to the MSU for the northern region, and June 2001, the date of the last interconnection in Poitiers to the MSU for the central region, Free's teams ordered

⁵ See Sections 9.1.2 and 9.1.3 of this registration document for a description of the fixed and variable LLU charges.

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E1 transmission capacity on France Telecom's network which it interconnected directly to the Group's network using optical fibers leased from a provider which had already installed the fiber network.

Free's innovative interconnection concept was to establish a direct connection between France Telecom's switches and the Group's Cisco modem servers. Therefore, instead of installing conventional switches between the France Telecom switches and its modem servers, Free helped to develop an application on the Cisco modem servers which supported the France Telecom network protocol.

This type of architecture, designed for data traffic, resulted in (i) a significant decrease in the level of capital expenditure required by reducing the quantity of equipment necessary for operating the network, particularly by avoiding the need for a central switch, (ii) greater control over the quality of service, and (iii) bandwidth savings over the national network as data is converted to IP mode at the level of the regional Point of Presence (POP).

By April 2001, the Group was interconnected to the 18 regional MSUs and the 119 LXs in the Paris urban area, thereby covering all of mainland France, mainly through the leasing of optical fibers at the MSU level and of bandwidth capacity for the national transport of data.

6.1.3.2.2 Interconnection at a number of LXs outside Paris and upgrading processes for voice traffic routing

The second development phase, implemented between April 2001 and August 2002, was the interconnection at a number of LXs outside Paris and upgrading processes for voice traffic routing.

By entering into IRU agreements with several operators, notably Louis Dreyfus Communications (since renamed SFR), as from April 2001 Free was able to start taking delivery of dark optical fiber pairs contained in cables laid by Neuf Cegetel in 15 regional towns and cities and of several dark optical fiber pairs in cables laid in the underground tunnel network in Paris.

This second rollout phase was a fundamental stage in the development of the Group's network as it exists today. The principal benefit of these optical fibers is that they provide Free with a high density on an urban scale and enable it to interconnect at a lower hierarchical level in the France Telecom network, i.e., at the LX level rather than the regional MSU level. This closer proximity to its subscribers has considerably reduced the recurring interconnection charges paid by Free to France Telecom. During this phase, Free's teams worked on the highly complex task of taking delivery of each pair of dark optical fibers in France Telecom's LXs and installing optical equipment (Add/Drop Multiplexers, or ADM) to enable these fibers to carry data (lit fibers).

The Group also decided during this period to enable its network to transport voice as well as data. In addition therefore to the central switch located in the main POP in Courbevoie, Free's teams installed switches in each regional POP. This provided Free with a network capable of transporting both voice and data, a development which coincided with the acquisition of One.Tel. The use of the Cirpack softswitch technical solution helped keep any additional necessary capital expenditure to a minimum compared with the potential profits the Group could obtain from providing a conventional telephone service.

By August 2002, after completing these operations, Free had regional-level interconnection at the 18 MSUs and local-level interconnection at 208 LXs, covering all of mainland France. This optical fiber network, largely operated under IRU agreements with a 10-year term in the case of metropolitan loops (expiring between 2011 and 2013) and a 25-year term in the case of the northern Paris loop (expiring in 2025), can be used to transport both data and voice, permitting the migration of One.Tel's traffic (during 2002) to the Group's network and the launch of an ADSL voice service (in August 2003). In order to guarantee the security and independence of traffic flows, voice and data traffic are processed by different equipment.

By continuing to extend the density of its network through interconnections with a greater number of LXs, the Group has seen a decrease in its interconnection costs billed by France Telecom, because LX-level call termination charges are regulated by ARCEP.

As the level of traditional switched calls is decreasing, France Telecom is having to eliminate around fifty LXs from its network every year.

6. OVERVIEW OF THE GROUP'S BUSINESS

6.1 PRINCIPAL ACTIVITIES

6.1.3.2.3 Unbundling the local loop and expanding the national network

The third development phase for the Group's network has been underway since September 2002. The unbundling of the local loop is the latest major development, allowing the Group to have direct access to its subscribers. Early in the second half of 2002, Free designed and launched a broadband Internet access offer using an optical fiber network which was already connected to 162 France Telecom sites. End-to-end management of the network allows for a broadband offering along the entire chain linking the subscriber to the worldwide web.

In November 2002, Free's teams began installing Freebox DSLAMs in France Telecom sites, either in facilities designed for use by several alternative operators or in dedicated rooms.

Map showing the Group's national network at December 31, 2009



Until March 2003, the Group's national network was based mainly on contracts for the provision of capacity (bandwidth), whereby the monthly cost was proportional to the level of the transmission capacity used, or data transported, on the network. In order to offer the maximum bandwidth to its subscribers on unbundled lines, the Group decided to migrate its national network from contracts for the use of bandwidth capacity to contracts for the provision of dark optical fibers directly operated by the Group.

This migration resulted in a shift in the Group's cost structure from variable costs to fixed costs which did not depend on the bandwidth used. The optical fiber pair is operated by Free primarily through the use of Huawei

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wavelength multiplexing equipment (DWDM) and provides Free with flexibility for significant growth in the number of broadband subscribers throughout France without any currently foreseeable restrictions in the amount of available bandwidth.

During 2009, the Group extended its network, connecting to and installing Freebox DSLAMs in new France Telecom exchanges in order to be able to provide all broadband subscribers within the area of coverage of these France Telecom sites with access to the benefits of Free's unbundled service offering.

Although at December 31, 2009, Free maintained its interconnections at all 18 MSUs in mainland France and at 380 LXs (including all those located within the Paris city limits), it also enjoyed autonomy on a national level as a result of IRU agreements for the provision of an optical fiber pair which it operates for its own account.

The Group's network comprised some 51,800 linear km of optical fiber at December 31, 2009, compared with 41,833 km at December 31, 2008. The majority of the network is held pursuant to IRU agreements, Free's preferred method. In June 2004, Free signed an agreement with Neuf Telecom extending the validity of most of the IRU agreements it had already entered into until December 31, 2030. The sections of the network that are not covered by such agreements are either leased or owned outright, often in conjunction with joint construction projects undertaken with private operators or local authorities.

In 2009, the Group pursued its existing contractual relationships with local authorities and conducted similar negotiations with other local authorities which have decided to develop their own networks.

6.1.3.2.4 Rollout of an FTTH network in high-density areas

This network is being rolled out in four phases:

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

The Group is currently focusing on the horizontal rollout phase, which is being handled either by its own teams (mainly in Paris), or by subcontractors under turnkey contracts (rest of France).

6.1.3.3 *Other network elements*

Network security

The Group's network is built on a secure architecture, using stable, proven technical and software solutions which have been scaled to absorb significant growth in the number of subscribers and to accommodate the foreseeable increase in value-added services generated by broadband. The network is monitored 24 hours a day, seven days a week by a dedicated and multi-skilled team.

The network is mainly arranged in a loop configuration, allowing data to be transmitted from either side of the loop. If the network fiber on one side of the loop is interrupted, traffic will continue to be routed from the other side. Moreover, the data and equipment (Nokia switch and data back-up equipment) are duplicated at two different sites, allowing the network to remain functional even if one site suffers a technical fault. Finally, a preventive and corrective maintenance contract is provided as part of each IRU agreement pursuant to which the operator owning the fibers undertakes to remedy any problems which may arise in a timely manner.

Firewalls are installed to protect the network architecture against attacks. The server platform is connected to the switched and ADSL access networks via the Group's IP transport network.

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The Group has developed its server platform to run mainly on open source software such as Linux in order to provide a wide range of services including web services, search engines, communication services, games, personal pages, news and email. The Group manages its databases; customer, sales and billing details; and subscriber accounts using software developed in-house based on Linux architecture.

Peering

One year after the launch of its network, Free set up the FREEIX system for the free exchange of traffic between Internet service providers (access and hosting) at multiple points called "peering points". These peering points use Cisco and Extreme Network infrastructure and allow exchanges between close to 40 Internet service providers, ensuring a high level of Internet connectivity in France. Free is also connected to the SFINX peering point (1 Gigabyte) and operates several multi-Gigabyte private peering connections.

The Group has decided to reinforce its peering capabilities in Europe by being present on several new exchange points. To this end it has entered into IRU agreements for optical fibers to connect Paris to London, Amsterdam, Brussels and Frankfurt. At the same time it has reinforced its peering capabilities on the East Coast of the United States, and now boasts three transatlantic 10-Gigabit connections as well as new exchange points for Miami and the West Coast of the United States.

International transit

For international transit, at December 31, 2009 Free used the services of two transit service providers offering bandwidth capacity of 160 Gigabits per second.

Server platform

All of Free's servers run on a Linux operating system, which is well-established and used by many Internet-based companies.

Free's Linux-based infrastructure consists mainly of Dell 1U PC servers installed at its various POPs. Free uses Network Appliance file servers for data storage.

6.1.4 Description of the Group's principal activities

The Iliad Group is a major player in landline telecommunications in France, occupying almost 24% of the country's ADSL market⁶. It has two core segments⁷, defined based on operating criteria:

- **The Broadband segment**, which primarily includes Internet service provider operations, hosting services, user assistance operations and operations related to the rollout of the FTTH network.
- **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 e-commerce operations (Assunet.com).

6.1.4.1 The Broadband segment

6.1.4.1.1 Offerings and services available under the Free and Alice brands

6.1.4.1.1.1 The Free offering

- **Unlimited broadband via ADSL.** Since October 2002, Free has offered its subscribers unlimited broadband access for €29.99 per month (including VAT), with an ADSL modem provided and no installation fees. This unique offer allows subscribers to access the Internet at a speed of at least 2 Mbit/s and up to 28 Mbit/s (observed) in areas where the local loop is unbundled and 22 Mbit/s in non-unbundled areas (depending on whether a subscriber's line is eligible).

⁶ Source: ARCEP/France Telecom/Iliad

⁷ Information concerning the breakdown of revenues between the two business segments is provided in Note 16 to the consolidated financial statements in Section 20.1 of this registration document.

6. OVERVIEW OF THE GROUP'S BUSINESS

6.1 PRINCIPAL ACTIVITIES

- **FTTH high speed broadband services.** In line with its FTTH investment program unveiled in September 2006, Free is rolling out an optical fiber network providing a direct connection to the homes of subscribers. In selected areas chosen by Free, subscribers pay €29.99 per month to benefit from high speed broadband Internet access (100 Mbit/s download and 50 Mbit/s upload).
- **Telephony via ADSL.** Subscribers to the Free Haut Débit broadband service who are equipped with a Freebox modem are offered a telephony service. Under this service, telephone calls made through the Freebox to another Freebox subscriber or to any number in mainland France (excluding short numbers and special numbers), Reunion Island, Guadeloupe, and 100 foreign countries are completely free.
- **Television via ADSL.** Since December 2003, subscribers to broadband Internet via the Freebox (in unbundled areas and subject to line eligibility) have been offered a television service with more than 300 channels, including 150 free channels at December 31, 2009. Canal+ Group channels are also available.
- **Video on demand (VoD) via ADSL.** Since December 2005, subscribers to broadband Internet via the Freebox (in unbundled areas and subject to line eligibility) have been offered a video on demand service that includes Canalplay, i-concerts, TF1 vision, M6 television and vodéo.tv. This service enables subscribers to access a catalog of movies 24 hours a day, 7 days a week, and view them on their television. The movies – which are ordered using the Freebox remote control – include DVD player features and may be viewed for a period of 24 hours.
- **Subscription-based video on demand (S-VoD) via ADSL.** Since June 2007, subscribers to broadband Internet via the Freebox (in unbundled areas and subject to line eligibility) have been offered a subscription-based video on demand service. In 2009, Free packaged this service into six offers whereby subscribers have unlimited access to themed content comprising numerous videos and series that are regularly updated.
- **“Multi-TV” offer.** Since September 2008 Free has offered its subscribers the option of watching programs on several TV sets. Two offerings are available under this service:
 - a basic offer providing TV content on one additional television set; and
 - an extended offer including a digital video recorder function.
- **“Pay-as-you-go” access.** For this no-subscription dial-up offer the customer pays the price of the use of the telephone line to France Telecom, which passes on a share of the airtime revenue to Free. The per-minute fee paid to Free by France Telecom is approved by ARCEP.
- **The “50-hour plan”.** Under this offering, subscribers are entitled to 50 hours of dial-up Internet access per month for a flat fee of €14.94 (including VAT).
- **Hosting services.** This business corresponds to the sale of both dedicated and non-dedicated hosting solutions. Non-dedicated hosting services are invoiced at a flat annual rate by domain name or by site. The dedicated server offering (Dedibox), which is targeted at SMEs and individuals, provides broadband Internet access for multimedia applications from €29.99 per month (including VAT). By way of a decision dated July 30, 2009, the sole shareholder of Online and Dedibox approved a plan to merge Dedibox into Online, following which Dedibox was removed from the Paris Trade and Companies Registry. Since the merger, the operations previously carried out by Dedibox have been taken on by Online.
- **Marketing of domain names and selling of advertising space on Free’s portal.**
- **Other Broadband activities.** Revenues from these operations are generated mainly from the sale of switched traffic to the Traditional Telephony segment as well as the sale of WiFi cards and related equipment, the preselection offering, migration to the unbundled service and renewal of modems.

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6.1 PRINCIPAL ACTIVITIES

6.1.4.1.1.2 The Alice offering

- **Unlimited broadband via ADSL.** In 2009, the Group continued to reposition Alice's ADSL offers. At December 31, 2009 the following three ADSL access offers were available to Alice subscribers.
 - In unbundled areas:
 - The AliceBox Plus offer at €29.99 per month (including VAT), with an AliceBox v5 modem provided and no minimum contract period. This offer allows subscribers to access the Internet at a speed of at least 2 Mbits/s and up to 28 Mbit/s (observed). It is also available with a "4-hour mobile" deal whereby the monthly price for the first year is €29.99 (including VAT) and €39.99 (including VAT) from then on.
 - The AliceBox Initial offer at €19.99 per month (including VAT), with a minimum contract period of twelve months and an AliceBox v4 modem provided. This offer allows subscribers to access the Internet at a speed of at least 2 Mbit/s and up to 28 Mbit/s (observed).
 - In non-unbundled areas:
 - The AliceBox offer at €34.95 per month (including VAT), with an AliceBox v5 modem provided and no minimum contract period. This offer allows subscribers to access the Internet at a speed of up to 22 Mbit/s (depending on line eligibility).
- **Telephony via ADSL (VoIP).** Depending on the offer selected, subscribers using the AliceBox are offered unlimited calls in mainland France and to between 60 and 100 foreign countries.
- Since March 2009 – when AliceBox subscribers were migrated to Free's IT systems – they have had access to the same **value-added services** as Free subscribers, including television via ADSL (IPTV), video on demand (VoD) via ADSL and subscription-based video on demand (S-VoD) via ADSL (see above for further details).
- As part of the measures taken to refocus Alice's offerings on broadband services, in 2009 the Group decided to no longer offer dial-up internet access under the Alice brand. Consequently, the "pay-as-you-go" Alice Daytime Internet and Alice Unlimited Internet offers are no longer marketed.
- **"B2B" offer.** This offer proposed by Alice involves setting up and managing telecommunications and e-business solutions for telephony, IP connectivity, virtual private networks and hosting.

6.1.4.1.2 The Group's manufacturing operations

Freebox. The Group has chosen to develop its own broadband Internet upload and download equipment in-house in order to win as many new subscribers as possible in a competitive and fast-growing market by providing differentiated service offerings. As a result of the technological resources of the development team at Freebox SA combined with an extremely selective purchasing policy, the Group has been able to optimize the cost of designing a DSLAM and a modem capable of meeting the high bandwidth requirements necessary to offer high value-added services. The use of both a Freebox DSLAM and a Freebox or AliceBox modem enables the Group to provide its subscribers with a first-rate technical service offering capable of transmitting bandwidth-intensive voice, data and audiovisual content simultaneously and over long distances ("Triple Play" service offering).

The Freebox DSLAM. The DSLAM developed by Freebox SA is technically configured to optimize the Group's existing network and guarantees each subscriber a theoretical download rate of up to 28 Mbit/s (with the latest version) from the local concentrator. Each Freebox DSLAM, installed in racks which can hold up to two DSLAMs, can be connected to 1,008 lines and is designed to leverage the Free network which uses only IP protocol, unlike conventional transmission networks which use ATM/SDH protocol. The Freebox DSLAM has a Giga Ethernet output and was designed to accommodate the high bandwidth requirements of the new audiovisual services launched in December 2003.

6. OVERVIEW OF THE GROUP'S BUSINESS

6.1 PRINCIPAL ACTIVITIES

The Freebox/AliceBox modem. The Freebox/AliceBox modem is a multi-function ADSL modem developed to enable subscribers to receive services that can be offered via broadband Internet access. In addition to traditional access using a personal computer connected via a USB or Ethernet socket, the modem has a telephone socket for voice-over-ADSL services and a SCART TV socket and is capable of decoding audiovisual content compressed in MPEG-2 and MPEG-4 formats.

Designed and developed by Iliad's research and development team, the modem is fitted with a range of features, including a DTT tuner, WiFi MiMo (Multiple Input Multiple Output), PLC technology, Freeplugs, and high definition television. It also features an encoder and hard disk.

The Freebox/AliceBox modem and the Freebox DSLAM include components acquired from third party suppliers and assembled by companies which are not part of the Group. However, the software used is mainly developed in-house by the Group based on open source software such as Linux.

The use of both the Freebox/AliceBox modem and the Freebox DSLAM enables the Group to use the best in ADSL and ADSL 2+ technology and provide its subscribers with a very high theoretical bandwidth (up to 28 Mbit/s) while reducing the loss of bandwidth over distance. Free has used this high bandwidth capacity since December 2003 to offer value-added services such as audiovisual services over ADSL (MPEG-2 and MPEG-4 formats) and voice services, as well as high-speed Internet access of up to 28 Mbit/s since July 2006.

6.1.4.1.3 Support services and subscriber relations

The Group's subscribers are provided with technical support and after-sales services through a telephone helpdesk platform run by the Iliad subsidiaries Centrapel, Total Call, Free and Protelco. The Group's acquisition of Alice enabled it to strengthen its subscriber support teams in France thanks to two additional centers based in Bordeaux and Marseille. Iliad is currently focusing on strengthening and training its technical and after-sales support teams, developing new systems to optimize the services provided to subscribers, and enhancing subscriber relations. The main objectives set by the Subscriber Relations Department are to (i) improve the quality of services provided and subscriber satisfaction rates, (ii) effectively manage the number and length of calls as well as repeat calls, (iii) enhance the call handling process, (iv) strengthen career development measures for staff and apply them consistently across the four subscriber support sites, and (v) be ready to take on new projects. Fostering subscriber loyalty is one of Iliad's key focuses and all of the Group's employees have received training on subscriber retention.

The Group's subscriber support centers seek to recruit helpdesk staff who have completed two years of post-baccalauréat level studies or who have experience working in technical support for an ISP, and are also investing in providing training for these staff members through continuing education plans. All new employees are given an initial one-month training in support techniques before starting work answering customer calls. The technical support and after-sales service helpdesks operate 24 hours a day, seven days a week.

The Subscriber Relations Department also provides subscribers with an online support service available through Free's website. This service provides answers to user FAQs and allows subscribers to ask the support service specific questions via email or chat. Subscribers also have access to a virtual consultant (Eva) and video clips featuring technical tips and advice. The support site is available in five different languages and offers a simplified navigation system for the visually impaired.

The management teams of the call centers implement a strict quality policy based on respect for subscribers. As a result, Iliad is the only group in its industry to have received the NF Service (AFAQ/AFNOR) certificate for its call centers and it continually develops new high value-added services which not only benefit subscribers but also help to build the skills of its helpdesk staff. These include extending local support services (through free home visits by technicians organized in rapid time frames, ranging from within 2 hours to a next-day service), creating laboratories, frequently updating the quality manual and related guidelines, setting up on-site steering committees and operations committees to ensure across-the-board performance and the effective implementation of action plans, carrying out analyses of complaints with the French Directorate General for Competition (which fell by 30% in 2009), performing audits and setting benchmarks, opening a national consumer department to deal with and settle any complaints or disputes, contacting subscribers through SMS text messaging, and setting up specific services for outgoing calls.

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On January 1, 2010 Free decided to join the independent mediation system set up for the telecommunications industry in France, with a view to further improving its claims handling process and continuing to substantially reduce the number of disputes that arise.

The Group has also created a specific subscriber loyalty department to provide information to subscribers looking to change to other offers or cancel their subscription.

6.1.4.2 *Traditional Telephony segment*

The Traditional Telephony segment encompasses the combined activities of the Group's former Telephony and Other Services segments. It includes switched fixed-line telephony (One.Tel and Iliad Telecom), resale of airtime to operators (Kedra), directory services (mainly the ANNU reverse look-up directory accessible by Minitel, telephone, Internet and SMS text messaging) and e-commerce operations (Assunet.com).

6.1.4.2.1 One.Tel

One.Tel is a relatively small fixed telecommunications operator, but is profitable and has highly competitive prices. Following the acquisition of One.Tel in December 2001, the Group focused on repositioning the company's service offering by heavily promoting the use of carrier preselection, simplifying its offering and applying an attractive pricing policy (€0.01 per minute for all local and national calls).

6.1.4.2.2 The Iliad Telecom offering

Since 2003, Iliad has proposed a carrier preselection service for companies through a straightforward and transparent offering, with no minimum contract period, no minimum billing, no subscription, no change in telephone number, no change in the prefix, and per-second billing as from the first second.

6.1.4.2.3 Kedra

Over the past few years, mobile operators have significantly reduced termination charges for fixed-to-mobile calls in France, in response to ARCEP's study of the relevant mobile call termination market. In light of these new tariffs, the Group entered into direct interconnection agreements with the three mobile telephony operators in France. As a result, Kedra's business has been considerably reduced since January 1, 2007, a trend that continued in 2009.

6.1.4.2.4 ANNU

The Minitel-based reverse look-up directory, ANNU, was launched by Iliad in 1996. This service, which is widely known in the consumer market, allows users to find a name and address associated with a telephone or fax number, via Minitel, telephone, Internet or SMS text messaging.

Based on an easy-to-use electronic data transmission solution, the ANNU service uses the directory database established and maintained by France Telecom in return for the payment of an annual charge to the incumbent operator.

6.1.4.2.5 Assunet

Assunet is a web-based insurance broker which provides an online quotation search engine service allowing its customers to obtain quotes from fifteen major insurance companies. The customer enters his or her request on the Assunet site (www.assunet.com), and Assunet immediately responds, free of charge, with the three most attractive quotes based on the coverage and deductible levels in accordance with the customer's profile and requirements.

6.2 PRINCIPAL MARKETS

6.2.1 Internet access

6.2.1.1 Determining factors in the growth of Internet usage in Western Europe

In Western Europe, following a period of very strong growth in the level of Internet usage, particularly as a result of so-called “free” services followed by the introduction of fixed-rate inclusive packages, the prospects for further growth now partly depend on the rollout of broadband and high-speed broadband technologies. Growth should continue in 2010, largely due to:

- The level of penetration of home computer use. The use of home computers is a key factor in the development and expansion of the Internet access market. Western Europe has still not reached the same level as the United States, which is a far more mature market, although the disparity is decreasing. There are, however, still considerable differences in the level of home computer use within Western Europe itself.
- The use of new technologies offering both broadband Internet access (such as ADSL and cable) and the widespread distribution of new types of content (such as TV, Video on Demand, network gaming, etc.).
- The growth and general improvement of local language content and e-commerce.
- Increased liberalization and competition in the telecommunications sector.
- The commitment on the part of the public authorities towards promoting ever-wider usage of the Internet.

The broadband market: a powerful vector for growth

With 18.5 million ADSL lines in December 2009⁸, France is one of the frontrunners among European countries in terms of both the number of ADSL lines and market penetration. Countries with a high rate of Internet penetration continue to attract new users, but from now on the main driver for growth in this market will be the migration of subscribers to broadband/high-speed broadband connection technologies.

Choice of broadband technology

In Western Europe, ADSL is the technology of choice for the majority of broadband users.

In France, the number of broadband subscriptions increased by 1.87 million, or 10%, year on year in 2009, primarily spurred by growth in the number of ADSL users, which came to 1.7 million, or 10%, during the year.

Broadband penetration rate in Europe: still a large untapped potential in France

The number of DSL and cable modem connections in Europe continued to increase in 2009. Northern European countries are generally ahead of other European countries in terms of penetration of broadband technologies, particularly due to the early deregulation of the telecommunications sector – such as in Sweden which was deregulated in 1993 – and a high level of commitment on the part of the public authorities.

6.2.1.2 Strong momentum for unbundling operations in France

At December 31, 2009, France Telecom had delivered almost 4,660 sites to unbundling operators, representing a population coverage of 76%. All of France's overseas departments have at least one unbundled site. The number of households in France with broadband access is growing, offering attractive prospects for the Group in light of its positioning in this sector.

6.2.1.3 Players in the Internet access market in France

In France, as in the rest of Europe, the Internet service provider market has matured after several years marked by a proliferation of access providers. Incumbent operators have made up for initial lost ground and have reestablished their positioning in their domestic markets. At the same time, a wave of consolidation and concentration has reduced the overall number of players in the market.

⁸ Source: ARCEP's analysis of broadband Internet services – fourth-quarter 2009

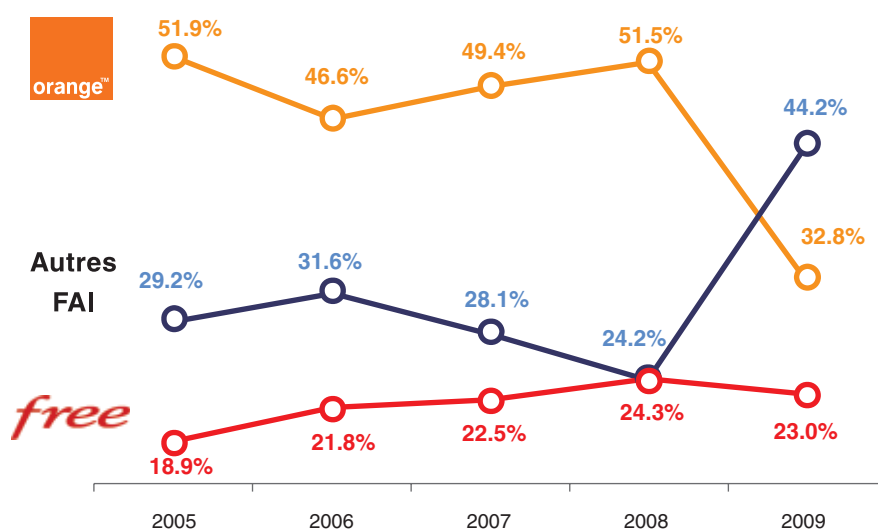
6. OVERVIEW OF THE GROUP'S BUSINESS

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The Group's main competitors in the French Internet access market are:

- internet service providers partnered with telecommunications operators such as Orange and SFR (comprising SFR, AOL and Club-Internet) and Bouygues Telecom;
- Numéricâble, a cable network operator;
- independent local access providers; and
- companies offering Internet access as a means of winning customers for their services, such as banks and supermarkets.

Changes in market share of leading ISPs for new subscribers in the ADSL sector⁹



The launch of so-called “free” Internet in France was the driving force behind the growth of the residential market, and Free rapidly positioned itself as a leading player in this sector. With the introduction of fixed-rate inclusive packages at the end of 1999, this type of service became increasingly popular and established itself as the core of the dial-up Internet sector. Today, “pay-as-you-go” or “free” services are showing a slight decline, as are subscription-based services.

Since mid-2002, most of the Group's main competitors have decided to focus on providing ADSL-based broadband offerings. The proliferation of different service offerings accompanied by increased segmentation and strong competitive pressure on prices stimulated growth in the Internet market between 2003 and 2007.

Over the last two years, the market has become concentrated around three main players – Orange, SFR and Free.

Since the end of 2002, local loop unbundling has provided a major opportunity for growth for the Group, particularly with regard to profitability and the development of service offerings (such as fixed telephony and audiovisual services).

In addition to developing broadband access and promoting increased broadband use in the home as a means of winning new subscribers, Internet service providers are also seeking to migrate as many subscribers as possible from dial-up services to broadband in order to benefit from higher average revenue per user.

6.2.2 Telephony operators

Competition in the fixed telephony market is characterized by the overwhelming dominance of the incumbent operator and by the considerable number of market players.

⁹ Source: ARCEP/France Telecom/Iliad

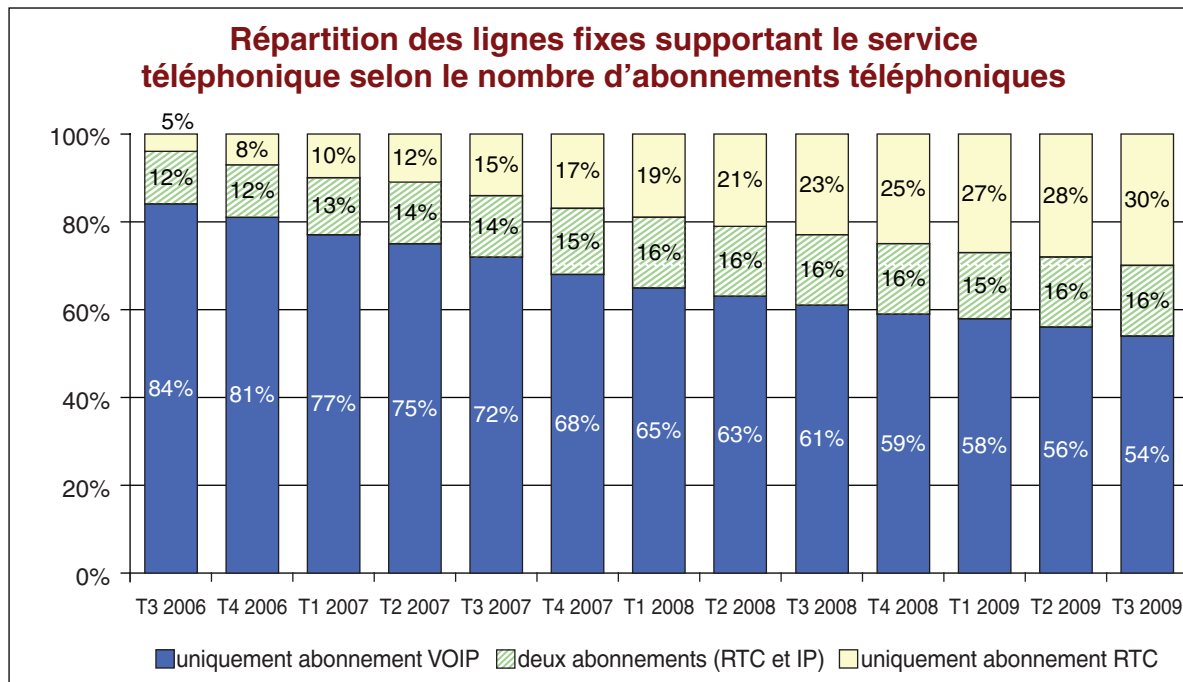
6. OVERVIEW OF THE GROUP'S BUSINESS

6.2 PRINCIPAL MARKETS

Since January 1, 2002, all subscribers have been able to choose which operator to use for local calls, as had already been the case since January 1, 1998 for long distance and international calls and since November 1, 2000 for fixed-to-mobile calls. The operator can be selected on a call-by-call basis or by automatic carrier pre-selection which allows subscribers to specify that all calls be automatically routed through the operator of their choice. Since 2007 there has been a significant fall in subscribers opting for carrier selection.

According to ARCEP, the number of landline telephone subscriptions in France totaled 41 million at the end of third-quarter 2009.

The following table¹⁰ provides a breakdown of landline subscriptions.



In order to boost its position vis-à-vis its principal competitors (France Telecom, SFR and Tele 2), One.Tel is continuing to encourage its subscribers to opt for carrier pre-selection and is firmly positioned as having one of the most attractive pricing structures of any alternative operator in the market.

6.3 EXCEPTIONAL FACTORS WHICH HAVE INFLUENCED THE GROUP'S PRINCIPAL ACTIVITIES OR PRINCIPAL MARKETS

No exceptional factors occurred in 2009 that influenced the Group's principal activities or principal markets.

6.4 EXTENT TO WHICH THE GROUP IS DEPENDENT ON PATENTS OR LICENSES, INDUSTRIAL, COMMERCIAL OR FINANCIAL CONTRACTS OR NEW MANUFACTURING PROCESSES

6.4.1 Dependence on patents and software licenses

The Group uses licenses for software owned by third parties, particularly relating to the distribution of audiovisual content. However, the Group also develops its own software and has always given priority to developing equipment and software (particularly based on open source software such as Linux) through its research and development teams. For its ANNU service, up until 2007 the Group held a license to use France Telecom's subscriber database. Since that date, contractual relations with France Telecom have been governed by an agreement implementing ARCEP's decision on the terms and conditions of transferring subscriber lists in connection with the provision of information services. Among the trademarks used by the Group's companies, only the One.Tel trademark is covered by a license for use in France. This license was granted in 2001 by the UK company, Centrica Telecommunications Ltd., for a ten-year term in consideration for an annual fee based on the number of One.Tel's subscribers but capped at €250,000.

¹⁰ Source: ARCEP's analysis of the telecommunications services market in France for the third quarter of 2009.

6. OVERVIEW OF THE GROUP'S BUSINESS

6.4 EXTENT TO WHICH THE GROUP IS DEPENDENT ON PATENTS OR LICENSES, INDUSTRIAL, COMMERCIAL OR FINANCIAL CONTRACTS OR NEW MANUFACTURING PROCESSES

6.4.2 Dependence on supply, industrial, commercial or financial agreements

Network operated by the Group

Through its subsidiary Free, the Group has entered into agreements granting it Indefeasible Rights of Use (“IRU”) relating to the dark optical fibers it uses. Under these long-term agreements, the Group has acquired the indefeasible right to use the fibers for a given period, without having to obtain any right-of-way easements. Most of the agreements were signed with the Neuf Telecom group and with local authorities. In June 2004, Free signed an agreement with Neuf Telecom to extend the term of most of these IRU agreements until December 31, 2030. The Group considers the risk of these agreements not being renewed to be very low, in view of the over-capacity of dark fibers already laid by Neuf Telecom and local authorities.

However, if any of the agreements were not renewed and the Group had to find alternative solutions, it considers that the existence of many alternative operators already offering dark fibers provides satisfactory assurance that a replacement solution could be found before the expiration date of the IRU agreements, particularly at the local level where many sections of dark fiber have been laid in recent years.

Furthermore, the Group believes that the IRU agreements reduce the risk of Group liability for damage caused by the fibers of its network. It does acknowledge, however, that certain sections of the network which are laid on publicly owned land may be subject to certain restrictions related to the use and occupancy of public property. Finally, in accordance with the provisions of the IRU agreements signed with Neuf Cegetel, Iliad and Neuf Cegetel are committed to jointly financing the construction of a new fiber route in the event of physical problems (such as a power failure caused by natural hazards, civil engineering works, etc.) affecting a section of Neuf Cegetel's optical fiber network that is covered by the IRU agreements.

Modems and Freebox DSLAMs

The Group uses the services of various equipment assembly companies located in France, Eastern Europe and Asia to assemble its modems and Freebox DSLAMs with generic electronic components purchased from third party manufacturers. The choice of the components, the construction of equipment and the development of the software used by the Group for its business do not depend on intellectual property rights such that the Group's growth would be adversely affected were it to be deprived of access to such rights. The Group considers the components used in its equipment to be highly standardized and therefore easily interchangeable. In the event of breakdown at the factories responsible for assembling the modems and Freebox DSLAMs, the Group also considers that it could use the services of other equipment assemblers. However, any such substitution of components or assemblers could be on less favorable financial terms and result in additional costs for the Group.

To minimize any risk of suspension or slowdown in the installation of its Freebox DSLAMs or delivery of its modems to subscribers, the Group aims to maintain constant inventory levels sufficient to meet the Group's estimated needs for two months.

6.4.3 Dependence on new operating processes

Apart from the technical processes involved in local loop unbundling and the DSL technology itself, which is highly advanced, the Group does not consider itself to be dependent on new technical processes necessary for carrying out its business.

Concerning FTTH technology, the Group is dependent on authorizations granted by the different entities concerned. For the “horizontal” rollout phase, authorizations are generally required from the local authorities to access and occupy public land. For the “vertical” rollout phase, the Group requires the approval of building owners, joint owners or property managers. Lastly, the homeowner's agreement is required to connect the subscriber's home.

6.4.4 Dependence on the Group's main customers and suppliers

As the Group's service offerings are mainly targeted at the consumer market, the bulk of its revenues are generated through sales to individual subscribers. No customer individually represents a significant portion of the Group's revenues.

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6.4 EXTENT TO WHICH THE GROUP IS DEPENDENT ON PATENTS OR LICENSES, INDUSTRIAL, COMMERCIAL OR FINANCIAL CONTRACTS OR NEW MANUFACTURING PROCESSES

The main contracts entered into with suppliers relate to the Group's landline and mobile networks and can be divided into several categories:

- contracts for the use of dark optical fibers, allowing the Group to operate its network;
- contracts granting the Group access to the subscriber through interconnection and unbundling agreements entered into primarily with France Telecom;
- contracts with optical fiber suppliers as well as with service providers involved in rolling out the optical fiber;
- suppliers of equipment and external service providers selected as part of the rollout of the third-generation network.

At the end of 2007 the Group entered into an agreement with France Telecom for the use of its civil engineering infrastructure. The agreement allows Free to test and evaluate all processes needed for it to deploy fiber optic cables in France Telecom ducts.

IRU agreements involve the granting by local authorities or private operators such as Neuf Telecom and CompleTel of the right to use the optical fibers which make up the Group's network. Under these long-term agreements, a single up-front payment is made when the fiber is made available. A description of these agreements is provided in Section 6.4.2 above as is an assessment of the risk of the agreements not being renewed.

Interconnection and unbundling agreements provide the Group with access to its subscribers, either by means of the France Telecom network in the case of interconnection agreements or directly in the case of unbundling arrangements. As described more fully in Section 6.6.1 below, the interconnection and unbundling agreements, respectively, allow the Group to (i) interconnect its own network with the France Telecom network by means of a physical connection to one of the incumbent operator's switches and (ii) take advantage of direct access to a segment of the network between the subscriber's telephone socket and the main distribution frame to which the subscriber is connected in order to achieve the closest possible proximity to the subscriber. In the case of interconnection agreements, the incumbent operator charges fees based on the transmission capacity made available to the operator. In the case of unbundling, the amounts charged by France Telecom are essentially limited to the rental of the copper pair, the splitter and the copper tie cable that connect the subscriber's modem to the operator's DSLAM. France Telecom is required to offer both interconnection and unbundling to all alternative operators.

The Group has also entered into less strategic supply agreements, primarily with suppliers of electronic components, advertising agencies and the assemblers of modems and Freebox DSLAMs.

The amounts charged to the Group by the incumbent operator under interconnection and unbundling agreements as well as amounts re-billed by the Group to France Telecom in connection with the "pay-as-you-go" access offering and the reverse look-up directory service are subject to review by ARCEP.

6.5 BASIS FOR STATEMENTS MADE BY THE GROUP REGARDING ITS COMPETITIVE POSITION

The statements made in this registration document in relation to the Group's competitive position are primarily based on market analyses published by ARCEP.

6.6 REGULATORY SITUATION

The Group's business activities are subject to the specific legislation and regulations of both France and the European Union governing the electronic communications sector (including telecommunications and Internet access) and the information society.

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6.6 REGULATORY SITUATION

6.6.1 Regulation of electronic communications networks and services

The EU regulatory framework for electronic communications

1990 – 2003: strengthening of the regulatory framework to allow the opening up of the markets

Between 1990 and 1997, the EU legislator enacted a series of Directives providing for the abolition of national monopolies in the telecommunications market as from January 1, 1998. The EU telecommunications regulatory framework also included harmonization measures concerning the rules governing licenses and authorizations, interconnection and access to the network, as well as the universal voice telephony service. These measures had to be transposed into the national law of European Member States by January 1, 1998. The EU regulatory framework has been transposed into French law, in particular by Law 96-659 of July 26, 1996, and Order 2001-670 of July 25, 2001 amending the French Post and Telecommunications Code.

Since July 2003: simplification of the regulatory framework to underpin the opening up of the markets

Once the European Commission considered that the first phase of the opening up of the market had been achieved, it proposed that the EU legislator should relax the specific regulations and standardize the rules applicable to all electronic communications networks, taking into account the planned convergence of telecommunications, audiovisual and information technologies. The new regulatory framework also allows for a distinction to be made between the regulations applicable to different markets, in order to allow for the eventual transition towards full competition in each individual market, based on competition law.

The existing European regulatory framework was therefore replaced by the new “2002 Telecoms Package” on July 25, 2003, which was also the deadline for transposition of the new regulations.

Under the 2002 Telecoms Package all types of transmission networks and related services are subject to the same regulatory regime. The scope of the regulation is therefore no longer limited to just telecommunications but covers all electronic communications networks and services (mobile, cable, satellite, telecommunications and radio/audiovisual broadcasting). It does not, however, apply to the content of the services delivered over electronic communications networks using electronic communications services, such as broadcasting content (in particular radio and television programs), financial services, and certain services specific to the information society which are subject to other regulations (see Section 6.6.2 below, “Regulation of the content of electronic communications”).

In particular the 2002 Telecoms Package includes the following texts:

- Directive 2002/21/EC of March 7, 2002, on a common regulatory framework for electronic communications networks and services (“**Framework Directive**”). The Framework Directive defines the role of the national regulatory authorities (“NRAs”) in relation to managing radio frequencies, numbering, rights of way, co-location and sharing of resources, accounting segregation, interoperability and the resolution of disputes between operators. It also introduces a new concept concerning the designation of undertakings with significant market power and establishes criteria and procedures aimed at ensuring a coherent assessment of the dominant undertakings throughout the European Union. In this regard, the regulations in the Framework Directive are rounded out by (i) the Commission Recommendation of February 11, 2003 (C-2003/497) on the identification of the product and service markets susceptible to ex-ante regulation in relation to operators having significant market power, and (ii) the Commission Guidelines of July 11, 2002 (2002/C165/03), the purpose of which is to assist the NRAs with the market analysis process and the identification of operators with significant market power in the relevant markets. The Framework Directive provides that Member States must impose obligations on undertakings with significant market power proportional to the distortion of competition in the market in question.
- Directive 2002/19/EC of March 7, 2002, on access to, and interconnection of, electronic communications networks and associated facilities (“**Access Directive**”). This Directive harmonizes the rights and obligations of operators and service providers requesting interconnection or access to electronic communications services or networks. The Access Directive establishes objectives for the NRAs concerning access and interconnection, and determines procedures for ensuring that the obligations imposed by the NRAs are reassessed and possibly withdrawn once the defined targets are actually met.

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- Directive 2002/22/EC of March 7, 2002, on universal service and users' rights relating to electronic communications networks and services ("**Universal Service Directive**"). The aim of the Universal Service Directive is first to ensure the availability throughout the EC of good quality publicly accessible services through effective competition and choice, and second, to deal with circumstances where the needs of end users are not satisfactorily met by the market. The Directive defines a minimum set of services of a specified quality to be available to all end users at an affordable price, taking into account specific national conditions and without distorting competition. The Universal Service Directive also determines obligations in terms of the supply of a certain number of mandatory services, such as the retail provision of leased lines or carrier selection (either by carrier pre-selection or selection on a call-by-call basis).
- Directive 2002/20/EC of March 7, 2002, on the authorization of electronic communications networks and services ("**Authorization Directive**"). This Directive harmonized and simplified the rules and conditions for authorization to supply electronic communications networks and services. It eliminated the individual license regime in favor of a general authorization regime (i.e., based on a notification procedure). According to this Directive, only the allocation of scarce resources (primarily radio frequencies and numbers) should be subject to individual licenses.
- Directive 2002/77/EC of September 16, 2002, on competition in the markets for electronic communications networks and services. This Directive replaces Directive 90/388/EC, as last amended, and its aim is to extend the scope of the liberalization process to cover all electronic communications. The Directive takes into account the convergence phenomenon and groups under one single definition all the services and networks used for the conveyance of signals, thereby reaffirming the principle of the freedom to offer communications services and networks.
- Regulation 2887/2000/EC of December 18, 2000, on unbundled access to the local loop. This Regulation, which is directly applicable in all Member States, provides that all operators with significant market power must offer unbundled access to their local loop and associated facilities, under transparent, fair and non-discriminatory conditions.
- Regulation 717/2007/EC on roaming charges, amended in 2009 by Regulation 554/2009/EC of June 18, 2009. This Regulation, which is directly applicable in all Member States, provides that all wholesale and retail roaming charges levied by mobile operators are subject to price caps which are set for a period of several years.

The European Commission compiles an annual report detailing the extent to which the regulatory package has been implemented in Member States. This report can be consulted on the European Commission's website.

At the end of 2007 the Commission published its proposed amendments to existing regulations governing electronic communications, which were adopted in 2009 through the following texts:

- Directive 2009/140/EC of November 25, 2009 ("**Better Regulation Directive**");
- Directive 2009/136/EC of November 25, 2009 ("**Citizens' Rights Directive**");
- Regulation 1211/2009 of November 25, 2009 establishing the Body of European Regulators for European Communications (BEREC).

Although the new EU telecoms package does not radically change the existing European regulatory framework it does make a number of amendments to the above-mentioned Directives issued in 2002. For example:

- The new framework provides for both service and technology neutrality for radio spectrum by stating that a given frequency band can be used for different services and by different technologies, subject to certain limits. They also encourage the secondary trading of radio spectrum within the European Union (i.e., exchanges/sales of frequencies between operators).
- National telecoms regulators can now oblige telecoms operators to separate communication networks from their service branches as a last-resort remedy to overcome competition problems. However, before using this

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6.6 REGULATORY SITUATION

functional separation route the Access Directive also states that operators with significant market power can be required to provide third parties with access to their active and passive infrastructures.

- Consumer rights have been strengthened in several areas. For example, European consumers will be able to change their landline or mobile operator in one working day while keeping their old phone number, and the provisions concerning access to telecoms services for Europeans with disabilities have been reinforced.

These directives will be transposed into French law during 2010.

The Body of European Regulators for European Communications set up under Regulation 1211/2009 is a forum that groups together the EU's national regulatory authorities (NRAs) and can issue opinions on decisions taken at national level by these NRAs as well as on draft decisions, recommendations and guidelines of the European Commission.

French regulatory framework applicable to electronic communications

Responsibility for the control and effective implementation of the European regulatory framework lies with the national regulatory authorities (NRA).

In France, the NRA is the *Autorité de Régulation des Communications Electroniques et des Postes*, or ARCEP, which was created in January 1997. ARCEP ensures that operators comply with the laws and regulations set out in the French Post and Electronic Communications Code (CPCE) and, where applicable, that they respect the conditions of any individual authorizations granted. Operators that do not require individual authorizations register with ARCEP which then issues a receipt allowing them to exercise their rights and informing them of their obligations. The sanctions available to ARCEP if an operator fails to comply with the regulatory framework include limiting the scope or reducing the term of the operator's authorization, as well as suspending or even fully withdrawing said authorization. It can also impose fines representing up to 3% of the operator's annual revenue, or 5% in the event of a repeated breach. In accordance with Article L.36-11 of the Post and Electronic Communications Code, where ARCEP identifies a serious and immediate infringement of the rules governing the sector it can order precautionary measures without any requirement for prior notice. In addition, where an infringement could cause serious harm to an operator or the market, ARCEP's Chairman can make an emergency application to the French Conseil d'Etat for an order requiring the party concerned to comply with the applicable rules. Any such order may be accompanied by a penalty levied until the party complies therewith. The 2002 Telecoms Package was transposed into French law primarily through Law 2004-669 of July 9, 2004, together with its implementing decrees.

Market analysis – Asymmetric regulation

The analysis of markets is the cornerstone of the new regulatory framework because it is the basis for adapting the regulations specifically to suit each individual market. It is an ongoing process, subject to periodic review, with the aim of eventually bringing the regulations into line with competition law. The other objective is to limit ex-ante regulation to markets where the level of competition is low (which is currently the case in the majority of the wholesale markets), and to apply ex-post regulation to markets where the level of competition is high (currently the case in most retail markets).

Pursuant to the Framework Directive and Articles L.37-1 to L.38-3 of the Post and Electronic Communications Code, ARCEP is required, under the supervision of the European Commission and on the recommendation of the French competition authorities, (i) to define the relevant markets applicable in France, (ii) to analyze these markets and identify operators or undertakings which have significant market power ("SMP") in these markets, and (iii) to decide whether or not to impose on these operators or undertakings regulatory obligations (or "measures") commensurate with the competition problems identified in order to ensure a certain level of competition in the relevant market in question.

In 2004, ARCEP launched a public consultation process in the 18 relevant markets likely to be affected by specific regulations.

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The first phase of this analysis was completed at the end of 2007. Descriptions of each market analyzed during this first phase, along with a table tracking market developments, can be viewed on ARCEP's website at the following address:

http://www.arcep.fr/index.php?id=8173&L=1tx_gspublication_pi1%5Btypo%25255#7813 (in French only).

ARCEP has also published a table describing for each relevant market in the first phase of the analysis the obligations applicable to operators that are considered to have significant market power. This table can be viewed at:

<http://www.arcep.fr/fileadmin/reprise/dossiers/marches/marche-oblig-operateurs2.pdf> (in French only).

The second phase of the analysis began in late 2007. The list of the relevant markets concerned is provided pursuant to European Commission Recommendation 2007/879/EC of December 19, 2007. The table tracking the progress of this phase can be viewed on ARCEP's website at the following address:

<http://www.arcep.fr/index.php?id=8173> (in French only).

At March 31, 2010, the main relevant markets in which Group companies do business had been analyzed by ARCEP. The findings of ARCEP's analysis for certain markets are outlined below:

- In 2004, operators with significant power in the market for termination of voice calls on individual mobile networks in mainland France (SFR, Bouygues Telecom and Orange France) and in the overseas departments (SFR and Orange Caraïbes), were notified by ARCEP of their obligations. These obligations essentially concerned the orientation of tariffs towards the incremental costs of providing call termination services and the publication of a reference offer.

Changes in call termination charges since 2002 (source: ARCEP)

In € cents	2002	2003	2004	2005	2006	2007	2008	First-half 2009	Second-half 2009	First-half 2010	Second-half 2010
Orange	20.12	17.07	14.94	12.50	9.50	7.50	6.50	6.50	4.50	4.50	3.00
SFR	20.12	17.07	14.94	12.50	9.50	7.50	6.50	6.50	4.50	4.50	3.00
Bouygues Telecom	27.49	24.67	17.89	14.79	11.24	9.24	8.50	8.50	6.00	6.00	3.40

- With respect to Markets 4 (wholesale (physical) network infrastructure access at a fixed location) and 5 (wholesale broadband access), ARCEP completed its analysis in July 2008 and renewed the access obligations applicable to France Telecom. The analysis concerning Market 4 is precedent-setting as it defines the market as including France Telecom's civil infrastructure. Access to this existing infrastructure is required to enable operators to lay optical cables when rolling out FTTH networks. The new obligations imposed on France Telecom include a duty to apply cost-oriented prices for access to civil infrastructure as well as a duty of transparency and segregated accounting. ARCEP's work going forward in this area will relate to the method used to determine the costs of access to the civil infrastructure used for the copper local loop in order to ensure that France Telecom does not receive double payment through the fees applied for accessing the local loop. ARCEP launched a public consultation process at the end of 2009 and it is expected to issue a decision towards the end of 2010 on the method used for valuing local loop infrastructures and the accounting method applied for the related costs. The Group expects the implementation of this decision to result in a sharp decrease in the charge applied by France Telecom for the rental of its cable ducts.
- With respect to wholesale landline markets, ARCEP published its decisions on July 31, 2005. Landline operators, including Free SAS, were considered as having SMP in the market for the termination of geographic calls on their respective networks, and are subject to obligations relating to access, interconnection, non-discrimination and transparency, as well as an obligation not to engage in excessive pricing. At that time, ARCEP set out the schedule for convergence between the call termination charges applied by alternative operators – which were set at 1.008 euro cents/min, excluding VAT at January 1, 2008 – with those of France Telecom. Following the analysis to be completed in Fall 2011, the call termination charges applied by alternative operators and France Telecom will be set at 0.5 euro cents/min and 0.4 euro

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cents/min respectively, excluding VAT. ARCEP's overall approach is to reduce termination rates towards the long-run incremental cost (LRIC) of an efficient operator. This LRIC is much lower than the currently applicable ceiling, which was determined by reference to France Telecom's average costs. Consequently, the Group expects that its interconnection charges invoiced by landline networks will decrease as from the end of 2011. In turn, revenues from call termination charges invoiced to landline operators by the Group will also decrease in the same timeframe.

- ARCEP has not analyzed the market for call originations on mobile networks as it is no longer included in the list of markets subject to ex-ante analysis by NRAs. However, where an abuse of dominant position is alleged, an ex-post analysis may be carried out by the French competition authorities.
- Retail fixed telephony markets are no longer regulated ex-ante by ARCEP. Where an abuse of dominant position is presumed to exist, they are examined ex-post by the French competition authorities.

The regulatory measures that can be imposed by ARCEP on operators identified as having significant market power in a relevant market are specified in Articles L.38 (wholesale markets) and L.38-1 (retail markets) of the French Post and Electronic Communications Code. These measures include obligations to publish detailed technical and pricing specifications relating to interconnection and access, to provide interconnection or access services under non-discriminatory conditions, not to charge excessive or predatory prices in the market in question and to charge prices which are oriented towards the corresponding costs, to segregate the accounting of certain activities, to provide retail services under non-discriminatory conditions, not to unreasonably bundle these services, to comply with the price cap mechanism set by ARCEP, and to obtain ARCEP's approval of prices prior to their application.

The business activities of each of the operators in the various markets will be affected as ARCEP's decisions based on its analysis of the markets take effect. In particular, those operators identified as having significant market power in a relevant market could experience a reduction in the profitability of their business activities in the market in question. Iliad does not, however, believe that ARCEP's decisions will have any deep-seated effect on the markets in which it is active.

Symmetric regulation

ARCEP also regulates in a "symmetric" way, i.e., by imposing the same obligations on all operators, using the regulatory powers vested in it by law. These decisions are approved by the Minister for Electronic Communications.

They include Decision 06-0636 which sets out details on the conditions for supplying subscriber and user lists for the purpose of publishing universal directories and Decision 07-0213 concerning the obligations applicable to operators that control access to the final user for routing communications used for value-added services.

ARCEP has also been given decision-making powers to determine the specific terms and conditions applicable for implementing the French Economy Modernization Law. It used these powers in early 2010 to issue a decision on the technical and financial conditions applicable to gaining access to the terminal section of optical fiber networks, which the Minister for Electronic Communications approved on January 15, 2010.

Operation of a public telecommunications network/Provision of a public telephone service

Following the enactment of Law 2004-669 and the amendment of Article L.33-1 of the French Post and Electronic Communications Code, potential operators need only notify ARCEP of their intention to engage in this line of business (except for the allocation of frequencies or numbering resources which still require a prior individual authorization). Law 2004-669 also specifies that existing authorizations are deemed to be a notification within the meaning of the 2002 Telecoms Package, in accordance with the principles laid down in Article 17 of the Authorization Directive.

In accordance with these provisions, the Group's companies have been registered with ARCEP and ARCEP has provided them with a receipt allowing them to exercise their rights.

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Operators that have submitted notifications in accordance with Article L.33-1 of the French Post and Electronic Communications Code may benefit from rights of way in consideration for the payment of a fee, in order to establish their network infrastructure on public highway land or other public property and, under certain conditions, may be provided with easements concerning private property. The Group benefits from these rights and has developed its network infrastructure mainly on public property.

All authorized operators must pay the annual fees and taxes, including fees for the management and control of their authorizations, as well as for the numbers or frequencies allocated to them. In addition, all operators are required to contribute to universal service funding (see below).

Use of radio frequencies

The use of scarce resources – such as radio frequencies – is subject to prior approval by ARCEP.

ARCEP generally allocates frequency resources on request. However, when a particular resource is scarce it organizes a tender process which is approved by the Minister for Electronic Communications.

Frequency authorizations have a defined term and are subject to annual management and utilization fees, as set out in Decrees 2007-1531 and 2007-1532 of October, 24, 2007. The amount of these fees is calculated based on the size of the area covered as well as the width of the allocated spectrum. However, authorizations to use frequencies in frequency bands dedicated to mobile telephony in accordance with GSM or UMTS standards are subject to specific fees whose amounts were recently included in Decree 2007-1532.

Regardless of the technology used, the annual fees due by users of frequencies in the 900 MHz and 1,800 MHz bands were set at €1,068/kHz and €571/kHz respectively.

Fees due by holders of frequency authorizations in the 2,100 MHz band to operate third-generation networks were set at €619 million in Article 36 of the 2001 Finance Law, payable on delivery of the license.

Law 2008-3 of January 3, 2008 for the development of competition in the interests of consumers amended the 2001 Finance Law by eliminating the provisions setting the amount of the fees and the payment terms. The regulatory authorities were therefore tasked with setting these conditions, which are described in Decree 2007-1532 as amended on October 24, 2007.

In first-half 2010, ARCEP launched a bid process open to all market participants for the award of authorizations to use two frequency blocks – one 4.8 MHz block and one 5 MHz block in the 2.1 GHz band in mainland France – for the purpose of setting up and operating a third-generation mobile communications network for use by the public. The bids must be lodged by May 11, 2010 and these last two 3G frequency blocks should be awarded by the end of summer 2010. The bids will be assessed based on two criteria:

- A financial criterion, as the sale will take place through a single round sealed bid auction, with the starting price for each of the blocks set at €120 million.
- A criterion concerning commitments to improving the hosting conditions for mobile virtual network operators (MVNOs), as ARCEP wants MVNOs to be offered greater technical autonomy and better financial conditions.

In addition, ARCEP is working on the procedures for awarding new ranges of frequencies resulting from the switchover from analog to digital terrestrial TV (the digital dividend)¹¹. These frequencies are within the 800 MHz and 2.6 GHz bands and will be allocated for very high-speed mobile networks – i.e., 4G – in line with the French government's October 2008 decision set out in the "Digital France 2012 plan". ARCEP is currently consulting the operators before launching either one or two selection processes for awarding these frequencies as from the second half of 2010.

Frequency authorizations are generally issued on an individual party basis and are not transferable. However, Decree 2006-1016 of August 11, 2006 provides for a secondary frequency market that enables holders of

¹¹ The switchover will take place in France on November 30, 2011.

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frequency authorizations to transfer – either at a cost or free of charge – certain frequencies to third parties. Depending on the case, these transfers are subject either to prior approval by ARCEP or simply require the holder and transferee to notify ARCEP of their intentions.

The Group holds frequency authorizations for its operations issued to:

- IFW for frequencies used in the 3.5 GHz band (see Decision 2003-1294 issued by ARCEP on December 9, 2003), for the rollout and operation of its WiMAX network.
- Free Mobile for frequencies used in the 900 MHz and 2,100 MHz bands (see Decision 2010-0043 issued by ARCEP on January 12, 2010), for the rollout and operation of its third-generation mobile communications network.

In Order no. 289564 dated June 30, 2006, the French Conseil d'Etat strengthened the legal protection of holders of frequency authorizations, stating that such authorizations create rights for their holders for as long as they are valid and that ARCEP may not withdraw them for any reason other than those specifically provided for in Article L.36-11 of the French Post and Electronic Communications Code (i.e., non-compliance with the applicable regulations or the specifications attached to the authorizations). In the case of IFW, as there was no evidence of non-compliance with the applicable regulations or terms of the relevant authorizations, the Conseil d'Etat decided there was no justification for withdrawing the frequency authorization issued to IFW in 2003.

Rights and obligations of Free Mobile as a mobile network operator

Pursuant to Articles L.42-1 and L.42-2 of the French Post and Electronic Communications Code, mobile network operators need a license to use the frequencies required to operate a third-generation mobile communications network.

Free Mobile has been awarded a license to use frequencies to set up and operate a third-generation mobile communications network for public use, issued for a 20-year period as from January 12, 2010. Under this license, Free Mobile is authorized to use the relevant frequencies in accordance with the conditions set out in Decision 2009-0610 dated July 16, 2009.

As a registered mobile network operator, Free Mobile is required to respect the obligations applicable to all network operators set out in the French Post and Electronic Communications Code, particularly Articles L.33-1 and D.98-3 to D.98-12.

Rights and obligations specific to mobile operators are described in the third and fourth paragraphs of Article D.98-4 (notably improving disabled people's access to mobile telecommunications) and Article D.98-6-1 of said Code, as well as in the governmental decree of March 7, 2006 approving ARCEP Decision 2005-1083.

In application of Article 119 of the August 4, 2008 French Economy Modernization Law, after carrying out a public consultation process, on April 9, 2009 ARCEP issued Decision 2009-0328 setting out the principles applicable for operators to share their 3G mobile infrastructure in mainland France. Therefore, the requirement for Free Mobile to comply with the commitments it gave in relation to deploying its network in "2G white spot" areas falls within the scope of application of Decision 2009-0328.

In addition to these general obligations applicable to all mobile operators, Free Mobile's 3G frequency license includes a number of specific obligations.

The 20-year license granted to Free Mobile authorizes it to use dual 5 MHz in the 2.1 GHz band in order to set up and operate a 3G network. In addition, Free Mobile is authorized to use 5 MHz of spectrum in the 900 MHz band for 3G technologies, once the three other mobile operators make this available:

- Across the whole of mainland France apart from very densely populated areas, within 18 months from January 12, 2012.
- Within very densely populated areas, by December 31, 2012.

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Measures have been set up to enable Free Mobile to select one of the three GSM operators holding a 3G license to enter into a roaming agreement. Each 3G operator holding a GSM license has been asked to authorize Free Mobile to access its sites whenever the operators re-use their sites for 3G purposes on their own account in order to enable Free Mobile to co-locate its 3G equipment at those sites. These provisions are also aimed at encouraging 3G operators to share sites whenever possible in addition to the general provisions described in Articles L.47, L.48 and D.98-6-1 of the French Post and Electronic Communications Code.

Free Mobile has undertaken to provide ARCEP with updates on the respect of the commitments it gave in its bid file. The first report will be sent on June 30, 2012 and thereafter these updates will be sent at ARCEP's request.

Free Mobile's obligations concerning its acquisition of the 3G license

The main conditions of this license concern coverage and quality obligations, notably a commitment by Free Mobile to cover a greater area than the minimum set in the bid process for the 3G license.

In particular, Free Mobile has given an undertaking to ARCEP that:

- It will roll out a network covering at least 27% of the French population by 2012.
- Once a 25% coverage rate has been reached, Free Mobile may use a roaming agreement with one of the incumbent operators in order to guarantee a service across the whole of mainland France.
- It will launch its commercial mobile offering in mainland France by early 2012.
- Its 3G network will cover at least 90% of the population by early 2018.
- It will scale its network in a way that guarantees a level of service quality that is on a par – if not higher than – that required of the existing mobile operators (e.g., 95% of calls successfully connected and maintained for two minutes outside buildings and a 96% connection rate for all data services).

Free Mobile's main commitments are set out in the table below.

Date	Q1 + 2 years	Q1 + 5 years	Q1 + 8 years
Obligations specified in the bid process (proportion of French population covered by services)			
Voice	25%	-	80%
Data in packet mode (two-way 144 kbps)	20%	-	60%
Free Mobile's coverage commitments (proportion of French population covered by services)			
Voice	27%	75%	90%
Data in packet mode (two-way 144 kbps)	25%	69%	83%

Financial conditions related to the license to use 5 MHz frequencies in the 2.1 GHz and 900 MHz bands

The fees due by Free Mobile for the license to use 5 MHz frequencies in the 2.1 GHz and 900 MHz bands are governed by Decree 2009-948 of July 29, 2009 amending Decree 2007-1532 of October 24, 2007. This Decree stipulates that:

- The fee due for the license to use frequencies in the 2.1 GHz band comprises:
 - A set amount of €48,000 per dual kHz allocated across mainland France for a 20-year period, payable as soon as the license is granted.
 - An annual variable amount, paid prior to June 30 of each year for the use of frequencies during the previous year. This variable amount corresponds to 1% of the total revenues (excluding sales of terminals) recorded for the year during which the frequencies are used.

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- The fee due for the license to use frequencies in the 900 MHz band comprises:
 - A set amount of €1,068 per dual kHz allocated across mainland France, paid yearly prior to June 30 and calculated pro rata to the population of the areas covered by the license.
 - An annual variable amount corresponding to 1% of the total revenues (excluding sales of terminals) recorded for the year during which the frequencies are used.

As Free Mobile was granted its license to use 5 MHz frequencies in the 2.1 GHz band for 20 years as from January 12, 2010 (ARCEP Decision 2010-0043), the company paid the €240 million fee for the use of these frequencies on January 13, 2010.

Free Mobile will pay the fee due for using frequencies in the 900 MHz band when they are made available by the incumbent operators.

Free Mobile is also required to contribute to the Fonds de Réaménagement du Spectre (FRS), in accordance with the payment terms and conditions defined by the French National Frequencies Agency.

Other obligations applicable to mobile operators

Lastly, Free is required to respect Decree 2002-775 dated May 3, 2002 implementing paragraph 12 of Article L.32 of the French Post and Telecommunications Code concerning public exposure limits for electromagnetic fields emitted by equipment used for telecommunications networks or by radio-electric facilities.

The exposure limits for radio frequencies are set in Decree 2002-775 dated May 3, 2002.

For a mobile telephony base transceiver station, the exposure limits are as follows:

- 41 V/m for a 900 MHz band aerial.
- 61 V/m for a 2.1 GHz band UMTS aerial.

The work undertaken since 2009 by the French government with operators, local councillors and associations to follow up on the interministerial round table discussion on “radio frequencies, health and the environment” held in May 2009 has particularly focused on these exposure limits, and Free Mobile is actively contributing to this work.

Internet service provider business

Since the enactment of Law 2004-669, Internet service providers need to submit prior notification to ARCEP in order to carry out their activities.

Internet service providers, like other electronic communications operators, are obliged to contribute to universal service funding (see below for further details).

Interconnection

The provision of regulations governing the access and interconnection of each licensed operator to the networks of the incumbent operator and of other licensed operators is essential for opening up the market. Such regulations lower the barrier to entry represented by the high cost to a new entrant of having to build its own network. ARCEP has therefore focused on interconnection pricing and technical conditions, and has succeeded in developing a specific and functional framework.

The access and interconnection regulations applicable in the EU and in France set out specific principles for the pricing of interconnection services and the allocation of the cost of universal service obligations. They also (i) impose specific accounting obligations in order to avoid the artificial support of one activity by another by unfair cross-subsidization, (ii) define the principles of access to essential facilities (ducts, conduits, sites and buildings) and the principles for allocating telephone numbers, (iii) define the role of the national regulatory authorities, and (iv) introduce a common process for settling disputes.

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Operators that the national regulatory authorities have identified as having “significant market power in a relevant market” must offer interconnection to other operators.

Interconnection agreements are subject to private law and must be disclosed to ARCEP where requested.

ARCEP has the power to rule on disputes between operators but its decisions may be appealed to the Paris Court of Appeal (*Cour d'Appel*). Any such appeal lodged against an ARCEP decision does not suspend the ruling made by ARCEP. Free has entered into interconnection agreements with France Telecom and the three mobile operators in France (SFR, Orange and Bouygues Telecom) in line with the reference interconnect offers published by these operators.

Free has also signed interconnection agreements with the alternative operators SFR, Colt, Completel and Verizon relating to terminating traffic entering their networks as well as traffic for value-added services collected by these operators. At the same time, these alternative operators have entered into interconnection agreements with Free concerning terminating traffic entering the Free network for both non-geographic numbers (087B and 095B) and geographic numbers. In these agreements, the call termination services provided by Free and the above-mentioned operators are priced at a rate that complies with Decision 08-0896 issued by ARCEP on July 29, 2008 concerning the definition of relevant landline markets, the identification of undertakings or operators with significant market power and setting the related obligations.

The main landline local loop operators have also signed an interconnection agreement with Free, concerning terminating traffic entering the Free network for both geographic and non-geographic numbers (087B and 095B) as well as collected traffic for value-added services (08AB, 3BPQ and 118XYZ numbers) provided by France Telecom or third party operators for which France Telecom performs a transit service. Under the terms of the agreement Free also bills value-added services paid by callers using France Telecom or third party operators for which France Telecom performs a transit service. Free receives a fee for this billing service, based on the pricing scale for the services billed.

Dial-up Internet access

The regulations relating to dial-up access to the Internet are based on interconnection regulations.

France Telecom's reference interconnect offer sets out the technical and pricing conditions of interconnection services relating to calls made by subscribers connected to the France Telecom network (or to the networks of third party operators).

This reference offer also stipulates the terms and conditions for billing services carried out on behalf of third parties by France Telecom. Under this service, Free receives the revenue generated from the end-subscribers for which France Telecom provides access to telephone services in relation to calls made by the end-subscribers to 0860 numbers, paid for by the caller at a rate specified in the “Local Internet Price” section of France Telecom's price catalog.

The regulatory framework applicable to copper access networks

The provision of broadband Internet access is based either on (i) physical access to France Telecom's copper local loop allowing the new entrant to operate its own access equipment with the aim of offering its own services, as distinct from France Telecom's services, or (ii) access to France Telecom's DSLAMs, combined with the collection of subscribers' data traffic and delivery of this traffic to one or more of the service provider's points of presence. In the first case, the service provided by France Telecom is known as “local loop unbundling” while in the second case, the service offers “bit stream access”, more commonly called “Option 5” or “Option 3” in France.

The Group uses both these options to provide its subscribers with broadband Internet access (see Section 6.1.4.1 above).

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Local loop unbundling

France Telecom has been identified as having significant market power in relation to access to the local loop and as such it is required to respect a number of obligations in accordance with Decision 08-0835 issued by ARCEP on July 24, 2008. In particular it is required to:

- offer unbundled access to its local loop at a cost-oriented price;
- provide associated services; and
- publish a reference offer.

On December 15, 2005, ARCEP issued Decision 05-0834 which set out the method to be used for valuing local loop assets and for accounting for the related costs. The latest edition of France Telecom's reference offer for local loop access was published on February 19, 2010.

Access to the local loop can take one of the following two forms:

- either the incumbent operator provides access to the copper part of its network, between the main MDF and the termination point located in the subscriber's premises (full unbundled access to the local loop); or
- the incumbent operator provides access to the high frequency spectrum on this same part of its network and itself continues to provide a traditional public telephone service using the low frequencies (shared access to the local loop).

The terms of access to the local loop are determined by a private law agreement that must be submitted to ARCEP at its request.

On September 17, 2006, Free signed an agreement for access to France Telecom's local loop reflecting in operational terms the principles set out in the public reference offer. This agreement replaces earlier agreements signed in relation to previous editions of the published reference offer.

ARCEP's analysis of relevant broadband Internet access markets, and in particular Market 4 (unbundling or Option 1), was completed on July 24, 2008 and resulted in a series of decisions imposing on France Telecom the obligation to continue to provide its competitors with access to its local networks by unbundling the copper local loop and by providing access to the civil infrastructure making up the optical fiber local loop.

Withdrawal of the approval process

Access to France Telecom's DSLAMs and the associated collection of ADSL traffic were historically organized under the terms of a set of contracts ("IP/ADSL" and "IP/ADSL Collection"), and price changes were subject to an approval process following an arbitration decision issued in 1999 by the Minister for Telecommunications (see ARCEP Decision 99-582 in response to France Telecom's pricing decision 99077 E for Netissimo and Turbo IP services).

Decree 2005-75 of January 31, 2005 transferred power to approve the pricing of the universal service from the Minister for Telecommunications to ARCEP.

As a result, in the context of its analysis of Market 5 (wholesale offers for access to broadband delivered at regional level or Option 3), ARCEP imposed on France Telecom the obligation to publish a reference offer relating to broadband access delivered at a regional point of presence. This reference offer – entitled "DSL access and collection offer" – includes the technical principles set forth in the IP/ADSL and ADSL Connect ATM contracts.

France Telecom's "DSL access and collection offer" must be based on cost-oriented prices and may be rejected or amended by ARCEP if this is not the case.

Free can also refer to ARCEP any dispute or disagreement arising in connection with the technical or pricing principles underpinning the DSL access and collection offer.

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ARCEP completed its analysis of the relevant markets relating to high-speed and very high-speed Internet access delivered at regional level (Market 5) on July 24, 2008 and issued a series of decisions renewing the obligations previously applicable to France Telecom. At the same time, ARCEP reserved the right to regulate FTTH offerings on an ex-ante basis without carrying out a new market analysis.

The regulatory framework applicable to access to new-generation optical fiber networks

The French Economy Modernization Law dated August 4, 2008 introduced several provisions aimed at establishing a regulatory framework for the rollout of very high-speed optical fiber networks. The new law comprises a number of measures intended to encourage such rollouts including (i) an obligation for private and public landlords to facilitate the installation of optical fiber networks in their buildings; (ii) rules for sharing optical fiber access in order to avoid several networks being set up within the same building; (iii) a requirement for each operator offering very high-speed access to be able to connect up to the network; and (iv) provisions stating that the access point to the shared network must be located outside the limits of a private property (unless ARCEP approves the access point being inside such a property). In addition to the implementing decrees already published, ARCEP has been given decision-making powers to set the terms and conditions relating to the application of this Law.

Consequently, ARCEP issued Decision 2009-1106 to establish a regulatory framework concerning the access points to networks in areas defined as densely populated, which was approved by the Minister for Telecommunications on January 15, 2010. This decision:

- Sets out the cases in which the shared access point can be located inside a private property.
- Enables operators to have a dedicated fiber between the shared access point and the termination point in an area comprising 148 communes.

The rollout of optical fiber networks on public land is therefore subject to asymmetric regulation by ARCEP based on its analysis of relevant markets because of France Telecom's dominant position in civil infrastructures, whereas access to buildings is subject to symmetric regulation with the same provisions applicable to all operators.

Numbering and carrier pre-selection

Since January 17, 2000, subscribers have been able to opt for the automatic pre-selection of their long distance operators, allowing them to access their networks without having to dial the operator's one or four figure prefix. The carrier pre-selection facility has also been available for calls to mobiles since November 2000 and for local calls since the beginning of 2002, at the option of the carrier.

Pursuant to the decision imposing on France Telecom access obligations in respect of telephone services in the wholesale market, since April 1, 2006 France Telecom has marketed an offer for "wholesale access to telephone services" providing the possibility of selling access to telephone services and communications routing services on the retail market without the end subscriber having to enter into a contract with France Telecom.

The technical conditions for carrier pre-selection are set out in France Telecom's reference interconnect offer and are included in the interconnection agreements entered into between France Telecom and third party operators.

Fixed number portability

Number portability is an obligation for all operators connecting end-subscribers.

Since January 1, 1998, subscribers have been able to keep their number when they change operator for landline telephone services, provided they do not change their geographical location. Number portability has been available for shared-cost services since the second half of 2001 and for shared-revenue services since December 17, 2002. The technical conditions for number portability between networks are set out in the interconnection agreements entered into between the operators.

Decree 2006-82 of January 27, 2006 extends this number portability obligation to alternative landline operators.

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ARCEP Decision 2009-0637 implementing this Decree was issued on July 23, 2009, and approved by the Minister for Electronic Communications on October 22, 2009. This decision sets out the portability obligations of operators, notably the maximum length of time that a service can be interrupted in the event of a portability request (six hours as from January 1, 2011, and four hours as from January 1, 2012). It also states that as from April 1, 2010 the same level of service must be provided for calls carried to ported numbers as for those carried to non-ported numbers. In order to effectively manage the exchange of information between operators concerning portability requests, in January 2009 the main operators – including Free – set up a dedicated entity called l'Association de la Portabilité des Numéros Fixes (APNF). The idea is that all operators dealing with portability issues will ultimately join this association.

Portability data issued by the different operators concerned is already fed into the APNF's servers and in the near future operators will be able to use databases managed by the APNF to route calls to their subscribers' new operators.

Directories and provision of subscriber lists

The Group's services most affected by the provisions described below are the Minitel version (3617 ANNU) and telephone version of the reverse look-up directory service, ANNU.

All operators that connect end-subscribers are required to supply their subscriber lists for the purpose of publishing directories and/or providing information services.

ARCEP Decision 06-0639 of November 30, 2006 approved by the Minister for Electronic Communications, sets out further details on the conditions for supplying subscriber and user lists for the purpose of publishing universal directories or providing universal information services.

The Company has entered into an agreement with France Telecom under which France Telecom provides access to its databases for the purpose of publishing directories and/or providing information services. The contract provides that France Telecom may terminate the agreement in the event of a change in the structure or control of Iliad's capital or Iliad's ownership or management.

Free has signed an agreement with a number of players operating in the directory and information service markets (including France Telecom, Pages Jaunes, Le Numéro and Télégate), under which Free supplies a list of its subscribers which states any restrictive options chosen by subscribers (such as ex-directory requirements or prohibiting the use of personal data for marketing purposes).

Consequently, the information services of the main market players (Le Numéro, France Telecom, Pages Jaunes and Télégate) now cover the end-subscribers for whom Free provides telephone access.

In response to the problems encountered relating to operators setting up a universal directory, since year-end 2005 ARCEP issues a report in which it measures the progress of the universal directory.

Contribution to universal service funding

The universal service comprises (i) the provision of a good quality telephone service at an affordable price, (ii) a directory enquiries service and directories in printed and electronic forms, and (iii) access to public payphones located on public property. Each of these three components must include special facilities for disabled users, so that they can be assured of access to services under conditions equivalent to those enjoyed by other users.

Following the enactment of Law 2003-1365 of December 31, 2003, France Telecom was no longer designated by law as the operator responsible for providing the universal service, and from that date the operator or operators required to guarantee the provision of universal service had to be designated on the basis of calls for tender. Three calls for tender, relating to each of the three components of the universal service, were published in the French Official Gazette of November 25, 2004. In March 2005, France Telecom won the three calls for tender and was designated as the operator responsible for providing each of the three components of the universal service.

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In accordance with the said law, the cost of the universal service is now shared between operators pro rata to their revenues derived from telecommunications services “*excluding revenues from interconnection and access services subject to the agreements defined in paragraph 1 of Article L.34-8, and other services provided or billed on behalf of third party operators*”. The publication of implementing Decree 04-1222 of November 17, 2004, relating to public service obligations and the funding of the universal electronic communications service provided a regulatory framework for the definitive calculation of the net cost of the universal service as from 2002. The net cost of universal service obligations, after taking account of intangible benefits, was estimated by ARCEP at €124,989,000 for 2002 (Decision 04-1068), €53,271,000 for 2003 (Decision 05-0426), €33,283,000 for 2004 (Decision 05-917), and €33,123,000 for 2005 (Decision 07-0191).

Finally, Decree 2005-75 of January 31, 2005 governing price controls for the electronic communications universal service, supplements the provisions of Article R.20-30-11 of the French Post and Electronic Communications Code. It defines the cases in which the prices for the universal service proposed by an operator responsible for providing one of the components thereof may be subject either to a price cap over a number of years, or to prior approval or rejection by ARCEP.

Government initiatives relating to information society networks

The growth of the Internet is particularly dependent on the rollout of infrastructure capable of sustaining the ramp-up of bandwidth-hungry services. This type of infrastructure is already in place or is in the process of being developed, such as optical fiber networks, cable, satellite, wireless networks (including standard 802.11) and UMTS networks.

In November 2002, the French government launched the RE/SO 2007 plan “for a digital republic in the information society” with a view to making up the ground lost by France in the information society sector. This initiative, aimed at increasing access to broadband, was underpinned by a twofold objective: (i) to reach a target of ten million broadband Internet subscribers in France within the following five years, and (ii) to enable every local district in France to access broadband by 2007. The plan was focused on supply, by creating a favorable environment for developing infrastructure, content and services, while developing a climate of confidence intended to ensure the effective protection of users and promote the development of e-commerce.

On June 21, 2004, the government introduced Law 2004-575 on “confidence in the digital economy”, aimed at adapting French legislation to growth in the digital economy and at raising confidence in the use of new technologies. This law, which rounded out the transposition into national law of the EU Directive on electronic commerce, sets out the provisions governing the liability of access and hosting providers and also deals with the domain name addressing system and encryption. In addition, it amended the previous provisions of the General Local Authorities Code (*Code général des collectivités territoriales*) in order to facilitate the rollout of telecommunications infrastructure by local authorities (new Article L.1425-1).

Broadcasting of audiovisual services via ADSL

The transmission and broadcast of radio and television services (whatever the means of signal transmission) falls within the scope of the 2002 Telecoms Package and is consequently subject to the control of the national regulatory authorities.

The oversight powers of the French broadcasting watchdog, the Conseil Supérieur de l'Audiovisuel (“CSA”) were extended by Law 2004-669 dated July 9, 2004 to cover all radio and television services, whatever their method of transmission and broadcast. This law also introduced more flexibility for rules governing the broadcast of radio and television services, by allowing such services to be broadcast on a network that does not use frequencies allocated by the CSA – including broadcasting via ADSL – subject solely to prior declaration to the CSA.

In its capacity as a broadcaster of audiovisual services via ADSL, Free is subject to the regulatory “must-carry” provisions, i.e., the obligation for a provider of services via cable, satellite or ADSL to carry certain audiovisual services on its network. “Must carry” involves two legal requirements: (i) the service provider – i.e., cable operator or satellite operator – has to carry certain channels, and (ii) the must-carry channels have to agree to be carried by the operator or service provider.

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Concerning the broadcast of audiovisual services via ADSL, the new must-carry obligations are governed by Articles 34-2 and 34-4 of Law 86-1067 of September 30, 1986, as follows:

- Article 34-2 states that for all types of network (cable, satellite and ADSL) the following channels must be provided to subscribers free of charge: public service channels broadcast over microwave, the Chaîne Parlementaire, TV5, and RFO services specifically aimed at the general public in mainland France (i.e., the RFO-Sat program). Excluding satellite, the same rules apply to local cable channels.
- Article 34-4 introduces must-carry rights on all means of transmission (cable, satellite, and ADSL) for free-to-air, analog or digital channels broadcast via microwave, under fair, reasonable and non-discriminatory conditions. Only the channels themselves can demand that their programs be carried by the distribution networks and not vice-versa.
- Article 34-5 requires electronic communications networks in digital mode to carry all of France 3's regional programs.

Law 2007-309 of March 5, 2007 concerning the modernization of audiovisual broadcasting and the television of the future amended Law 86-1067, and provides in particular for the full switch from analog to digital terrestrial television by November 30, 2011 at the latest. It sets down the conditions for launching high-definition television and personal mobile television – innovative services corresponding to an “on-the-move” lifestyle via dedicated means of transmission or telephone. It also introduces a parliamentary commission to oversee the national framework for the reuse of frequencies released by the phasing out of analog broadcasting.

The full-scale switch from analog to digital terrestrial television will free up frequencies at the lower end of the spectrum. Some of these frequencies, particularly the most effective ones, may be allocated to telecommunications operators. The World Radiocommunication Conference has identified a band between 790 MHz and 862 MHz that could be used for telecommunications. On December 22, 2008 the French Prime Minister approved the national framework for the reuse of frequencies freed up due to the termination of analog television broadcasting, stating that the 790-862 MHz sub-band would be allocated to ARCEP as from November 30, 2011.

Under Law 2007-309, like all television distributors, broadcasters of audiovisual services via ADSL are required to pay contributions to the Compte de Soutien à l'Industrie de Programmes Audiovisuels (“COSIP”) calculated based on the revenue generated by broadcasting audiovisual content (both linear and non-linear) via ADSL. In addition, this law, which was applicable from January 1, 2008, enables ARCEP to intervene in order to ensure compliance with agreements signed with towns or groups of towns with a view to laying and using cabled networks.

In January 2008 the French President announced a law reforming the public audiovisual sector which was reviewed by Parliament as from the Fall and adopted on March 5, 2009. This law sets up a new development framework for public service television channels and creates a regulatory framework for new audiovisual services such as Video on Demand. In addition it introduces a number of taxes to offset the impact of the phased ban on advertising on public channels including a tax on electronic communications operators such as Free. This tax – which amounts to 0.9% of the operators' exclusively telecommunications-based revenue excluding a number of deductions – has already come into force. However, the French Telecommunications Federation has asked the European Commission to review the legality of this tax and the Commission opened an infringement procedure against France by sending the government a letter of formal notice. At March 31, 2010 the French government had not yet replied to this letter.

6.6.2 Regulation of the content of electronic communications

Content of online services and liabilities of Internet market players

The provisions currently governing the content of online services make a distinction between private correspondence, whose secrecy is protected, and public communications using electronic means, whose freedom is guaranteed. While this legal framework is based on the fundamental principle of freedom of expression – which is guaranteed under the terms of the French Constitution, the Law of July 29, 1881 on the freedom of the

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press and Law 86-1067 of September 30, 1986, as amended, on freedom of expression – its aim is also to respect the main principles of French law, such as the protection of privacy, the protection of minors, the prevention of unlawful content, the protection of personal reputation and rights and respect for human dignity.

Directive 2000/31/EC of June 8, 2000 relating to certain legal aspects of information society services, particularly e-commerce, in the internal market (“Directive on electronic commerce”) sets out the responsibilities and obligations of access and hosting providers. This Directive was due to have been transposed into national law by January 17, 2002, at the latest. Under French law, until 2004 the issue of the liability of intermediary ISPs (access and hosting providers) was dealt with by Chapter VI, Section II of the Law of September 30, 1986, as amended by Law 2000-719 of August 1, 2000. These provisions were repealed by Law 2004-575 of June 21, 2004 on confidence in the digital economy.

The main provisions of Law 2004-575 of June 21, 2004, dealing with the liability of access and hosting providers, are as follows:

- Providers of online communication services must identify themselves, directly or indirectly. Pursuant to Article 6.III of Law 2004-575, individuals providing an online communication service on a non-professional basis are obliged to indicate on their website their name and address or the name and address of their hosting provider if they wish to remain anonymous. Legal entities and private individuals offering professional services on a website must give their full contact details on their website, as well as the name of the publications director and/or co-director and the name and address of their hosting provider. Hosting and access providers must supply the providers of online services with the technical means to meet their identification obligations.
- Access and hosting providers are required to keep data that could identify persons having participated in the creation of the content of the services which they provide, in order to be able to pass on such data to the legal authorities, if required.
- Pursuant to Article 6 of Law 2004-575, hosting providers can only be held civilly liable on the grounds of the activities or information stored at the request of a recipient of these services if they were aware of their unlawful nature or of any facts or circumstances making this unlawful nature obvious, or if, as soon as they became aware of such unlawful nature they did not act promptly to withdraw the data or to prevent access to it. Furthermore, hosting providers cannot be held criminally liable if they are unaware of the unlawful activity or information or if, as soon as they do become aware of it, they act promptly to withdraw the information or to prevent access to it. These rules concerning liability do not apply if the recipient of the service is acting under the authority or control of the hosting provider.
- Pursuant to Article L.32-3-3 of the French Post and Electronic Communications Code, access providers cannot be held either civilly or criminally liable for the content to which they provide access, except in circumstances where either they have originated the request for the transmission of the content concerned, or they have selected the recipient of the transmission, or selected and/or modified the transmitted content.

Furthermore, Article L.34-1 of the French Post and Electronic Communications Code (as amended by Law 2006-64 of January 23, 2006) states that electronic communications operators – notably Internet service providers – are obliged to keep the technical connection data necessary for criminal investigations. They may also keep the technical data required for their invoice payments. Apart from these two specific cases, the operators concerned must delete or render anonymous all data concerning a communication once it is completed.

Decree 2006-358 of March 24, 2006 defines the data to be kept, as well as the duration (one year, from the day of registration) and the means of keeping such data. This decree could have an impact on the costs borne by the technical service providers for storing and processing data.

The Group makes access to Free's no-subscription services conditional upon subscribers providing a physical address to which their connection settings can be sent by post. Free is therefore in a position to respond to any requests for information from the legal authorities. As the flat-rate and broadband services are linked to physical access, Free is also able to respond to requests from the authorities concerning the subscribers of these services.

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Copyright and the Internet

Under Law 2009-669 adopted on June 12, 2009 promoting the dissemination and protection of creative works on the Internet a specific “graduated response” system was introduced in the aim of combating illegal downloads. The first stage in this system is an email sent to any internet subscriber whose connection is used to illegally download a protected work, which informs the subscriber that they have breached the applicable law and warns them that they need to protect their Internet access to ensure it does not happen again. A newly-created independent administrative body – La Haute Autorité pour la Diffusion des Oeuvres et la Protection des Droits sur Internet (HADOPI) – will be responsible for managing and issuing these messages, which the operators will be required to forward. On October 29, 2009 an additional law on protecting literary and artistic property was adopted to round out the graduated response system by providing that in the event of repeat offences a judge can levy a fine or even suspend the subscriber’s internet access. None of the implementing decrees in relation to these laws had been published at March 30, 2010. However, opponents of this new law referred it to France’s highest legal authority – the Constitutional Council – which on June 10, 2009 (Decision 2009-580) ruled that free access to public communication services on line is a key component of the basic human right of freedom of expression and that only a judge should have the power to restrict such access.

Processing of personal data and protection of individuals

Framework Directive 95/46/EC of October 24, 1995 relating to the protection of individuals with regard to the processing of personal data and the free movement of such data specifies the requisite measures for effectively protecting the rights and freedom of individuals. The main objectives of this Directive are to (i) harmonize European legislation governing the processing of personal data, (ii) facilitate the movement of such data (provided that the country of destination of the information concerned provides a satisfactory level of protection), and (iii) ensure the protection of the rights and freedom of individuals. This Framework Directive was supplemented by the sector-specific Directive 97/66/EC of December 15, 1997 relating to the processing of personal data and the protection of privacy in the telecommunications sector. This Directive was repealed and replaced by Directive 2002/58/EC of July 12, 2002.

Law 2004-801 of August 6, 2004 on the protection of individuals with respect to the processing of personal data, amending Law 78-17 of January 6, 1978 relating to information technology, computer files and civil liberties, transposed the Framework Directive of October 24, 1995 and certain provisions of the Directive of July 12, 2002 into French law.

Law 2004-575 of June 21, 2004 on confidence in the digital economy and Law 2004-669 of July 9, 2004 on electronic communications and audiovisual communication services also transposed certain provisions of the Directive of July 12, 2002 into French law.

The main provisions of Law 2004-801 of August 6, 2004 are as follows:

- Article 7 establishes the principle that no personal data may be processed without the consent of the person concerned. This Article does, however, set forth a limited number of circumstances in which such processing may be lawful, even without the consent of the person concerned. This applies in particular if such processing is necessary in the legitimate interests of the data processor or the recipient “*provided that it does not disregard the interests or infringe the fundamental rights and freedoms of the person concerned*”. Such exceptions do not, however, apply to the processing of “sensitive data”, for which Article 8 of Law 2004-801 requires the express consent of the person concerned.
- The data processor’s obligation to provide information covers all situations in which personal data is processed, even if this data has not been collected directly from the person concerned, such as for file transfers. In the latter case, Article 32-III of Law 2004-801 states that the data processor must provide this information as soon as the data is recorded or, at the latest, when the data is first divulged to a third party. This information does not need to be provided, however, if the sole purpose of the processing is to permit or facilitate communication by electronic means.

In addition to the obligation to inform people of the mandatory or optional nature of their responses, of the consequences of any failure to respond, of the recipients of the data and of their right to access and correct their

6. OVERVIEW OF THE GROUP'S BUSINESS

6.6 REGULATORY SITUATION

personal data, Article 32 of Law 2004-801 imposes on data processors the obligation to inform the person from whom the personal data is collected of the identity of the data processor, the purpose for which the data is processed, and of their right to object to the information being transferred to a third party, as well as, where necessary, of any proposed transfers of data to a country which is not a Member State of the European Community.

This obligation is immediately applicable and concerns all types of processing. Companies had until August 6, 2007, to comply with the new requirements in respect of processing carried out before Law 2004-801 came into force.

The obligation to provide information also applies to cookies. Article 32-II of Law 2004-801 states that “*anyone using an electronic communications network must be clearly and fully informed [] about the purpose of any action taken (i) to access, by electronic means, information stored in their connection terminal, or (ii) to enter, by similar means, information in their connection terminal equipment [and] about the measures they may take to prevent this*”.

- Law 2004-801 led to a considerable increase in the possibilities of conducting compliance checks relating to the processing of personal data, substantially strengthening the powers of oversight, investigation, injunction and sanction available to the French national commission for information technology and freedom (*Commission Nationale de l'Informatique et des Libertés*, or CNIL). Furthermore, any failure to comply with the provisions of Law 2004-801 is now subject to severe criminal sanctions. The possible offences and related penalties are set out in Articles 226-16 to 226-24 of the French Criminal Code (*Code pénal*). Such offences are punishable by a fine of up to €300,000 and five years' imprisonment.

Concerning spam, Article 22 of Law 2004-575 of June 21, 2004 on confidence in the digital economy prohibits, as from December 22, 2004, “*direct marketing by means of automatic calling systems, fax or email, using, in any form whatsoever, the contact details of a private individual who has not given prior consent to receiving such material by said means*”. Any unsolicited commercial correspondence sent by email to private individuals therefore now requires prior permission from the person to whom it is sent.

Regarding location data, Articles L.34-1 and L.34-4 of the French Post and Electronic Communications Code, as amended by Law 2004-669 of July 9, 2004, state that such data may only be processed if it has been made anonymous, or if the consent of the users or subscribers concerned has been obtained. Location data may only be processed for the sole purpose of providing a specific value-added service and only for the length of time that this service is provided. The users concerned must be informed in advance of the type of location data which will be processed, as well as of the purpose and duration of the processing and whether the data will be relayed to a third party. Users must be able to withdraw their consent using a simple means and free of charge, apart from the cost of actually transmitting their withdrawal of consent.

Concerning directories, Article L.34 of the French Post and Electronic Communications Code states that subscribers must be given the opportunity to decide if their personal data should be included in a public directory and, if so, which data may be included. No charge should be made for being excluded from a public subscriber directory, or for checking, correcting or removing personal data from the directory in question (Article R.10 of the French Post and Electronic Communications Code).

In the course of its business, the Group records and processes statistical data, including in particular data concerning the number of visits to its websites. Technical means enabling the identification of customers' main areas of interest and online behavior are also used with a view to optimizing the Group's services. In order to offer its services, the Group collects and processes personal data. The majority of the databases it has established for this purpose have been declared to the CNIL.

Legal protection of databases

The principal innovation included in Directive 96/9/EC adopted on March 11, 1996 is the creation of a *sui generis* right which aims to ensure the protection of any investment made in obtaining, verifying or presenting the contents of a database for the limited duration of the right, it being specified that this investment may take the

6. OVERVIEW OF THE GROUP'S BUSINESS

6.6 REGULATORY SITUATION

form of financial and/or human resources. Said Directive was transposed into French law by Law 98-536 of July 1, 1998, providing for this *sui generis* right, independently of the protection offered by copyright, in order to protect the producers of databases.

Article L.341-1 of the French Intellectual Property Code (*Code de la propriété intellectuelle*) provides that the producer of a database, understood to be the person taking the initiative and bearing the risk of the investments relating to setting up the database in question, benefits from protection of the content of the database "*when its compilation, verification or presentation involves a substantial financial, material or human investment*". This protection is independent and applies without prejudice to the protection resulting from copyright or any other right relating to the database in question or one of its component parts, pursuant in particular to Article L.112-3 of the French Intellectual Property Code.

The producer of the database therefore has the right to prohibit any substantial extraction of the content of its database and any reuse of this content. Article L.342-2 of the French Intellectual Property Code also states that "*the producer can also prohibit the repeated and systematic extraction or reuse of parts of the content of the database that are not qualitatively or quantitatively substantial when these operations manifestly exceed the normal conditions of use of the database*".

Intellectual property law and online broadcasting

The purpose of Directive 2001/29/EC of May 22, 2001 on the harmonization of certain aspects of copyright and related rights in the information society is to adapt intellectual property law to the specifics of digital broadcasting. This Directive sets down an exclusive right of reproduction as well as a mandatory exemption from this right relating to certain temporary acts of reproduction that are an essential part of a technological process. However it has not achieved its primary stated objective of harmonization, as Member States can choose whether or not to adopt other optional exceptions, such as the exception for reproduction of material for private use, provided that the right-holders receive fair compensation.

Law 2006-961 of August 1, 2006 (the DADVSI Law) concerning copyright and other related rights in the information society transposed Directive 2001/29/EC into French law. The DADVSI Law sets limitations on the right to reproduce material for private use by recognizing the legality of digital rights management (DRM) systems. In particular it provides for criminal sanctions for parties who publish software that is clearly intended to render protected works public as well as parties who procure or knowingly offer to another party – either directly or indirectly – the means to violate DRM systems.

Domain names

Domain names are assigned to the digital addresses of the servers connected to the Internet and constitute Internet addresses. They are used for effective identification of Internet sites and make it easier to remember the addresses of these sites. Domain names are therefore, logically, major marketing assets for companies carrying out all or part of their business on the Internet. The Group has registered a certain number of domain names in France.

Top level domain names can be generic (known as generic top level domain names, or "gTLDs"), such as ".com" for commercial companies, ".net" for companies providing Internet-related services, ".org" for public interest bodies or ".edu" for teaching establishments, or they can correspond to a specific geographical area (known as country code top level domain names, or "ccTLDs"), such as ".fr" for France, ".de" for Germany or ".es" for Spain. Second level domain names correspond to subcategories, for example ".asso.fr" for charities in France. The domain names in the ".com", ".net" and ".org" domains are registered by a certain number of organizations accredited by the Internet Corporation for Assigned Names and Numbers ("ICANN"), an international not-for-profit organization. Various registrars are responsible for managing extensions, such as Verisign in the case of the ".com" and ".net" extensions. The registration of geographical domain names is supervised in each country by a designated national authority, which keeps a central register and accredits private companies as registrars. In general, domain names are allocated on a "first-come, first-served" basis and most registrars, in the case of both generic and geographical domain names, consider that it is up to the person registering them to ensure that no prior right would be infringed by the registration of the domain name concerned.

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6.6 REGULATORY SITUATION

Each national authority is, to a certain extent, able to define its own policy for allocating domain names. This means that the requirements for registering geographical domain names can differ from those relating to the registration of generic domain names and can also vary from one country to another. Some registrars may, for instance, prove to be stricter than others with respect to infringements of the intellectual or other property rights held by third parties resulting from the registration of a particular domain name.

In France, the *Association Française pour le Nommage Internet en Coopération* ("AFNIC") is responsible for registering domain names for the ".fr" extension. A certain number of subdomains have been created in the ".fr" extension and several Internet service providers, including Online, a subsidiary of Iliad, have been accredited by the AFNIC to handle requests for the registration of domain names.

The rules for allocating domain names are set out in the AFNIC's naming charter. This charter and the allocation rules are updated regularly. The allocation rules currently in force are as follows:

- The allocation of a domain name in each subdomain of the ".fr" domain is governed by specific rules.
- Persons identifiable in the online databases of court registries or of the INPI or the INSEE (companies, trademark owners, local authorities, self-employed professionals) can register the domain names of their choice, provided they comply with the syntax rules and do not try to register a name which is included in the list of prohibited terms.
- Those registering domain names must ensure that their registration request is not in breach of prior rights held by third parties – particularly intellectual property rights or the right to a name – or of competition rules; the AFNIC does not carry out any checks in this respect.
- The registration of domain names in the ".tm.fr" subdomain is only available to applicants who can produce a trademark registration certificate.
- The ".nom.fr" subdomain is only available to individuals of French nationality or residing on French territory who wish to use their surname as a domain name.
- Domain names can be registered using the ".com.fr" subdomain without the need to produce supporting documentation, provided that these domain names have not already been registered in another subdomain.

Although the French courts have now accepted that the use of a term on an Internet site or as a domain name can infringe trademark rights, the outcome of any potential dispute in this area remains uncertain. This uncertainty is due in particular to the fact that the scope of trademark rights is limited, either geographically or by the type of products and services covered by the trademark registration, while the use of a term on the Internet can result in a risk of confusion or encourage unfair competition far beyond such limits.

7. ORGANIZATIONAL STRUCTURE

7.1 BRIEF DESCRIPTION OF THE GROUP

7. ORGANIZATIONAL STRUCTURE

7.1 BRIEF DESCRIPTION OF THE GROUP

Iliad is the parent company of the Group and acts as the operational holding structure. It operates in two areas within the French telecommunications sector: the ANNU reverse look-up directory business, and traditional corporate telephony services provided under the Iliad Telecom name. In addition, in its role as the Group's holding company, at December 31, 2009 Iliad directly controlled 16 consolidated subsidiaries, including 15 in France.

Senior management functions within the Group are centralized at the holding company level, with senior managers of the parent company performing the same duties in the Group's main subsidiaries. There are strong operating links between the Group's entities at several levels: (i) the Group's telecommunications network is lodged within Free, which is responsible for carrying the traffic of all the Group's companies, (ii) Free manages all services relating to the invoicing system for all of the Group's subsidiaries, and (iii) certain Group subsidiaries provide support services – notably telephone support – for all of the Group's subsidiaries.

The Group's main subsidiary is Free SAS. Liberty Surf Group SAS (Alice) was merged into Free SAS on December 18, 2008 following a decision by the sole shareholder of the two companies taking part in the transaction. The merger was placed on record by the Chairman of Free on December 31, 2008.

Protelco – set up on December 31, 2008 – provides technical support services at individual homes, through teams of roaming technicians. The creation of Protelco forms part of the Group's policy to strengthen its technical support services and foster the loyalty of its subscribers.

On February 19, 2009, Iliad launched an offer to purchase Citéfibre's shares with a view to delisting the company. Following the offer, Iliad held around 99.9% of Citéfibre's capital and the company was delisted from the Marché Libre on April 16, 2009.

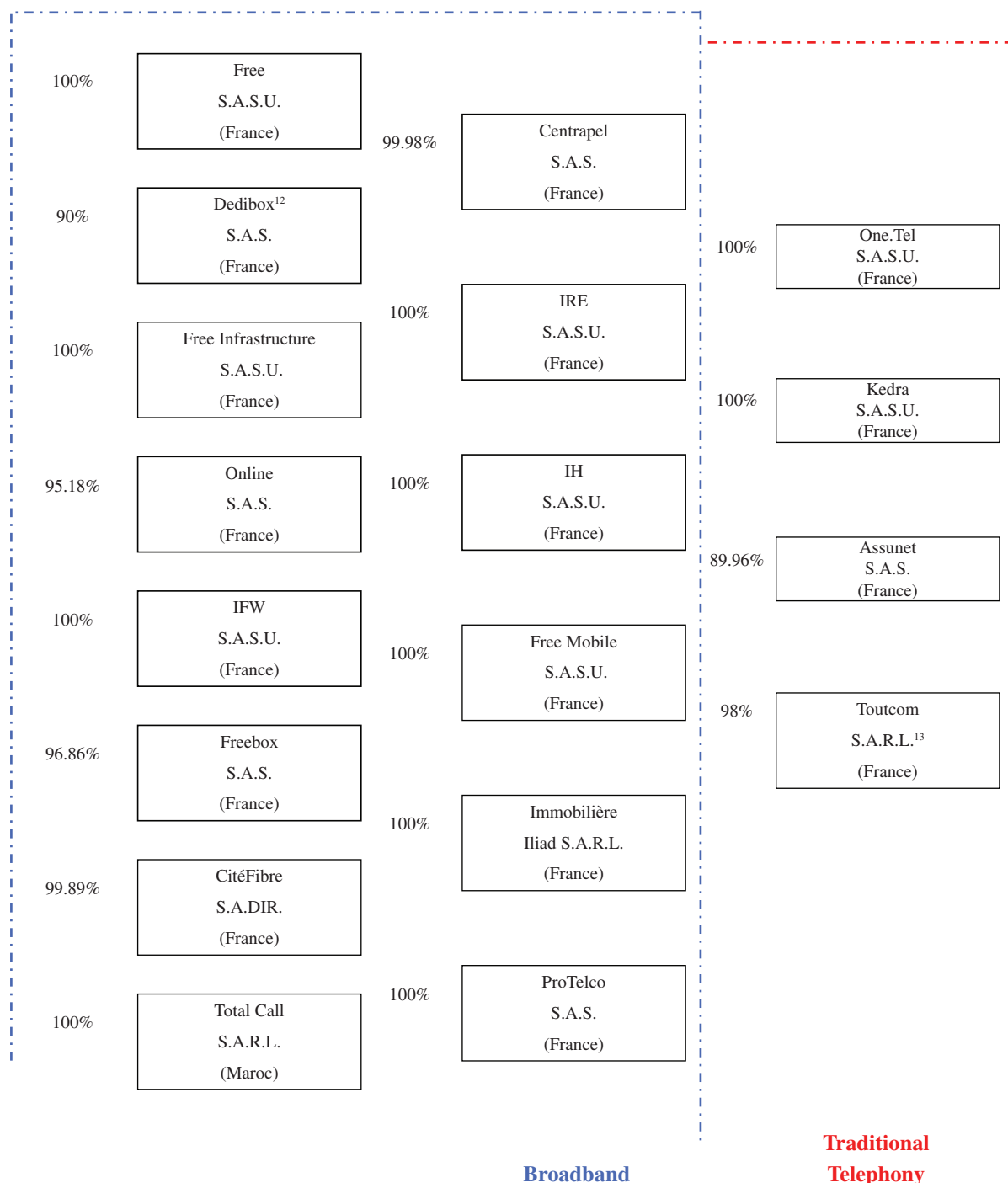
Iliad rebills to its subsidiaries (i) their share of the lease payments relating to the premises at rue de la Ville l'Evêque in Paris, (ii) administrative, financial, accounting and legal services provided, and (iii) interest payable on current account advances (see Section 19 for further details).

A number of suppliers only wish to work with Iliad, which means that Iliad receives all the invoices issued by these suppliers for services provided to all of the Group's entities. Iliad therefore rebills these amounts to the subsidiaries concerned. Certain suppliers also agree to Iliad standing as guarantor for commitments given by subsidiaries (see Section 15.3 of this registration document).

The Group does not have any significant minority shareholders.

7.2 ORGANIZATION CHART

In 2009, the Group's organizational structure was as follows:



See Note 37 to the consolidated financial statements (Section 20.1) for a list of the Group's consolidated companies at December 31, 2009.

¹² Dedibox SAS was removed from the Trade and Companies Register, following its merger into Online on July 30, 2009.

¹³ Toutcom SARL was liquidated on March 20, 2009.

8. PROPERTY, PLANT AND EQUIPMENT

8.1 EXISTING OR PLANNED MATERIAL TANGIBLE FIXED ASSETS

8. PROPERTY, PLANT AND EQUIPMENT

8.1 EXISTING OR PLANNED MATERIAL TANGIBLE FIXED ASSETS

The Group provides its subscribers with Freeboxes/Aliceboxes which require the use of cutting-edge technologies, such as in the design of the Freebox modem/TV/DSLAM units, and the development of innovative software solutions.

In order to enable its subscribers to use this equipment and the related services, the Group has to have access to the local loop. This entails the payment of fees to France Telecom for access to unbundling services (also known as access fees), presented in Section 9.1.3.1. All of these items (access and logistics fees, modem and DSLAM costs) are capitalized and depreciated over a period of four years as from the date the related assets are brought into service.

The Group also capitalizes various expenses incurred by the development of its ADSL network (IRU contracts, France Telecom co-location rooms, civil engineering work and transmission equipment). Information concerning the network owned by the Group is provided in Section 4.4.6 above.

The Group acquires, either directly or under finance leases, premises to house optical nodes (ONs) for the purpose of rolling out its FTTH network.

The main premises used by the Group are occupied under long-term lease agreements entered into with third parties, and are mainly located in Bezons and in the 8th *arrondissement* in Paris.

For further details on the Group's property, plant and equipment see Note 20 to the 2009 consolidated financial statements set out in Section 20.1. of this registration document.

8.2 ENVIRONMENTAL ISSUES THAT MAY AFFECT THE COMPANY'S UTILIZATION OF ITS TANGIBLE FIXED ASSETS

The Group considers that its business as a telecommunications operator does not present an environmental risk as it does not involve any production processes that seriously harm scarce or non-renewable resources, natural resources (such as water or air), or biodiversity. However, the Group does use certain products and components that may give rise to environmental risks, albeit on a small scale. In accordance with the specific applicable regulations, the authorized disposal and destruction of these products and components is entrusted to an external company with a view to their being recycled.

The Group records a provision for the costs related to the recycling of electric and electronic equipment waste.

9. Analysis of the group's business and results

KEY CONSOLIDATED FINANCIAL DATA

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

9. MANAGEMENT REPORT

9.1 OVERVIEW

9.1 OVERVIEW

The Iliad Group (also referred to as the “**Group**”) is a major player in the landline telecommunications market in France, with a market share of nearly 24% in the ADSL broadband segment at December 31, 2009.

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

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

ADSL broadband and value-added services, combined within the Broadband segment, represent the dominant source of revenue, while revenues from the Group’s other offerings, combined within the Traditional Telephony segment, are declining as planned. In 2009, the Broadband segment represented more than 98% of Group revenues.

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

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

9.1.1 Breakdown of revenues

9.1.1.1 Broadband revenues

9.1.1.1.1 Offers and services available under the Free brand

- **Unlimited broadband via ADSL.** Since October 2002, Free has offered its subscribers unlimited broadband access for €29.99 per month (including VAT), with an ADSL modem provided and no installation fees. This unique offer allows subscribers to access the Internet at a speed of at least 2 MB per second and up to 28 MB (observed) in areas where the local loop is unbundled and 22 MB in non-unbundled areas (depending on whether a subscriber’s line is eligible). Subscribers are billed by Free and pay the €29.99 by monthly direct debit. Subscribers who cancel their subscription are charged a termination fee, also paid by direct debit. The fee amounts to €96 (including VAT) less €3 for every month of their subscription period, and covers the cost of activating the line.
- **Telephony via ADSL.** Subscribers to the Free Haut Débit broadband service who are equipped with a Freebox modem are offered a telephony service. Under this service, telephone calls made through the Freebox to another Freebox subscriber or to any number in mainland France (excluding short numbers and special numbers), Reunion Island, Guadeloupe, and 100 foreign countries are completely free. Revenues generated by calls to French mobile phones and to international numbers not included in the package, as well as revenues generated by incoming calls to Freebox subscribers, are included within the revenues of the Broadband segment.
- **Television via ADSL.** Since December 2003, subscribers to broadband Internet via the Freebox (in unbundled areas and subject to line eligibility) have been offered a television service with more than 300 channels, including 150 free channels at December 31, 2009. Revenues generated by pay TV channels are included within the revenues of the Broadband segment. Subscribers to Canal+ Group channels are billed directly by the Canal+ Group, which pays a commission to Free. Since July 31, 2007 all Free Haut Débit broadband subscribers (in unbundled and non-unbundled areas and subject to line eligibility) can access a selection of TV channels from Free’s portal.

- **Video on demand (VoD) via ADSL.** Since December 2005, subscribers to broadband Internet via the Freebox (in unbundled areas and subject to line eligibility) have been offered a video on demand service that includes Canalplay, i-concerts, TF1 vision, M6 television and vodéo.tv. This service enables subscribers to access a catalog of movies 24 hours a day, 7 days a week, and view them on their television. The movies – which are ordered using the Freebox remote control – include DVD player features and may be viewed for a period of 24 hours. The price of the movies, which starts from €0.99 (including VAT), is invoiced directly on the subscriber’s Free Haut Débit bill.
- **Subscription-based video on demand (S-VoD) via ADSL.** Since June 2007, subscribers to broadband Internet via the Freebox (in unbundled areas and subject to line eligibility) have been offered a subscription-based video on demand service. In 2009, Free packaged this service into six offers whereby, in return for a set price, subscribers have unlimited access to themed content comprising numerous videos and series that are regularly updated. The price of these offers varies between €4.99 and €19.99 per month (including VAT), depending on the number of channels selected by the subscriber.
- **“Multi-TV” offer.** Since September 2008, Free has offered its subscribers the option of watching programs on several TV sets. The price of the basic offer providing TV content on one additional television set is €4.99 per month (including VAT). An extended offer including a digital video recorder function is also available at €9.99 per month (including VAT).
- **“Pay-as-you-go” access.** For this no-subscription dial-up offer the customer pays the price of the use of the telephone line, which is invoiced by France Télécom. The share of airtime revenue passed on by France Télécom to Free is calculated on a per minute basis by France Télécom and is approved by the French telecommunications regulator (ARCEP).
- **The “50-hour plan”.** Under this offering, subscribers are entitled to 50 hours of dial-up Internet access per month for a flat fee of €14.94 (including VAT). The subscription fee is paid directly to Free by direct debit at the beginning of each month. Any additional dial-up time and charges for incomplete months are invoiced by Free at the local Internet rate. They are debited from the subscriber’s account at the beginning of the following month but are recognized in revenues for the current month.
- **Hosting services.** Revenues for this business are generated through the sale of both dedicated and non-dedicated hosting solutions. Non-dedicated hosting services are invoiced at a flat annual rate by domain name or by site. The dedicated server offering (Dedibox), which is targeted at SMEs and individuals, provides broadband Internet access for multimedia applications from €29.99 per month (including VAT).
- **Marketing of domain names and selling of advertising space** on Free’s portal.
- **Other Broadband activities.** Revenues from these operations are generated mainly from the sale of switched traffic to the Traditional Telephony segment as well as the sale of WiFi cards and related equipment, the preselection offering, migration to the unbundled service and renewal of modems.

9.1.1.1.2 Offers and services available under the Alice brand

- **ADSL.** In 2009, the Group continued to reposition Alice’s ADSL offers. At December 31, 2009 the following three ADSL access offers were available to Alice subscribers:

In unbundled areas

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

9. MANAGEMENT REPORT

9.1 OVERVIEW

- The AliceBox Initial offer at €19.99 per month (including VAT), with a minimum contract period of twelve months, an AliceBox v4 modem provided and invoicing of line activation and termination costs (respectively €40.00 and €45.00 including VAT). This offer allows subscribers to access the Internet at a speed of at least 2 MB per second and up to 28 MB (observed).

In non-unbundled areas

- The AliceBox offer at €34.95 per month (including VAT), with an AliceBox v5 modem provided and no minimum contract period. This offer allows subscribers to access the Internet at a speed of up to 22 MB (depending on line eligibility). Users who cancel their subscription are charged a termination fee, paid by direct debit, which amounts to €96 (including VAT) less €3 for every month of their subscription period, and covers the cost of activating the line.
- **Telephony via ADSL (VoIP).** Depending on the offer selected, subscribers using the AliceBox are offered unlimited calls in mainland France and to between 60 and 100 foreign countries.
- Since March 2009 – when AliceBox subscribers were migrated to Free’s IT systems – they have had access to the same value-added services as Free subscribers, including television via ADSL (IPTV), video on demand (VoD) via ADSL and subscription-based video on demand (S-VoD) via ADSL (see above for further details).
- As part of the measures taken to refocus Alice’s offerings on broadband services, in 2009 the Group decided to no longer offer dial-up internet access under the Alice brand. Consequently, the “pay-as-you-go”, Alice Daytime Internet and Alice Unlimited Internet offers are no longer marketed.
- **“B2B” offer.** This offer proposed by Alice involves setting up and managing telecommunications and e-business solutions for telephony, IP connectivity, virtual private networks and hosting.

9.1.1.2 Traditional Telephony revenues

Traditional Telephony segment revenues break down as follows:

- Revenues generated by **One.Tel.** One.Tel’s offer is a no-subscription carrier preselection service. By signing up with One.Tel, the customer authorizes the company to make a preselection request to France Télécom so that all calls made from the designated landline can be transferred to and billed by One.Tel (excluding special numbers). This enables the customer to benefit from One.Tel’s rates on all local, national and international calls, as well as on calls to mobile phones. This includes the €0.01 per minute offer (including VAT) for all local and national calls. At the end of each month, the total cost of calls is calculated for each customer and invoiced for payment within two weeks.
- Revenues from **ANNU**, the reverse look-up directory accessible by Minitel, telephone, Internet and SMS text messaging. Minitel access to all services is billed directly by France Télécom on the user’s telephone bill, and part of the fee is passed on by France Télécom to the company running the service. For ANNU, the revenue passed on by France Télécom amounts to €36.93 per hour. Revenue payments are received every other month.
- Revenues generated by **Assunet** – an online insurance broker – from commission on sales of insurance policies to private individuals and Group companies.
- Revenues from **Iliad Telecom’s** carrier preselection service for companies.
- **The “Wholesale” offer.** In 2008 Alice’s scope of operations included wholesale activities in the telecommunications market, consisting of buying and reselling international call terminations and bandwidth with external operators. These activities – which were carried out because Alice was a member of the Telecom Italia SPA group – were discontinued in the second half of 2009.

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

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

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

Under Option 1, direct costs per subscriber and per month, as mentioned in the basic unbundling offer, were as follows at December 31, 2009:

Operating costs under Option 1 (partial unbundling)

- | | |
|---|-------|
| • Rental of the copper pair and the ADSL splitter: | €2.90 |
| • Other costs (backhaul cables, room rental, optical fiber leasing payments, etc.): | €2.20 |

Operating costs under Option 1 (full unbundling)

- | | |
|--|-------|
| • Rental of the copper pair: | €9.00 |
| • Other costs (backhaul cables, room rental, optical fiber leasing payments, etc.): | €2.20 |
| • Option 5 (subscribers not on an unbundled line) , representing a France Télécom wholesale offer marketed by Free and Alice. | |

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

For the DSL Access offer, the monthly subscription fee was set at €10.40 effective from January 1, 2009 and was reduced to €9.30 as from July 1, 2009.

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

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

- | | |
|----------------------|--------|
| • Usage fee per Mbps | €19.00 |
| • Access fee | €3.80 |

Option 1 gross margin and EBITDA margin are significantly higher than Option 5 margins. The Group's objective is therefore to maximize the proportion of Option 1 subscribers by migrating its Option 5 subscribers to Option 1 or, where technically feasible, by directly offering Option 1 to new subscribers living in an area where the local loop has been unbundled. In the second half of 2009 the Group continued to migrate part of Alice's subscriber base from Option 5 to Option 1 thanks to the density of its network.

9. MANAGEMENT REPORT

9.1 OVERVIEW

9.1.3 Capital expenditure and depreciation

9.1.3.1 Broadband

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

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

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

- In 2009 the cost of the Freebox HD modems incorporating power line communication (PLC) technology and 802.11n WiFi remained stable at around €180. Since February 1, 2009 new Alice subscribers have been provided with the latest generation modems which also cost around €180.
- Fees invoiced by France Télécom for access to unbundling services are €50 per subscriber for full unbundling and €60 for partial unbundling.

All of these items (access fees and logistics, modem and DSLAM costs) are now depreciated over a period of four years as from the date they are brought into service, compared with the previously applicable three-year period. This change in accounting estimate – which was applied in order to more closely reflect the actual useful lives of the assets concerned – had a positive impact of approximately €77 million on the 2009 income statement.

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

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

Capitalized access fees are also depreciated over four years.

9.1.3.2 Rollout of an FTTH network

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

This network is being rolled out in four phases:

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

The Group acquires its ONs through its subsidiaries IRE and Immobilière Iliad. Most of the premises purchased are held by IRE and a large proportion is financed through 12-year leases. Immobilière Iliad has, however, acquired a number of sites in its own name.

9. MANAGEMENT REPORT

9.1 OVERVIEW

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

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

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

9.1.4 Gross profit and earnings before interest, tax, depreciation, amortization and share-based payment expense (EBITDA)

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

- Gross profit, which corresponds to revenues less purchases used in production.
- EBITDA, which corresponds to profit from ordinary activities before share-based payment expense, depreciation, amortization and provisions for impairment of non-current assets.

9.2 SIGNIFICANT EVENTS OF THE YEAR

Including Alice

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

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

Excluding Alice

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

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

Alice

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

9. MANAGEMENT REPORT

9.2 SIGNIFICANT EVENTS OF THE YEAR

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

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

9.3 COMPARISON OF RESULTS FOR 2009 AND 2008

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

Consolidated revenues and operating expenses disclosed in the financial statements do not match the sum of the segment revenues and expenses set out below, due to the elimination of inter-segment transactions, corresponding to transactions between Group companies belonging to different segments. The bulk of inter-segment transactions consists of billings to the Traditional Telephony segment of telecommunications services provided over the Free network. In all, inter-segment transactions amounted to €29.1 million in 2009 compared with €32.4 million in 2008.

Broadband operations now account for 98% of revenues and operating profit. An analysis of this business and its results is provided in section 1.1.3.1 below. This data is broken down both including and excluding the impact of the Alice acquisition and a separate summary of Alice's contribution in 2009 is also presented.

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

9.3.1 Analysis of results for the Broadband segment

The Broadband segment includes the following operations:

- Internet Service Provider (ISP) operations, both through the switched telephone network and via ADSL, marketed under the Alice, Free, Free Haut Débit and Free Télécom brands.
- Hosting and domain-name creation services, operated under the Online, Dedibox, BookMyName and Alice brands.
- Call center operations, carried out by Centrapel, Total Call and Free.

9. MANAGEMENT REPORT
9.3 COMPARISON OF RESULTS FOR 2009 AND 2008

- Optical fiber operations.
- The B2B operations of the Alice brand.
- Wimax activities operated by IFW.

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

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

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

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

9. MANAGEMENT REPORT

9.3 COMPARISON OF RESULTS FOR 2009 AND 2008

Revenues

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

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

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

ISP revenues

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

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total ADSL subscribers	4,456,000	4,225,000	2,904,000
• Free	3,778,000	3,389,000	2,904,000
• Alice	678,000	836,000	—
Percentage of unbundled subscribers	85.4%	78.7%	81.5%

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

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

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

Hosting and advertising revenues

The marketing of domain names in France, value-added hosting services and the sale of advertising space on the Free and Alice portals generated hosting and advertising revenues of €24 million in 2009, up from €20.1 million in 2008.

Inter-segment sales and other revenues

Inter-segment sales and other revenues correspond to airtime on Free's directly-operated network billed to the Traditional Telephony segment, and to sales of WiFi cards and related items. These revenues were lower than in 2008 due to the contraction in Traditional Telephony business volumes.

Gross profit

Including Alice

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

Excluding Alice

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

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

Alice

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

Payroll costs

Including Alice

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

Excluding Alice

During 2009, the Group continued to enhance its customer services and on April 2, Free was awarded NF Service certification for its call centers by AFNOR (France's standard-setting agency). In addition, it extended its Local Technical Assistance service to cover 250 towns and cities, providing immediate trouble-shooting solutions at subscribers' homes. And lastly, additional call advisers were recruited in order to shorten waiting times.

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

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

External charges

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

Taxes other than on income

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

9. MANAGEMENT REPORT

9.3 COMPARISON OF RESULTS FOR 2009 AND 2008

Additions to provisions

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

Other income and expenses from operations, net

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

The total includes royalties, bad debts (net of provision reversals), and gains and losses on asset disposals as well as provisions for charges relating to the consolidation of Alice.

EBITDA

Including Alice

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

Excluding Alice

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

Alice

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

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

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

Operating profit

Including Alice

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

Excluding Alice

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

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

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

Alice

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

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

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

9.3.2 Key figures for the Traditional Telephony segment

The Traditional Telephony segment's contribution to Group earnings is now negligible, owing to:

- The above-described strong rise in Broadband business.
- The end of indirect connections.
- To a lesser extent, the lower number of One.Tel subscribers.
- The discontinuation of Alice's Wholesale business.

<u>(in € millions)</u>	<u>2009</u>	<u>2008</u>	<u>% change</u>
Revenues	40.2	56.7	-29.1%
Gross profit	36.8	38.0	-3.2%
EBITDA	0.2	3.2	-93.8%
Profit/(loss) from ordinary activities	(1.1)	2.2	—

9.3.3 Cash flows and capital expenditure

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

Including Alice

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

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

Excluding Alice

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

9. MANAGEMENT REPORT

9.3 COMPARISON OF RESULTS FOR 2009 AND 2008

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

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

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

Alice

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

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

9.3.4 Consolidated debt

As far as Iliad is aware, the Group is not subject to any liquidity risk as a result of acceleration clauses contained in loan agreements entered into by Group companies or as a result of any breaches of financial covenants (ratios, targets, etc.). As of the date of this report, the Group's business had not been affected by the economic crisis and it remains confident about its profit-making capacity.

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

A €1,200 million syndicated loan

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

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

The interest rate on these credit facilities is based on Euribor plus a margin ranging between 1.45% and 0.70% depending on the Group's leverage ratio.

“OCEANE” bonds

On June 21, 2006, Iliad carried out an issue of 3,754,968 “OCEANE” bonds (convertible into new or existing shares) with a face value of €88.05 per bond, giving rise to net proceeds of €326.3 million. These bonds are redeemable in January 2012 and pay interest at 2.2%.

Finance lease commitments

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

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

9.3.5 Ownership structure at December 31, 2009

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

- Executive Management: 38,217,183 shares, representing 70% of the share capital.
- Public: 16,366,257 shares, representing 30% of the share capital.

At December 31, 2009, there were five Iliad stock option plans in place with the following main characteristics:

<u>Grant date</u>	<u>Exercise price</u>	<u>Exercise date</u>	<u>Number of shares to be issued on exercise of options</u>
January 20, 2004	€16.30	January 20, 2008	33,371
December 20, 2005	€48.44	December 20, 2009	141,176
December 20, 2005	€48.44	December 20, 2010	197,003
June 14, 2007	€74.62	June 13, 2012	162,455
August 30, 2007	€68.17	August 30, 2012	694,759
November 5, 2008	€53.79	November 5, 2013	589,400
Total			<u>1,818,163</u>

9.4 ADDITIONAL INFORMATION

9.4.1 Strategic objectives

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

(i) Operational objectives:

- Increase Broadband subscriber base to around 5 million by 2011, while maintaining a low customer acquisition cost.
- An unbundling subscriber rate of around 90% in the medium term.
- As part of the rollout of its FTTH network, the Group is standing by its objective of covering 4 million homes horizontally by end-2012.
- As part of its mobile telephony rollout, the Group has set itself the objectives of
 - covering 27% of the French population by January 2012
 - launching a commercial offering in 2012.

9. MANAGEMENT REPORT

9.4 ADDITIONAL INFORMATION

(ii) Financial objectives:

- Free cash flow from ADSL operations in excess of €1.1 billion between 2010 and 2012 (including Alice).
- A double digit rise in consolidated EBITDA in 2010 (including Alice).
- A strong increase in profit for 2010.
- Incremental EBITDA of €90 million (annualized basis) for Alice as of the second half of 2010.

9.4.2 *Events after the balance sheet date*

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

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

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

9.4.3 *Glossary*

In view of the discrepancies between operators' definitions concerning ADSL, Iliad wishes to reiterate the definitions it has been using since the inception of its services.

Broadband ARPU (Average Revenue per User) represents revenues from the flat-rate package and value-added services (excluding one-time revenues, e.g. migration from one offer to another or subscription start-up and termination fees), divided by the total number of ADSL subscribers invoiced for the period.

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

FTTH (fiber-to-the-home) is a data delivery technology that directly connects subscribers' homes to an optical node.

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

Net adds corresponds to the difference between Total ADSL subscribers at the end of two different periods.

Total ADSL subscribers at the end of a period represents the total number of subscribers identified by their individual "phone lines" who have signed up for Free's or Alice's ADSL service excluding those recorded as having requested the termination of their subscription.

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

10. CAPITAL RESOURCES

10. CAPITAL RESOURCES

The main information on cash flows, debt and equity is provided in Section 9 of this registration document, notably in Sections 9.3.3, 9.3.4 and 9.3.5.

At December 31, 2009, the Group's net debt to EBITDA ratio was 1.0.

Further information on capital resources is provided in Section 4.3.2 above and Notes 26 and 29 to the 2009 consolidated financial statements in Section 20.1.

11. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

11.1 RESEARCH AND DEVELOPMENT

11. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

11.1 RESEARCH AND DEVELOPMENT

Iliad does not directly incur any research and development costs and Freebox bears these costs for the Group as a whole. They include expenses incurred for (i) designing new products; (ii) adapting existing products to the Internet; (iii) research or the creation of databases for new applications; and (iv) developing marketing strategies for new products.

The Group's research and development policy was initially structured around two main objectives: offering differentiated services to subscribers using dedicated equipment and reducing costs relating to the construction and operation of its network.

It was with these two objectives in mind that Freebox SAS developed the Freebox modems and decoders and the Freebox DSLAMs installed by Free. The Group intends to continue to develop in-house the architecture of the equipment used both in the operation of its network and in the provision of services to its subscribers, as well as software applications based on open source software such as Linux which are used by all Group companies.

The team responsible for the Group's research and development is based at Freebox SAS and is composed of 24 employees, of whom 23 work entirely on R&D activities.

In 2009, the Group devoted €1.8 million to research work (€1.6 million in 2008), mainly relating to broadband operations.

The aim of the Group's research and development policy is to develop network architectures and software solutions that are tailored to specific offerings and needs, and to ensure that the corresponding equipment can be easily assembled by third party manufacturers under optimal financial terms. The R&D team is continuing to work on other technologies still in the experimental stage, while maintaining a technology watch on areas such as the use of WiFi networks and the development of fiber-to-the-home technology.

11.2 INTELLECTUAL PROPERTY

11.2.1 Patents

At the date this registration document was filed, the Group had filed ten patents relating to optical fiber and multimedia data transmission.

11.2.2 Trademarks

The Company acquired the right to use the Alice trademark on August 26, 2008.

See Section 4.4.3 of this registration document for further information on intellectual property.

12. TREND INFORMATION

12. TREND INFORMATION

The Group's operations had not been affected by the economic crisis as of the date this registration document was filed, and it remains confident in its profit-making capacity.

Information concerning events after the balance sheet date of December 31, 2009 is presented in Section 9.4.2 of this registration document.

13. PROFIT FORECASTS OR ESTIMATES

13. PROFIT FORECASTS OR ESTIMATES

The Company does not issue any profit forecasts or estimates. However, it has issued the following objectives:

(i) Operational objectives

- Continued growth in the subscriber base, while keeping subscriber acquisition costs low, with a view to having some 5 million broadband subscribers in 2011.
- A 90% unbundling rate for the Group as a whole, to be achieved in the medium term.
- As part of the rollout of its FTTH network, the Group (i) plans to cover most of Paris horizontally within a year and (ii) is standing by its objective of covering 4 million homes horizontally by end-2012.
- As part of its mobile telephony project:
 - To cover 27% of the French population by January 2012.
 - To launch a commercial offering in early-2012.

(ii) Financial objectives:

- Aggregate free cash flow from ADSL operations in excess of €1.1 billion between 2010 and 2012 (including Alice).
- Double-digit growth in consolidated EBITDA in 2010 (including Alice).
- A very strong increase in profit for 2010.
- Incremental EBITDA of €90 million (annualized basis) for Alice as of the second half of 2010.

14. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

14.1 MEMBERS OF THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

14. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

14.1 MEMBERS OF THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

14.1.1 Members of the Board of Directors

The table below sets out the names of the members of the Board of Directors during 2009, the date on which they were first elected and the expiration date of their current term of office. It also shows the main positions they hold outside the Group, as well as any positions they have held in administrative, management or supervisory bodies of French and foreign companies outside the Group during the past five years.

Name	Date first elected	Expiration of current term ¹⁵	Main positions and directorships held outside the Group	Positions and directorships that have expired in the past five years ¹⁶
Chairman of the Board of Directors				
Cyril Poidatz	December 12, 2003	2012	N/A	N/A
Chief Executive Officer and a director				
Maxime Lombardini	May 29, 2007	2010	N/A	N/A
Senior Vice-President and a director				
Xavier Niel	December 12, 2003	2012	<ul style="list-style-type: none"> • Director of Ateme • Director of Elysées Capital • Director of Atelier 37 • Director of Sons 	N/A
Antoine Levavasseur	May 27, 2005	2012	N/A	N/A
Directors				
Thomas Reynaud ¹⁷	May 29, 2008	2011	N/A	N/A
Olivier Rosenfeld	December 12, 2003	2012	<ul style="list-style-type: none"> • Legal Manager of Levary SPRL • Member of the Supervisory Board of LowendalMassai SA • Member of the Supervisory Board of Iway Holdings SAS • Director of Open ERP SA 	N/A
Independent directors				
Alain Weill	December 12, 2003	2012	<ul style="list-style-type: none"> • Chairman and CEO of NextRadio TV SA • Chairman of BFM TV (SASU) • Chairman of RMC (SASU) • Chairman of RMC Régie (SASU) • Chairman of RMC Sport (SASU) • Chairman of Business FM (SASU) • Chairman of News Participations (SAS) • Chairman of WMC (SASU) • Chairman of Groupe 01 (SASU) • Chairman of 01 Régie (SASU) • Chairman of Pôle Electro (SASU) • Chairman of La Tribune Holding (SAS) • Chairman of La Tribune Régie (SASU) • Chairman of La Tribune Desfossés (SASU) • Chairman of Paris Portage (SAS) • Permanent representative of RMC on the Board of Directors of Médiamétrie SA 	<ul style="list-style-type: none"> • Chairman of Internext (SAS) • Legal Manager of GT LABS (SARL) • Chairman of Seliser • Chairman and CEO of Cadre Online

¹⁵ Each director's term of office expires at the close of the Annual Shareholders' Meeting called to approve the financial statements for the year stated.

¹⁶ In companies other than Group subsidiaries.

¹⁷ On March 18, 2010, Iliad's Board of Directors approved the recommendation of the Chief Executive Officer and appointed Thomas Reynaud as a Senior Vice-President of the Company.

14. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

14.1 MEMBERS OF THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

Name	Date first elected	Expiration of current term of office	Main positions and directorships held outside the Group	Positions and directorships that have expired in the past five years ¹⁶
Pierre Pringuet	July 25, 2007	2012	<ul style="list-style-type: none"> Director and Chief Executive Officer of Pernod Ricard Director of Cap Gemini 	N/A
Marie-Christine Levet	May 29, 2008	2011	N/A	<ul style="list-style-type: none"> Director of Adenclassifieds
			<p>French companies</p> <ul style="list-style-type: none"> Chairman of NT1 (SAS) Chairman of Knightly Investments (SAS) Director of Groupe AB (SAS) Director of Elig Media (SA) Director of Monte-Carlo Participation (SAS) <p>Foreign companies</p> <ul style="list-style-type: none"> Director of Télé Monte-Carlo (Monaco) Director of BTV (Belgium) Director of WB Television (Belgium) Director of RTL 9 (Luxembourg) Director of AB Luxembourg (Luxembourg) 	<p>French companies</p> <ul style="list-style-type: none"> Chairman of AB1 (SAS) (May 2009) Chairman of AB Productions (SAS) (November 18, 2005) Chairman and CEO of ABNT (SA) (January 2009) Director of Raphaël Films (November 19, 2009) Permanent representative on the Supervisory Board of AB SAT (June 30, 2006) <p>Foreign companies</p> <ul style="list-style-type: none"> Director of Capital Media Group Limited (USA) (March 2005)
Orla Noonan	June 23, 2009	2012		<ul style="list-style-type: none"> Chairman of Endemol Développement Chairman and CEO of Endemol France
Virginie Calmels	June 23, 2009	2012		<ul style="list-style-type: none"> Chairman of Case Productions (October 2007) Chairman of Usual Productions (October 22, 2007) Chairman of Seca Productions (October 22, 2007) Chairman of Nao (April 21, 2009) Chairman of DVD Prod (April 21, 2009) Chairman of Endémol Jeux (April 21, 2009) Chairman of Tête de Prod (April 21, 2009) Chairman of Orevi (April 21, 2009) Chairman of Endemol Fiction (April 21, 2009)
Antoinette Willard ¹⁷	February 6, 2007	2008	<ul style="list-style-type: none"> Director of Ixis Convergence Director of Ixis Monde Obligations 	N/A

At the Ordinary Shareholders' Meeting held on June 23, 2009, the Company's shareholders renewed the terms of office of Cyril Poidatz, Xavier Niel, Antoine Levavasseur, Olivier Rosenfeld, Alain Weill and Pierre Pringuet.

On March 18, 2010, the Board of Directors reviewed whether each director could be deemed to be independent, based on the criteria set down in the Board's internal rules.

¹⁶ In companies other than Group subsidiaries.

¹⁷ Antoinette Willard's term of office expired at the close of the Annual Shareholders' Meeting of June 23, 2009.

14. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

14.1 MEMBERS OF THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

For the year ended December 31, 2009, the Board comprised six independent directors, as follows: Alain Weill, Marie-Christine Levet, Pierre Pringuet, Antoinette Willard,¹⁸ Orla Noonan¹⁸ and Virginie Calmels¹⁸.

14.1.2 *Members of the senior management team*

At the date this registration document was filed, the Company's senior management team comprised the following members:

<u>Name</u>	<u>Position</u>	<u>Date first appointed</u>	<u>Expiration of current term of office¹⁹</u>
Maxime Lombardini	Chief Executive Officer	June 14, 2007	2010
Xavier Niel	Senior Vice-President	June 14, 2007	2010
Antoine Levavasseur	Senior Vice-President	June 14, 2007	2010
Rani Assaf ²⁰	Senior Vice-President	June 14, 2007	2010
Thomas Reynaud	Senior Vice-President	March 18, 2010	2010

On March 18, 2010 the Board of Directors examined the terms of office of the Company's Senior Vice-Presidents.

14.1.3 *Personal information concerning the Company's directors and senior management team*

The biographies of the members of the Company's Board of Directors and senior management team are provided below.

Cyril Poidatz

Aged 48, French nationality

Before joining the Group, Cyril Poidatz worked for ten years at Cap Gemini. For several years he served as Finance Director for Cap Gemini Italia, heading the restructuring of Cap Gemini's Italian divisions. Cyril Poidatz began his career as an auditor with Coopers & Lybrand. He joined the Group in 1998.

Maxime Lombardini

Aged 44, French nationality

Maxime Lombardini is a graduate of Sciences Po Paris and holds a degree in business and tax law (Paris II – Assas). He joined the Bouygues Group in 1989 and held successive positions as General Secretary of TPS, Development Director of TF1 and Chief Executive Officer of TF1 Production. He has been Chief Executive Officer and a director of Iliad since 2007.

Xavier Niel

Aged 42, French nationality

Xavier Niel is the Group's founder and majority shareholder. He has been active in the data communications, Internet and telecommunications industry since the late 1980s. Prior to devoting himself full-time to the Group's development, in 1993 he founded France's first ISP, Worldnet, which was sold to Kaptech (LDCOM Group) in December 2000. Xavier Niel is the architect behind the Group's major strategic developments, from the launch of the ANNU service to its Internet access offer (based on the business model of France Telecom's repayment scheme) to the launch of the Freebox project.

¹⁸ As from their appointment on June 23, 2009.

¹⁹ Each term of office expires at the close of the Annual Shareholders' Meeting called to approve the financial statements for the year stated.

²⁰ Rani Assaf has not held any administrative, management or supervisory position in any French or foreign company outside the Group during the past five years.

14. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

14.1 MEMBERS OF THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

Antoine Levasseur

Aged 32, French nationality

Antoine Levasseur holds an engineering degree from the French engineering school EFREI. He joined Iliad in 1999 as manager of Free's system platform and servers. Since 1999, he has been involved in developing the subscriber management information system and operating and developing the email platforms, web servers and applications used by subscribers.

Thomas Reynaud

Aged 36, French nationality

Thomas Reynaud is a graduate of HEC business school and New York University. He joined Iliad in the summer of 2007 as Head of Business Development and member of the Management Committee before becoming Chief Financial Officer of the Group on January 1, 2008. Prior to joining Iliad, Thomas Reynaud held the position of Managing Director in charge of the Telecoms, Media and Technology sector at Société Générale. During the ten years he spent with the bank, he worked in both the Paris and New York offices, in the Debt then Equity Capital Markets departments, leading numerous transactions in connection with IPOs, privatizations and equity and debt offerings. He has acted as advisor to the Iliad Group since 2003, notably for the Group's IPO in 2004 and convertible bond issue in 2006.

Olivier Rosenfeld

Aged 39, Belgian nationality

A graduate of the École de Commerce Solvay, Olivier Rosenfeld began his career with Merrill Lynch's investment banking division, where he worked on privatization projects before joining the Goldman Sachs team handling primary issues in New York and Hong Kong. He was Chief Financial Officer of Iliad between January 2001 and January 2008.

Alain Weill

Aged 49, French nationality

Alain Weill holds a degree in economics and an MBA from the HEC business school. Between 1985 and 1989 he was Network Director for NRJ SA, then Chief Executive Officer of Quarare (Sodexo Group). In 1990, he joined the management team of Compagnie Luxembourgeoise de Télédiffusion (CLT), then became Chairman and Chief Executive Officer of the M 40 network, a subsidiary of CLT and the Spanish group SER. In 1992, he was appointed to the senior management team of the NRJ Group, followed by NRJ Régies in 1995, where he has served as Deputy Chairman of the Management Board since 1997. He has served as Chairman of NextRadio TV since November 8, 2000, and is also Chairman of RMC, RMC Régie, BFM, BFM TV, Groupe 01 and La Tribune newspaper.

Pierre Pringuet

Aged 60, French nationality

After graduating from Ecole Polytechnique and Ecole des Mines Pierre Pringuet began his career in the French public sector at the French Ministry of Industry in 1975. Between 1981 and 1983, he worked at the Ministry of Planning and Development as a technical advisor to Michel Rocard's cabinet before joining the Agriculture Ministry in 1983 where he held the position of Agriculture and Food Industries Director between 1985 and 1987. He then joined the Pernod Ricard Group, where he successively held the positions of Development Director, Managing Director of Société pour l'Exportation des Grandes Marques (SEGM) and from 1997, Chairman and CEO of Pernod Ricard Europe. He was subsequently appointed joint Chief Executive Officer of the Pernod Ricard Group in 2000 and a member of the Pernod Ricard Board on May 17, 2004 and has held the position of sole Chief Executive Officer since November 5, 2008.

14. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

14.1 MEMBERS OF THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

Marie-Christine Levet

Aged 43, French nationality

Marie-Christine Levet holds a degree from HEC business school and an MBA from INSEAD. She began her career at Accenture before joining Disney then Pepsico where she held marketing and strategy positions. Over the last ten years, Marie-Christine Levet has gained a wealth of experience in the internet and telecoms sector. In 1997 she founded Lycos France and raised it to the position of second-leading French portal in 2000. In 2001 she took on the role of Chairman at Club-Internet following the company's acquisition by Deutsche Telekom. In this position – which she held until July 2007 – she significantly developed Club-Internet's broadband content and services offerings. From 2004 to 2005 she also chaired the A.F.A. (French Association of Internet Service Providers), which represents the interests of market players with respect to the public authorities. Between 2008 and January 2010, Marie-Christine Levet managed the high-tech information group, Tests, and the internet business of the Nextradio group.

Orla Noonan

Aged 40, Irish nationality

A graduate of HEC business school and Trinity College Dublin, Orla Noonan has been a director and General Secretary of the AB Group since 1999 and is currently responsible for managing all of the AB Group's financial and regulatory affairs. She has also been Chairman of the NT1 television channel since DTT was launched in France in 2005. Orla Noonan began her career with the investment bank Salomon Brothers in London, where she participated in several M&A transactions, particularly in the media and telecoms sector. She then joined the AB Group in 1996, working first on IPOs in New York and Paris and then on external growth transactions such as the acquisitions of the television channels RTL9 and TMC.

Virginie Calmels

Aged 39, French nationality

Virginie Calmels is a graduate of Toulouse Ecole Supérieure de Commerce (ESC) and holds a postgraduate degree in accounting and finance. She is also a certified accountant and a graduate of the Advanced Management Program (AMP) of INSEAD. Virginie Calmels has held the positions of Chairman and Chief Executive Officer of Endemol France since October 2007 and Chairman of Endemol Développement since September 2006. She began her career in 1993 with the audit firm Salustro Reydel, as an Auditor and then Engagement Manager. She joined the Canal+ group in 1998 as Finance Director of NC Numéricable, before becoming Chief Financial Officer of Sky Gate BV in Amsterdam (Netherlands). In 2000 she became Finance Director of the Canal+ group's international and development divisions and subsequently served as Chief Financial Officer of Canal+ SA between 2000 and 2002, before being appointed as the group's Deputy Chief Executive Officer and then joint Chief Operating Officer. Virginie Calmels joined the Endemol France group in 2003 as CEO and was appointed Chairman and CEO in October 2007. She has also held the position of Vice-Chairman of SPECT (the French Union of producers and creators of television programs) since its formation in 2004 and has been a director of the CEPS research center since July 2009.

Antoinette Willard

Aged 61, French nationality

Antoinette Willard holds a degree from Institut d'Etudes Politiques de Paris, an advanced postgraduate degree in management from the University of Paris-Dauphine and a language degree from Ecole Nationale des Langues Orientales Vivantes. She began her career at Crédit Lyonnais as an economist and subsequently a market strategist, before focusing on asset management. In 1994 she was appointed Head of Fixed Income at Banque de Gestion Privée and then went on to become CEO of Transoptions Gestion, the bank's subsidiary in charge of managing derivatives. In 1998 she joined CDC IXIS Asset Management as Head of Fixed Income and Alternative and Structured Products. She subsequently joined the bank's parent company, IXIS, where she held the post of senior advisory banker in charge of French and European Financial Institutions between 2002 and 2005.

14. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

14.1 MEMBERS OF THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

Rani Assaf

Aged 35, French nationality

Rani Assaf is in charge of the Group's IP and telecom network and the rollout of its DSL network. He joined the Group in 1999 and since then has been involved in setting up the Group's IP network infrastructure. He is also one of the founders of the Freebox project.

The members of the Board of Directors and senior management team can be contacted at the Company's head office.

There are no family relationships between the Company's corporate officers.

To the best of the Company's knowledge, in the past five years, none of the members of the Board of Directors or senior management team have been:

- convicted of fraud, charged with any other offence or had any official public disciplinary action taken against them by statutory or regulatory authorities;
- involved in a bankruptcy, receivership or liquidation as a corporate officer or director;
- disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

14.2 ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT CONFLICTS OF INTEREST

At the date this registration document was filed, there were no potential conflicts of interest between any duties to the Company owed by the persons referred to in Section 14.1 above and their private interests and/or other duties. In addition to the provisions of the French Commercial Code concerning related-party agreements, the Board of Directors' internal rules specify that all directors must inform the Board whenever they are aware of any actual or potential conflict of interest in which they may be directly or indirectly involved and they must abstain from discussing and voting on the issues concerned. Directors are required to resign in the event of a permanent conflict of interest.

The Board of Director's organizational and operating structure enables it to prevent any abusive exercise of control by a shareholder, notably due to the fact that there are five independent directors on the Board.

No arrangements or understandings with major shareholders, customers or suppliers have been entered into pursuant to which a representative of the shareholder, customer or supplier concerned was selected as a member of Iliad's Board of Directors or senior management team.

At the date this registration document was filed, to the best of the Company's knowledge, none of the persons referred to in Section 14.1 above have agreed to any restrictions on the disposal within a certain time period of their holdings in the Company's capital, apart from (i) the two-week periods preceding the release of quarterly, half-yearly and annual results figures and (ii) the requirement set out in the bylaws that each director must hold at least one hundred Iliad shares.

**14. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES
AND SENIOR MANAGEMENT**

14.3 DIRECTORS' AND SENIOR MANAGERS' INTERESTS IN THE COMPANY AND THE GROUP

14.3 DIRECTORS' AND SENIOR MANAGERS' INTERESTS IN THE COMPANY AND THE GROUP

At March 31, 2010, Iliad's directors and senior managers held the following interests in the Company:

<u>Shareholder</u>	<u>Shares</u>	<u>Percentage of share capital</u>	<u>Percentage of voting rights</u>
Xavier Niel	34,967,050	64.04%	61.90%
Antoine Levavasseur	537,324	0.98%	1.88%
Rani Assaf	942,590	1.73%	3.29%
Cyril Poidatz	670,307	1.23%	2.30%
Olivier Rosenfeld	263,596	0.48%	0.46%
Maxime Lombardini	100	0.00%	0.00%
Alain Weill	30	0.00%	0.00%
Antoinette Willard ²¹	0	0.00%	0.00%
Pierre Pringuet	2,037	0.00%	0.00%
Thomas Reynaud	150	0.00%	0.00%
Marie-Christine Levet	150	0.00%	0.00%
Virginie Calmels	150	0.00%	0.00%
Orla Noonan	300	0.00%	0.00%
Total	<u>37,383,784</u>	<u>68.47%</u>	<u>69.84%</u>

In addition, certain of Iliad's directors and senior managers hold interests in the Company's subsidiaries, as follows:

- **Freebox:** Xavier Niel, Cyril Poidatz, and Antoine Levavasseur each hold one share in Freebox, and Rani Assaf holds 338 shares, representing total interests of approximately 1.36% of the company's capital and voting rights.
- **One.Tel:** Cyril Poidatz holds one share in One.Tel, which does not represent a significant holding in the company.
- **Centrapel:** Xavier Niel and Cyril Poidatz each hold one share in Centrapel, representing an aggregate of approximately 0.01% of the company's capital and voting rights.
- **Assunet:** Xavier Niel holds one share in Assunet, representing approximately 0.02% of the company's capital and voting rights.

²¹ Antoinette Willard's term of office expired at the close of the Annual Shareholders' Meeting of June 23, 2009.

15. COMPENSATION AND BENEFITS

15.1 COMPENSATION PAID TO SENIOR MANAGERS

15. COMPENSATION AND BENEFITS

15.1 COMPENSATION PAID TO SENIOR MANAGERS

In this section the term “senior managers” refers to members of Iliad’s management team who exercise executive functions and also hold a corporate officer’s position (*dirigeants mandataires sociaux*). The data disclosed also includes information concerning Cyril Poidatz – the Chairman of the Board of Directors.

15.1.1 Senior management compensation policy

The Group’s senior management compensation policy is defined by the Board of Directors, which has demonstrated its intention to provide clear and transparent information by adopting the AFEP-MEDEF Corporate Governance Code. As Iliad does not currently have a Compensation Committee, decisions on compensation policy are taken by the Board as a whole, including the Company’s independent directors. Executive directors on the Board do not vote on matters concerning their own compensation.

The Board’s objective is to provide senior managers with competitive compensation packages that increase annually at a steady rate.

Decisions concerning salary increases and payment methods are straightforward and clear. Senior managers on the Board do not receive directors’ fees and their compensation solely comprises a fixed salary.

15. COMPENSATION AND BENEFITS

15.1 COMPENSATION PAID TO SENIOR MANAGERS

15.1.2 Summary table of compensation and stock options awarded to senior managers in 2008 and 2009

	2008	2009
CYRIL POIDATZ		
Compensation payable for the year	139,200	148,800
Value of stock options granted	N/A	N/A
Value of performance shares granted during the year	N/A	N/A
Total	139,200	148,800
MAXIME LOMBARDINI		
Compensation payable for the year	342,000	372,000
Unit value of stock options granted ²²	18.97	N/A
Value of performance shares granted during the year	N/A	N/A
Total	1,859,640	372,000
XAVIER NIEL		
Compensation payable for the year	173,040	173,040
Value of stock options granted	N/A	N/A
Value of performance shares granted during the year	N/A	N/A
Total	173,040	173,040
ANTOINE LEVAVASSEUR		
Compensation payable for the year	142,200	162,600
Value of stock options granted	N/A	N/A
Value of performance shares granted during the year	N/A	N/A
Total	142,200	162,600
RANI ASSAF		
Compensation payable for the year	130,710	146,760
Value of stock options granted	N/A	N/A
Value of performance shares granted during the year	N/A	N/A
Total	130,710	146,760
FRANCK BRUNEL²³		
Compensation payable for the year	146,686	N/A
Value of stock options granted	N/A	N/A
Value of performance shares granted during the year	N/A	N/A
Total	146,686	N/A

²² The unit value, rounded to the nearest euro cent, corresponds to the valuation at the grant date as recorded in the consolidated financial statements. This valuation represents a theoretical amount, and any gains actually realized will depend on the share price at the date the underlying shares are sold.

²³ Franck Brunel resigned from his position as Senior Vice-President on December 5, 2008, with effect from December 31, 2008.

15. COMPENSATION AND BENEFITS

15.1 COMPENSATION PAID TO SENIOR MANAGERS

15.1.3 Fixed and variable compensation and benefits in kind paid to senior managers in 2008 and 2009

Fixed and variable compensation and benefits in kind paid to senior managers in 2009

	<u>Position</u>	<u>Fixed portion²⁴</u>	<u>Variable portion</u>	<u>Benefits in kind</u>	<u>Total</u>
Cyril Poidatz	Chairman of the Board of Directors	148,800	N/A	N/A	148,800
Maxime Lombardini	Director/Chief Executive Officer	372,000	N/A	N/A	372,000
Xavier Niel	Director/Senior Vice-President	173,040	N/A	N/A	173,040
Antoine Levavasseur	Director/Senior Vice-President	162,600	N/A	N/A	162,600
Rani Assaf	Senior Vice-President	146,760	N/A	N/A	146,760

Fixed and variable compensation and benefits in kind paid to senior managers in 2008

	<u>Position</u>	<u>Fixed portion²⁴</u>	<u>Variable portion</u>	<u>Benefits in kind</u>	<u>Total</u>
Cyril Poidatz	Chairman of the Board of Directors	139,200	N/A	N/A	139,200
Maxime Lombardini	Director/Chief Executive Officer	342,000	N/A	N/A	342,000
Xavier Niel	Director/Senior Vice-President	173,040	N/A	o/w 21,891 ²⁵	173,040
Rani Assaf	Senior Vice-President	130,710	N/A	N/A	130,710
Franck Brunel ²	Senior Vice-President	146,686	N/A	N/A	146,686
Antoine Levavasseur	Director/Senior Vice-President	142,200	N/A	N/A	142,200

15.1.4 Directors' fees and exceptional compensation

Senior managers do not receive directors' fees or exceptional compensation.

15.1.5 Employment contracts held by corporate officers

<u>Name</u>	<u>Employment contract</u>		<u>Defined benefit pension scheme</u>		<u>Compensation or benefits due or payable for termination or change of position</u>		<u>No-compete indemnities</u>	
	<u>Yes</u>	<u>No</u>	<u>Yes</u>	<u>No</u>	<u>Yes</u>	<u>No</u>	<u>Yes</u>	<u>No</u>
Cyril Poidatz								
Chairman of the Board of Directors		x		x		x		x
Maxime Lombardini								
Chief Executive Officer	x			x		x		x

Within the Company there are no:

- Specific pension schemes in place for senior managers.
- Leaving bonuses.
- Commitments given to senior managers by the Company that provide for the payment of indemnities and/or benefits relating to or resulting from the termination of their duties within the Company.
- Indemnities payable to senior managers under no-compete clauses.

The AFEP-MEDEF Corporate Governance Code for listed companies, which the Company uses as its benchmark for corporate governance issues, recommends that corporate officers should not hold an employment contract during their term of office. The Board of Directors agrees with this recommendation which is aimed at ensuring that corporate officers can be removed from office immediately and without compensation where necessary.

²⁴ The amount shown corresponds to the sum due and actually paid.

²⁵ This benefit in kind consists of accommodation provided between January 1, 2008 and March 31, 2008.

15. COMPENSATION AND BENEFITS

15.1 COMPENSATION PAID TO SENIOR MANAGERS

Although Maxime Lombardini holds an employment contract his situation still complies with the AFEP-MEDEF's recommendations on executive directors' compensation because his term of office was in progress when these recommendations were published. His situation will be reviewed when his term of office comes up for renewal in 2010.

15.1.6 Stock options granted to and/or exercised by senior managers in 2008 and 2009

Stock option policy for senior managers

For many years the Company has regularly granted stock options under attractive conditions. The objective of this policy is to fairly reward the Group's executives, while at the same time extending the scope of beneficiaries to include all employees who make a significant contribution to enhancing and developing the Company's business.

Stock options granted to senior managers in 2009 by Iliad or any other Group company

<u>Name of beneficiary</u>	<u>Grant date</u>	<u>Valuation of the options based on the method used for the consolidated financial statements</u>	<u>Number of options granted during the year</u>	<u>Exercise price</u>	<u>Exercise period</u>
Cyril Poidatz					
Maxime Lombardini					
Xavier Niel	No stock options were granted in 2009				
Antoine Levavasseur					
Rani Assaf					

Stock options granted to senior managers in 2008 by Iliad or any other Group company

<u>Name of the beneficiary</u>	<u>Grant date</u>	<u>Valuation of the options based on the method used for the consolidated financial statements</u>	<u>Number of options granted during the year</u>	<u>Exercise price</u>	<u>Exercise period</u>
Cyril Poidatz			N/A		
Maxime Lombardini	November 5, 2008	1,517,640	80,000	53.79	November 5, 2013 November 4, 2018
Xavier Niel			N/A		
Antoine Levavasseur			N/A		
Rani Assaf			N/A		
Olivier Rosenfeld			N/A		

The French law dated December 30, 2006 relating to the promotion of employee profit-sharing and share ownership schemes introduced new provisions – which were integrated into Article L.225-185 of the French Commercial Code – concerning stock options granted to corporate officers. Under these new provisions, when a company grants stock options to its corporate officers, the Board of Directors must either (i) decide that the options cannot be exercised by the beneficiaries until they no longer hold the position of corporate officer, or (ii) set a number of shares that the beneficiaries are required to hold in registered form following exercise of their options, until they leave their position as corporate officer. These provisions are applicable to the plans set up subsequent to the date on which the above-described law came into force.

In accordance with these provisions, Maxime Lombardini is required to hold in registered form 4,000 of the shares allocated to him on exercise of his stock options.

15. COMPENSATION AND BENEFITS

15.1 COMPENSATION PAID TO SENIOR MANAGERS

Stock options exercised by senior managers in 2008 and 2009

In 2009:

<u>Name of beneficiary</u>	<u>Grant date</u>	<u>Number of options exercised during the year</u>	<u>Exercise price</u>
Cyril Poidatz	December 20, 2005	20,307	48.44
Antoine Levavasseur	December 20, 2005	20,307	48.44

No senior managers exercised any stock options in 2008.

A list of the ten employees who received the most stock options is provided in Section 17.2.2 of this registration document and a list setting out all of the stock options plans set up is provided in Section 21.1.4.1.

15.1.7 Performance shares granted to or which became available for senior managers in 2008 and 2009

Shareholder-approved performance share grants to senior managers

<u>Name of beneficiary</u>	<u>Plan number and date</u>	<u>Number of shares granted during the year</u>	<u>Valuation of the shares based on the method used for the consolidated financial statements</u>	<u>Vesting date</u>	<u>End of lock-up period</u>
Cyril Poidatz					
Maxime Lombardini					
Xavier Niel					
Antoine Levavasseur					
Rani Assaf					

No performance shares were granted in 2008 or 2009

Number of performance shares that become available to senior managers in 2009

<u>Name of beneficiary</u>	<u>Plan number and date</u>	<u>Number of performance shares that became available during the year</u>	<u>Vesting conditions</u>
Cyril Poidatz			
Maxime Lombardini			
Xavier Niel			
Antoine Levavasseur			
Rani Assaf			

No senior managers have ever received any performance shares

15.2 COMPENSATION PAID TO NON-EXECUTIVE DIRECTORS

Directors' fees are only paid to independent directors who are private individuals and who are not salaried employees of a Group company.

Article 9 of the Board of Directors' internal rules states the following: "The amounts and allocation of directors' fees are decided annually by the Board, based on recommendations put forward by the Compensation Committee where appropriate, subject to the aggregate amount set by the Company's shareholders in an Ordinary Shareholders' Meeting."

At the Annual Shareholders' Meeting of June 23, 2009, the Company's shareholders resolved to allocate a maximum aggregate amount of €90,000 in directors' fees to Iliad's independent directors. At its meeting of June 30, 2009, the Board decided to allocate directors' fees among the Company's independent directors as shown in the table below. The allocated amounts take into account directors' actual attendance at Board meetings and whether they sit on any Board Committees.

Apart from Thomas Reynaud, no non-executive directors received any other form of compensation from any Group company.

15. COMPENSATION AND BENEFITS
15.2 COMPENSATION PAID TO NON-EXECUTIVE DIRECTORS

The table below sets out the allocation of directors' fees and other compensation paid in 2009 and 2008 to the Company's non-executive directors.

At the Annual Shareholders' Meeting of May 25, 2010, the Company's shareholders will be asked to set the amount of directors' fees to be allocated among Iliad's independent directors at €100,000 for 2010.

Directors' fees and other compensation paid to non-executive directors

<u>Non-executive directors</u>	<u>Amount paid in 2008</u>	<u>Amount paid in 2009</u>
Alain Weil		
Directors' fees	15,000	17,500
Other compensation	N/A	N/A
Antoinette Willard		
Directors' fees	15,000	7,500
Other compensation	N/A	N/A
Pierre Pringuet		
Directors' fees	15,000	17,500
Other compensation	N/A	N/A
Jean Louis Missika²⁶		
Directors' fees	N/A	N/A
Other compensation	45,000 ²⁷	N/A
Marie-Christine Levet		
Directors' fees	15,000	17,500
Other compensation	N/A	N/A
Olivier Rosenfeld²⁸		
Directors' fees	N/A	N/A
Other compensation	21,858	N/A
Thomas Reynaud²⁹		
Directors' fees	N/A	N/A
Other compensation ³⁰	342,000	372,000
Orla Noonan		
Directors' fees	N/A	10,000
Other compensation	N/A	N/A
Virginie Calmels		
Directors' fees	N/A	10,000
Other compensation	N/A	N/A

15.3 AGREEMENTS ENTERED INTO BY THE COMPANY OR MEMBERS OF THE GROUP WITH THE COMPANY'S SENIOR MANAGERS OR PRINCIPAL SHAREHOLDERS

Agreement for Rani Assaf to sell shares in Freebox to Iliad (authorized prior to its signature at the March 17, 2009 meeting of the Board of Directors). The shares were sold for €240,000.

Agreement entered into by an Iliad subsidiary with BFM TV, represented by Alain Weill (authorized prior to its signature at the March 17, 2009 meeting of the Board of Directors).

Current account agreement between Xavier Niel and Iliad (authorized prior to its signature at the February 9, 2005 meeting of the Board of Directors). Xavier Niel's current account had a credit balance of €3,565 at December 31, 2009 and no interest was paid in relation to this account during the year.

15.4 LOANS AND GUARANTEES GRANTED TO SENIOR MANAGERS

To date, no loans or guarantees have been granted or issued to any of the members of the Company's administrative or management bodies.

²⁶ Jean-Louis Missika stepped down from his position as a director on April 22, 2008 with effect from April 1, 2008.

²⁷ Fees paid to Jean-Louis Missika SAS.

²⁸ Fees paid to Levary Sprl.

²⁹ The Board of Directors appointed Thomas Reynaud as a Senior Vice-President on March 18, 2010.

³⁰ Compensation paid in relation to Thomas Reynaud's duties as Iliad's Chief Financial Officer and Head of Business Development. Thomas Reynaud was also granted 80,000 stock options in 2008 (see Section 21.1.4.1).

16. FUNCTIONING OF THE COMPANY'S ADMINISTRATIVE AND MANAGEMENT BODIES

16.1 ORGANIZATION OF THE COMPANY'S ADMINISTRATIVE AND MANAGEMENT BODIES

16. FUNCTIONING OF THE COMPANY'S ADMINISTRATIVE AND MANAGEMENT BODIES

16.1 ORGANIZATION OF THE COMPANY'S ADMINISTRATIVE AND MANAGEMENT BODIES

As required by law, the Company is managed either by the Chairman of the Board of Directors, who then has the title of Chairman and Chief Executive Officer, or by another person appointed by the Board of Directors with the title of Chief Executive Officer. The Board of Directors selects one of these two options for managing the Company based on an absolute majority of the directors present and represented at the Board meeting concerned.

On December 12, 2003, the Board of Directors decided to segregate the functions of Chairman of the Board and the Chief Executive Officer, with a view to ensuring (i) a clear separation between executive powers and the role of the Board of Directors and (ii) transparent relations with the markets and shareholders.

The Company's executive management is therefore carried out under the responsibility of an individual appointed by the Board who holds the title of Chief Executive Officer. The Chief Executive Officer has the broadest powers to act on behalf of the Company in all circumstances within the scope of the corporate purpose, and except for those matters which by law may only be dealt with in Shareholders' Meetings or by the Board of Directors.

The Chief Executive Officer represents the Company vis-à-vis third parties. Actions taken by the Chief Executive Officer are binding on the Company with respect to third parties, even when they fall outside the scope of the corporate purpose, unless the Company can prove that the third party was aware that such an action exceeded said scope, or in view of the circumstances could not have been unaware thereof.

The Chairman of the Board of Directors organizes and oversees the Board's work and reports thereon to the Annual Shareholders' Meeting. He ensures that the Company's management bodies operate effectively and that the directors are able to properly perform their duties. He is entitled to request any and all documents or information that may help the Board with preparing its meetings.

16.1.1 Organization of the Board of Directors

16.1.1.1 Composition of the Board – Election of directors (Articles 13 to 15 of the bylaws)

Subject to the exceptions provided by law, the Board of Directors is composed of a minimum of three and a maximum of eighteen members elected by the shareholders on the Board's recommendation.

Each director must own at least one hundred (100) shares in the Company. If a director does not own the required number of shares on the date of his appointment, or if his shareholding decreases below that threshold during his term, he will be deemed to have resigned if the situation is not remedied within six months (Article 14 of the Company's bylaws and Article 4 of the Board's internal rules).

If a position on the Board becomes vacant due to the death or resignation of one or more directors, between two Shareholders' Meetings, the Board may replace those directors whose positions were vacated during their term of office. However, if the number of directors in office falls below the legal minimum threshold, the Board of Directors or, if necessary, the Statutory Auditors, must immediately call a Shareholders' Meeting to elect the required number of directors.

Interim appointments by the Board of Directors are subject to ratification by shareholders at the following Shareholders' Meeting. If the interim appointments are not ratified, the decisions and actions taken by or with the support of the interim directors nonetheless remain valid.

A director elected to replace another director may hold office only for the remainder of his predecessor's term.

The Board of Directors must be composed of directors selected for their expertise and experience in the Company's areas of business, as well as for their integrity. It includes independent directors as defined below.

At the date this registration document was filed, the Company's Board of Directors comprised eleven members, whose individual details are provided in Section 14.1 above. Independent directors made up 45.4% of the Board's members, corresponding to a higher proportion than the third recommended in the AFEP-MEDEF Corporate Governance Code issued in December 2008.

16. FUNCTIONING OF THE COMPANY'S ADMINISTRATIVE AND MANAGEMENT BODIES

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In addition, with a view to having a balanced structure – particularly in terms of gender equality – 27.3% of the Board's members are women. This complies with the objective set by the AFEP and MEDEF in their recommendation issued on April 19, 2010, and is in line with the draft law recently put forward in France to increase the proportion of women in corporate boardrooms.

Iliad's Board of Directors does not include any members elected by employees, but a Works Council representative is invited to attend Board meetings in a consultative capacity.

16.1.1.2 *Directors' terms of office (Article 16 of the bylaws)*

Since June 23, 2009, directors hold office for a four-year term. This follows the decision taken by shareholders at the June 23, 2009 Annual Shareholders' Meeting to approve the Board's recommendation to reduce directors' terms of office from six to four years and amend the bylaws accordingly. The purpose of this change was to comply with the principles of the December 2008 AFEP-MEDEF Corporate Governance Code and enable shareholders to elect directors on a more frequent basis.

A director's duties cease at the end of the Annual Shareholders' Meeting called to approve the financial statements for the previous year and held during the year in which the director's term of office expires.

Outgoing directors may be re-elected without restriction.

The Board of Directors is currently looking into the possibility of changing the duration of directors' terms of office again when new directors are elected, with a view to encouraging a smoother re-election process.

16.1.1.3 *Independent directors*

The April 23, 2009 version of the Board of Directors' internal rules sets out the criteria that a director must fulfill in order to be considered independent. These criteria comply with the principles set out in the December 2008 AFEP-MEDEF Corporate Governance Code. A director is deemed to be independent when he or she has no relationship of any kind with the Company, its group or the management of either that is such as to color his or her judgment.

These criteria provide that in order to be considered independent, a director:

- cannot be an employee of the Company, hold a management position within the Company, or be an employee or director of the parent company or of one of its consolidated subsidiaries, either currently or during the previous five years;
- cannot be a corporate officer (within the meaning of COB recommendation 2002-01) of a company in which the Company holds, either directly or indirectly, a directorship, or in which a directorship is held by an employee of the Company designated as such or by a current or former (going back five years) corporate officer of the Company;
- cannot be a customer, supplier, investment banker or a commercial banker which is material for the Company or the Group or for which the Company or the Group represents a material proportion of the entity's activity;
- cannot have close families ties with a corporate officer;
- cannot have been an auditor of the Company during the past five years;
- cannot have been a director of the Company for more than twelve years;
- cannot represent a significant shareholder of the Company, taking into account that:
 - (i) a shareholder who owns over 10% of the Company's capital or voting rights is considered significant; and
 - (ii) below this threshold, the Board of Directors systematically reviews whether the director is independent, taking into account the composition of the Company's share capital and any potential conflicts of interest.

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Based on these criteria, at its March 18, 2010 meeting, the Board of Directors examined on a case-by-case basis the situations of each of its eleven members and noted that the Board comprised six independent members as follows: Alain Weill, Pierre Pringuet, Marie-Christine Levet, Antoinette Willard³¹, Orla Noonan and Virginie Calmels. Orla Noonan and Virginie Calmels were elected as directors at the Annual Shareholders' Meeting of June 23, 2009.

Independent directors make up more than a third of the Board's members, as recommended in the AFEP-MEDEF Corporate Governance Code. Consequently, the Board can carry out its duties with the required level of independence and objectivity and can ensure that its meetings are conducted effectively while taking into account the interests of all of the Company's shareholders.

16.1.1.4 Operating procedures of the Board of Directors

Internal rules of the Board of Directors and Directors' Code of Conduct

The operations of the Company's Board of Directors are governed by a set of internal rules endorsed at the Board meeting of December 12, 2003 and amended at the Board meetings of March 9, 2005, October 25, 2006 and April 23, 2009. The provisions of the Board's internal rules add to the requirements set down in the applicable laws and regulations and the Company's bylaws.

The Board of Directors' internal rules specify the operating procedures for both the Board and the Board Committees. The members of the Board Committees are directors and are tasked with helping the Board prepare its work. The internal rules also include an appendix containing a Code of Conduct which sets out the duties and obligations of directors in compliance with the principles of the AFEP-MEDEF Corporate Governance Code, particularly those concerning professional diligence, confidentiality and conflicts of interest.

The Board of Directors' internal rules implement Article 223-22 of the General Regulations of the AMF concerning the obligation of directors to report transactions involving the Company's securities to the AMF on an individual basis, and the Company's responsibility to inform the public of those trades on its website within five trading days from receipt of such reports.

The Board of Directors' Code of Conduct prohibits directors from trading in the securities of companies for which they possess non-public information by reason of their positions. In addition, directors are barred from buying or selling the Company's shares during the fifteen calendar days preceding the announcement of the Company's quarterly, interim and annual earnings.

Powers of the Board of Directors

The Board of Directors is responsible for defining and implementing the Company's strategies.

Except for the powers directly vested in shareholders and within the scope of the corporate purpose, the Board is responsible for dealing with all matters related to the efficient running of the Company and for making all related decisions.

Actions by the Board are binding on the Company with respect to third parties, even when they fall outside the scope of the corporate purpose, unless the Company can prove that the third party was aware that such an action exceeded said scope or, in view of the circumstances, could not have been unaware thereof. Publication of the bylaws does not, in itself, constitute such proof.

The Board of Directors performs all controls and procedures that it deems appropriate.

Information provided to directors

Prior to every meeting, Board members receive a pack containing information about items on the agenda, in order to help them prepare for the meeting and make fully informed decisions.

³¹ Antoinette Willard's term of office expired on June 23, 2009.

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The Chairman also regularly provides the Board's members with any significant information concerning the Company. Each director has a duty to request from the Chairman any information that they consider would be useful for performing their role. Where such information is requested it must be provided within a reasonable timeframe. Board members are bound by a strict duty of confidentiality with respect to non-public information acquired in connection with their role as a director.

Board meetings

The Board of Directors meets as often as is required in the Company's interests, on notice from the Chairman. If the Board has not met for over two months, directors representing at least one-third of the Board's members may call a meeting, specifying the agenda.

The Chief Executive Officer may also request that the Chairman convene a Board meeting to consider a specific agenda.

Requests made pursuant to the preceding two paragraphs are binding on the Chairman.

Notice of meeting may be given by any written means, including by letter, fax, telex or electronic transmission. The meeting must be called at least two days prior to it being held, except in an emergency, in which case it must be called no later than the day preceding the meeting, by any means. In all circumstances, a meeting may be called verbally without notice if all the Board members so agree.

The Board of Directors draws up a schedule for future Board meetings which is approved by the directors.

Additional and/or special meetings are called if there are any issues that need to be urgently addressed.

Work conducted by the Board of Directors in 2009

In 2009 the Board of Directors made decisions regarding all major strategic, economic and financial matters affecting the Company and the Group and ensured that these decisions were implemented. It also approved the annual and interim financial statements, prepared the Annual Shareholders' Meeting, defined Iliad's financial communications policy, assessed the independence of directors, drew up and approved the Audit Committee's operating rules and appointed its members, allocated directors' fees, approved the report of the Chairman of the Board on the conditions governing the preparation and organization of the work of the Board of Directors and internal control procedures.

At each of its meetings the Board also devoted an agenda item to discussing the Group's business performance.

In 2009, Iliad's Board of Directors met eleven times, with an average attendance rate of around 93.88%. Each meeting lasted two hours on average.

Evaluation of the Board of Directors' work

In accordance with best corporate governance practices and in order to comply with the AFEP-MEDEF Code, at its April 23, 2009 meeting, the Board of Directors set up a system for assessing its own performance.

As part of this system, the Board has decided to devote an agenda item each year to (i) evaluating and discussing the Board's organization and work, (ii) verifying that all significant issues have been suitably prepared and discussed, and (iii) assessing its members' contribution to the Board's work. A formal evaluation will be performed every three years with a view to ensuring that the Board's operating procedures are respected and to enable the Board to draw up proposals for improving its organization and efficiency.

On March 18, 2010, the Board carried out an in-depth analysis of its membership structure, organization and operating procedures. The analysis took the form of a self-assessment procedure organized by the Chairman of the Board, by sending out a detailed questionnaire and, where appropriate, setting up individual meetings with directors.

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The results of this self-assessment showed that the Board was satisfied with its operating procedures and particularly appreciated the presentations given to it by senior management – as well as the ensuing discussions – concerning numerous aspects of the Group's strategy and outlook. Consequently, it can be said that in 2009 the Board was regularly provided with reliable data on the Group's business.

The directors also said that they would like the Board's discussions to continue to be enriched by this constructive process and they asked to receive pre-meeting information documents earlier than is currently the case.

16.1.2 Senior Management (Article 19 of the bylaws)

16.1.2.1 Chief Executive Officer

Appointment – Removal from office

When the Board of Directors opts to separate the duties of Chairman of the Board and Chief Executive Officer, it appoints the Chief Executive Officer and determines his term of office, compensation and any restrictions on his powers.

The Chief Executive Officer may be removed from office at any time by the Board of Directors. If the Chief Executive Officer is not the Chairman of the Board, he may be entitled to damages if it is determined that he was removed from office without cause.

The Chief Executive Officer is subject to the provisions of Article L.225-94-1 of the French Commercial Code concerning concurrent appointments as Chief Executive Officer, member of the Management Board, sole Chief Executive Officer, director, or member of the Supervisory Board of joint-stock corporations (*sociétés anonymes*) domiciled in France.

If the Chairman of the Board of Directors is also responsible for managing the Company, he is subject to the provisions applicable to the Chief Executive Officer.

Powers

The Chief Executive Officer has the broadest powers to act on behalf of the Company in all circumstances within the scope of the corporate purpose, and except for those matters which by law may only be dealt with in Shareholders' Meetings or by the Board of Directors.

The Chief Executive Officer represents the Company vis-à-vis third parties. Actions taken by the Chief Executive Officer are binding on the Company with respect to third parties, even when they fall outside the scope of the corporate purpose, unless the Company can prove that the third party was aware that such an action exceeded said scope or, in view of the circumstances, could not have been unaware thereof. Publication of the bylaws does not, in itself, constitute such proof.

16.1.2.2 Senior Vice-Presidents

On the recommendation of the Chief Executive Officer, the Board of Directors may appoint one or more individuals holding the title of Senior Vice-President to assist the Chief Executive Officer.

The maximum number of Senior Vice-Presidents is five.

The Board of Directors, in agreement with the Chief Executive Officer, determines the scope and duration of the powers granted to Senior Vice-Presidents.

Senior Vice-Presidents have the same powers as the Chief Executive Officer vis-à-vis third parties.

The Board of Directors determines the compensation allocated to Senior Vice-Presidents.

Senior Vice-Presidents may be removed from office by the Board of Directors at any time on the recommendation of the Chief Executive Officer.

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In the event of the Chief Executive Officer's absence or departure, the Senior Vice-Presidents retain their positions and powers until a new Chief Executive Officer is appointed, unless otherwise decided by the Board of Directors.

Details of the terms of office of the Chief Executive Officer and the Senior Vice-Presidents are provided in Section 14.1.2 above.

16.1.2.3 Operational structure of the Company's senior management team

Since June 2004, the Company's senior management team has been structured around a Management Committee headed by the Chairman of the Board of Directors. The Management Committee is the Group's decision-making body. It meets once a week, and is responsible for tracking weekly reporting schedules, deciding on the Group's strategy and operations in conjunction with the Board, discussing and collectively deciding on key management issues, and setting annual objectives. The meetings are attended by the Chairman of the Board of Directors, the Chief Executive Officer, the Senior Vice-Presidents, the Chief Financial Officer and Head of Business Development and the head of the Group's Research & Development Department. The senior managers of the Group's main subsidiaries also attend certain meetings. The issues covered also serve as a basis for management presentations given during Board of Directors' meetings.

The Management Committee coordinates relations between the parent company and its subsidiaries, and as such can ensure – under the supervision of senior management – that the Group's operations run smoothly.

16.2 SERVICE CONTRACTS ENTERED INTO BETWEEN THE COMPANY AND MEMBERS OF THE COMPANY'S ADMINISTRATIVE AND MANAGEMENT BODIES

No service contracts have been entered into between the Company and the members of its administrative and management bodies. Agreements entered into between the Company or other Group entities and senior managers are described in Section 15.3 above.

16.3 CORPORATE GOVERNANCE BODIES

16.3.1 Committees of the Board of Directors

The Board of Directors may be assisted by specialist committees in performing its duties.

Subject to the membership rules described below, the Board of Directors is authorized to set up an Audit Committee and a Compensation Committee.

These Committees carry out preparatory work to help the Board with its discussions and decisions and report on this work at each Board meeting.

16.3.1.1 The Audit Committee

Without prejudice to the Board of Directors' remit, the Audit Committee is responsible for monitoring the processes used for preparing financial information and for ensuring the efficiency of Iliad's internal control and risk management systems.

Membership structure

The Audit Committee acts under the sole responsibility of all of the members of the Board of Directors.

At its August 26, 2009 meeting, the Board adapted the Company's existing Audit Committee in order to comply with the provisions of Law 2008-649 dated July 3, 2008, governmental order 2008-1278 dated December 8, 2008, and the decree issued on December 30, 2008.

The Audit Committee comprises a minimum of three and a maximum of five members appointed by the Board of Directors and selected from among the Board's members. The majority of Audit Committee members must be independent directors as defined above.

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At the date this registration document was filed, the Audit Committee's members were as follows:

Marie Christine Levet (independent director)

Orla Noonan (independent director)

Olivier Rosenfeld.

Two-thirds of the Audit Committee are therefore independent directors and none of its members are senior managers. The Committee's members were selected on the basis of their financial and accounting expertise. They actively participate in the Committee meetings, acting in the interests of all shareholders and exercising their judgment in a completely independent manner.

The Audit Committee approved its internal rules at the Board of Directors' meeting held on February 9, 2010.

The Audit Committee is chaired by Marie Christine Levet.

Roles and responsibilities

At the date this registration document was filed, the Audit Committee was responsible for:

- Examining Iliad's scope of consolidation and to analyze the draft financial statements of the Company and the Group – as well as the related reports – prior to submission to the Board for approval.
- Analyzing and ensuring the relevance of the accounting principles, methods and rules used for preparing the financial statements and the various accounting treatments applied, as well as any changes thereto.
- Examining and monitoring the procedures applied for producing and processing the accounting and financial information used for preparing the financial statements.
- Analyzing and assessing the efficiency and effectiveness of the internal control and risk management procedures set up by the Company.
- Reviewing and commenting on the draft report of the Chairman of the Board of Directors on the Company's internal control and risk management procedures.
- Overseeing tender processes for selecting Statutory Auditors or renewing their terms of office.
- Keeping informed of the amount of fees paid to the Statutory Auditors' network by companies controlled by Iliad, for services that are not directly audit-related.
- Ensuring the independence of the Statutory Auditors (by verifying fees paid and ensuring that the statutory audit engagement is carried out completely separately from any non-audit related assignments).

Work performed by the Audit Committee

The Audit Committee has met twice since its operating procedures were adapted in mid-2009, and the necessary accounting and financial documents – especially those required for approving the annual financial statements – were sent to its members prior to the meetings concerned.

During its meetings, the Committee heard the opinions of a Group senior manager, the Chief Financial Officer and the Statutory Auditors on the main accounting options selected by the Group and the major financial transactions that took place during the year.

The Committee reported to the Board of Directors on all of its work performed in 2009.

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16.3 CORPORATE GOVERNANCE BODIES

16.3.1.2 Compensation Committee

In accordance with the Board of Directors' internal rules, the Compensation Committee comprises a minimum of three and a maximum of five members appointed by the Board and selected from among the Board's members. The majority of Compensation Committee members must be independent directors as defined above. Members of the Compensation Committee may be allocated specific compensation by the Board for their work carried out in this capacity.

The Compensation Committee is responsible for:

- Making recommendations to the Board of Directors on the compensation and benefits to be allocated to corporate officers.
- Establishing and conducting an annual review of the rules governing the variable portion of corporate officers' compensation, ensuring that it is consistent with their performance assessments and the Company's medium-term strategy.
- Defining general policies for allocating stock options, with or without discounts.
- Reviewing stock option plans for corporate officers and employees of the Company and/or the Group.
- Providing recommendations on compensation and incentive systems for senior managers of the Company.

At the date this registration document was filed, Iliad did not have a separate Compensation Committee and this Committee's duties were directly performed by the Board of Directors.

Each year, an agenda item at Board meetings is devoted to the compensation of executive and non-executive directors (see Section 15 for further details), in order to discuss the Group's policy for remunerating corporate officers in the presence of its independent directors.

16.3.2 Senior Management Committees

Several specialist committees reporting to Senior Management have been set up to apply – or verify the application of – internal guidelines that are reviewed by the Audit Committee.

The main committees – which are made up of operations, accounting and finance staff – are as follows:

- The Information Systems Committee, responsible for ensuring that information systems are managed properly, and for recommending and monitoring developments to be implemented in order to ensure efficient oversight and optimal understanding of the business.
- The Invoicing Committee, in charge of examining the invoicing cycles and analyzing and validating the various components of the Group's revenues. It is also responsible for ensuring that any fraud or embezzlement is detected and does not have a significant impact on the financial statements.
- The Debt Recovery Committee, which monitors receivables and collection procedures in order to ensure that adequate provisions are set aside to cover any risks of non-recovery.
- The Cash Management Committee, which sets the framework for the Group's debt management policy, particularly concerning liquidity, interest rate and currency risks, as well as counterparty risks that may arise on future financial transactions.
- The Operators Committee, which examines purchases from operators in order to assess whether proper internal controls are in place in terms of approvals and accounting treatment. It also examines the Group's main claims, litigation and commitments in this area, to ensure that there are adequate provisions to cover the related risks.

16. FUNCTIONING OF THE COMPANY'S ADMINISTRATIVE AND MANAGEMENT BODIES

16.3 CORPORATE GOVERNANCE BODIES

- The Audiovisual Committee, which analyzes the performance of the Group's audiovisual operations and related marketing practices. It verifies that business performance is effectively monitored and that the terms and conditions of contracts entered into with content providers, service suppliers and subscribers are respected.
- The Fiber Committee, tasked with ensuring the effective application of the Group's strategy for acquiring premises to house optical nodes (ONs), for the "horizontal" and "vertical" rollouts of the FTTH program, and for connecting subscribers to the network.
- The Manufacturing/Freebox Committee, in charge of analyzing production plans, manufacturing costs and the main manufacturing risks (costs, leadtimes and quality). It verifies that production cycles are effectively managed and that all necessary measures are taken to meet the Group's targets.
- The Accounting Committee, which sets the framework for the Group's accounts closing procedures and ensures that they are formally documented. It examines the financial statements and checks that accounting standards are properly applied and adequate provisions set aside to cover any risks. It also verifies that the financial statements give a true and fair view of the Group in accordance with the applicable accounting principles. Lastly, it schedules pre-closes, carries out reviews of the accounts and ensures that financial data is effectively shared, which helps strengthen the financial control function.

16.4 INTERNAL CONTROL

16.4.1 Report on the conditions governing the preparation and organization of the work of the Board of Directors and internal control procedures

The report prepared by the Chairman of the Board of Directors on the conditions governing the preparation and organization of the work of the Board of Directors and internal control and risk management procedures put in place by Iliad, in accordance with Article L.225-37 of the French Commercial Code is presented in Appendix B of this registration document.

16.4.2 Statutory Auditors' report on the report prepared by the Chairman of the Board of Directors on internal control

The Statutory Auditors' report on the report prepared by the Chairman of the Board of Directors on the conditions governing the preparation and organization of the work of the Board of Directors and internal control and risk management procedures is presented in Appendix C of this registration document.

17. EMPLOYEES

17.1 HUMAN RESOURCES

17.1.1 Changes in the Group's workforce during the past three years

During 2008 the Group's workforce increased significantly – by 1,786 employees – due to:

- (i) Steps taken to strengthen the technical support and subscriber relations teams.
- (ii) The integration of Telecom Italia's teams within Free, following the merger between the two companies on December 31, 2008.

The main changes in the Group's workforce in 2009 were attributable to:

- (i) The implementation of the Employee Redeployment Plan, launched on December 31, 2008, under which 86 employees chose to take voluntary redundancy, and 5 people agreed to be redeployed within the Group. In total, 224 employees were made redundant under the plan, for whom assistance measures were put in place to help them find new employment or a new job. Of these, 103 are aiming to set up their own business and 27 are following a training course leading to a qualification.
- (ii) Ongoing measures to strengthen technical support services and foster loyalty among Group subscribers. Iliad is particularly focusing on home services, which are managed by roaming technical teams who joined the newly formed company, Protelco, on February 1, 2009.
- (iii) The continued expansion of the workforce of Free Infrastructure – the Group's subsidiary in charge of rolling out the optical fiber network.

At March 31, 2010, the Group had a workforce of 4,076 employees, all with open-ended employment contracts.

Breakdown by socio-professional category

	Number of employees		
	Management	Other	Total
December 31, 2007	171	2,241	2,412
December 31, 2008	624	3,574	4,198
December 31, 2009	514	3,538	4,052
March 31, 2010	544	3,532	4,076

Breakdown by business line

	Number of employees		
	Internet	Telephony	Total
December 31, 2007	2,360	52	2,412
December 31, 2008	4,143	55	4,198
December 31, 2009	3,991	61	4,052
March 31, 2010	4,016	60	4,076

17.1.2 Training and skills management

Throughout 2009, the Group focused on stepping up training and internal mobility.

- (i) Training

The Group has over 90 in-house trainers and business support specialists, as it considers training to be an essential factor of its operations, particularly for teams dedicated to subscriber services. Employees working in the Group's call centers and home services teams are given an initial introductory training session that lasts

17. EMPLOYEES

17.1 HUMAN RESOURCES

between two to five weeks, and are mentored on a daily basis. Providing quality service is the key objective underlying the Group's relations with subscribers. This focus on quality was rewarded when the Group obtained NF certification for the Alice brand in 2008 and for the Free brand in 2009.

In total, 120,806 training hours were given in 2009 to 3,214 employees, or 79% of the Group's workforce. This large volume of training represented an average of 38 hours per employee following the training courses concerned.

(ii) Internal mobility

The Group places great importance on developing internal mobility, in order to (i) ensure that there is the best possible match between human resources and business needs, (ii) help employees develop their skills and careers, and (iii) build on a sense of belonging within the Group. During 2009, thanks to the Group's fast pace of growth and the skills management policy adopted to partner its employees' careers, almost 10% of staff were promoted and 46 employees were able to move into a new business area by switching from one Group entity to another.

17.1.3 Measures taken for the employment of seniors

In accordance with the applicable legislation, agreements relating to the employment of seniors have been signed in each Group entity.

A number of entities have adopted role-playing recruitment methods, which facilitates the task of assessing whether candidates have the required skills for the posts being offered and also helps to ensure equal job opportunities, especially for seniors.

17.1.4 Health and safety

In 2009, the Group put in place specific health protection measures for its employees due to the outbreak of swine flu. These included regularly providing employees with information on the risks associated with the disease, action to take to help prevent it from spreading, and general hygiene measures.

17.1.5 Other human resources data

Following the merger of Telecom Italia into Free, the Group overhauled the organizational structure of Free's subscriber services department and took measures to harmonize the procedures, agreements and practices in force within the merged outfit (including provisions on working hours and healthcare insurance). This enabled the Group to complete the integration of Telecom Italia's teams in early 2010.

On June 25, 2009, an Economic and Social Unit (UES) was set up between a number of the Group's entities³² (companies comprising fewer than 50 employees) to provide them with a works council. This unit covered 187 employees at December 31, 2009.

17.2 STOCK OPTIONS GRANTED AND EXERCISED DURING THE FISCAL YEAR ENDED DECEMBER 31, 2009

17.2.1 Stock options granted to or exercised by corporate officers

This information is provided in Section 15 above.

³² Iliad, Freebox, Online, IFW, One Tel, Free Infrastructure, Assunet

17. EMPLOYEES

17.2 STOCK OPTIONS GRANTED AND EXERCISED DURING THE FISCAL YEAR ENDED DECEMBER 31, 2009

17.2.2 Stock options granted to and exercised by the ten employees – other than officers – who received the largest number of stock options

The following table sets out the main characteristics of the stock options granted to the ten employees of the Group (other than senior managers) who hold the largest number of options.

<u>Stock options granted to and exercised by the ten Group employees – other than officers – who received the largest number of stock options</u>	<u>Total number of stock options granted/exercised</u>	<u>Weighted average price</u>	<u>Plan date</u>
Stock options granted during the year to the ten Group employees who were granted the largest number of stock options	No stock options were granted in 2009		
Stock options exercised during the year by the ten Group employees who exercised the largest number of options	20,758	€16.30	January 20, 2004
	1,512	€48.44	December 20, 2005

The main characteristics of the stock options granted by the Company which were outstanding at March 31, 2010 are set out in Section 21.1.4.1 of this registration document.

17.3 EMPLOYEE PROFIT-SHARING

As part of the measures to set up the above-described UES, on December 11, 2009 the Group decided to put in place a profit-sharing agreement to involve its teams in Iliad's financial performance.

Other Group companies that are not members of the UES were also invited to sign the agreement. Free joined the scheme on December 15, 2009, and Protelco on December 17, 2009.

The special employee profit-sharing reserve for 2009 came to €276,497 which will be divided between 2,282 employees.

An employee savings plan has also been set up whereby eligible employees can invest their profit-shares in a number of corporate mutual funds.

18. MAJOR SHAREHOLDERS

18.1 IDENTIFICATION OF SHAREHOLDERS

18. MAJOR SHAREHOLDERS

18.1 IDENTIFICATION OF SHAREHOLDERS

18.1.1 Ownership structure and voting rights

Movements in the Company's capital and voting rights were as follows over the past three fiscal years:

Shareholder	December 31, 2009			December 31, 2008			December 31, 2007		
	Number of shares	% capital	% of voting rights	Number of shares	% capital	% voting rights	Number of shares	% capital	% voting rights
Xavier Niel ^(a)	35,797,050	65.58%	63.34%	35,826,650	65.82%	63.25%	35,826,650	66.16%	63.28%
Antoine Levavasseur ^(a)	557,631	1.02%	1.91%	737,324	1.35%	2.44%	902,590	1.67%	3.14%
Rani Assaf ^(b)	942,590	1.73%	3.29%	952,590	1.75%	3.32%	952,590	1.76%	3.32%
Cyril Poidatz ^(a)	670,307	1.23%	2.30%	650,000	1.19%	2.26%	650,000	1.20%	1.13%
Olivier Rosenfeld ^(c)	246,718	0.45%	0.43%	288,596	0.53%	0.50%	430,000	0.79%	1.50%
Alain Weill ^(c)	1,000	NM	NM	1,000	NM	NM	24,500	0.05%	0.04%
Maxime Lombardini ^(a)	100	NM	NM	100	NM	NM	100	NM	NM
Antoinette Willard ^{(c)(33)}	—	—	—	0	NM	NM	0	NM	NM
Pierre Pringuet ^(c)	1,037	NM	NM	1,037	NM	NM	500	NM	NM
Thomas Reynaud ^(c)	150	NM	NM	150	NM	NM	—	—	—
Orla Noonan ^(c)	300	NM	NM	—	—	—	—	—	—
Virginie Calmels ^(c)	150	NM	NM	—	—	—	—	—	—
Marie Christine Levet ^(c)	150	NM	NM	150	NM	NM	—	—	—
Franck Brunel ^{(b)(34)}	—	—	—	243,800	0.45%	0.67%	473,269	0.87%	1.65%
Jean-Louis Missika ^{(b)(35)}	—	—	—	250	NM	NM	250	NM	NM
Sub-total	38,217,183	70.02%	71.29%	38,701,647	71.10%	72.46%	39,261,006	72.50%	74.06%
Iliad (own shares)	63,974	0.11%	N/A	83,793	0.15%	N/A	32,509	0.06%	N/A
Public	16,302,283	29.87%	28.71%	15,645,835	28.75%	27.54%	14,858,055	27.44%	25.94%
Total	54,583,440	100.00%	100.00%	54,431,275	100.00%	100.00%	54,151,550	100.00%	100.00%

There were no significant changes in the Company's ownership structure between December 31, 2009 and the date this registration document was filed, apart from the sale of 700,000 Iliad shares – representing 1.3% of the Company's capital and voting rights – carried out by Xavier Niel as part of a private placement.

To the best of the Company's knowledge, there are no shareholders other than those listed above who directly or indirectly hold more than 1% of the Company's capital or voting rights.

^(a) Senior manager and director of the Company

^(b) Shareholder and senior manager of the Company (not a director)

^(c) Shareholder and non-executive director of the Company

⁽³³⁾ Antoinette Willard's term of office as a director expired at the close of the Annual Shareholders' Meeting held on June 23, 2009. She holds 100 shares under a securities lending agreement.

⁽³⁴⁾ Franck Brunel stepped down from his position as Senior Vice-President on December 5, 2008, with effect from December 31, 2008.

⁽³⁵⁾ Jean-Louis Missika stepped down from his position as a director on April 22, 2008 with retroactive effect from April 1, 2008.

NM: not material

18. MAJOR SHAREHOLDERS

18.1 IDENTIFICATION OF SHAREHOLDERS

In accordance with Article L.621-18-2 of the French Monetary and Financial Code, in 2009 the Company disclosed to the AMF that three of its corporate officers and parties related to them had sold a total of 240,000 Iliad shares.

Summary table of trades in Iliad shares carried out by corporate officers in 2009

(Disclosed in compliance with Article 223-26 of the AMF's General Regulations)

<u>Name</u>	<u>Transaction date</u>	<u>Type of transaction</u>	<u>Unit price</u>	<u>Total amount (in €)</u>
Antoine Levavasseur	March 25, 26, 27 and 30, 2009	Sale	68.539	6,853,900
Rani Assaf	April 14, 2009	Sale	73.5001	495,097
Rani Assaf	April 15, 2009	Sale	73.5000	239,904
Antoine Levavasseur	May 11, 2009	Sale	78.817	3,264,836
Antoine Levavasseur	May 12, 2009	Sale	78.15	2,517,445
Antoine Levavasseur	May 13, 2009	Sale	78.319	1,060,909
Antoine Levavasseur	May 14, 2009	Sale	78.077	1,000,701
Olivier Rosenfeld	November 25, 2009	Sale	81.94	2,458,200
Cyril Poidatz	December 21, 2009	Exercise of stock options	48.44	983,671.08
Antoine Levavasseur	December 21, 2009	Exercise of stock options	48.44	983,671

18.2 VOTING RIGHTS OF SHAREHOLDERS

At Ordinary and Extraordinary Shareholders' Meetings, each shareholder has a number of votes equal to the number of shares held, without limitation.

However, the Extraordinary Shareholders' Meeting held on December 12, 2003 decided to attribute double voting rights to all fully paid-up shares registered in the name of the same shareholder for at least three years as from the listing of the Company's shares on a regulated market (January 30, 2004).

The Company's major shareholders held the following shares carrying double voting rights at December 31, 2009.

<u>Major shareholders with double voting rights</u>	<u>Number of shares carrying double voting rights</u>
Xavier Niel	500,000
Antoine Levavasseur	537,324
Rani Assaf	942,590
Cyril Poidatz	650,000

In the event of a capital increase by the capitalization of reserves, profits or premiums, or when shares are exchanged as part of a stock split or reverse stock split, the new registered shares allocated to a shareholder in respect of existing shares carrying double voting rights will also have double voting rights from the date of issue, provided that they are held as registered shares.

Any share converted into bearer form or whose ownership is transferred is stripped of double voting rights, in accordance with Article 28-1 of the Company's bylaws. However, registered shares are not stripped of voting rights and the qualifying period continues to run following the transfer of shares included in the estate of a deceased shareholder, or in connection with the settlement of the marital estate or an inter vivos gift to a spouse or relative in the direct line of succession. Any merger or demerger of the Company would have no impact on double voting rights which can be exercised within the new company if the latter's bylaws include such a provision. Double voting rights may only be abolished by an Extraordinary Shareholders' Meeting after prior approval by a special meeting of the shareholders holding those rights.

18. MAJOR SHAREHOLDERS

18.3 SHAREHOLDERS' AGREEMENTS AND UNDERTAKINGS

18.3 SHAREHOLDERS' AGREEMENTS AND UNDERTAKINGS

18.3.1 Shareholders' agreements

Not applicable.

18.3.2 Lock-up undertakings

Not applicable.

18.3.3 Shareholders acting in concert

To the best of the Company's knowledge, there are no shareholders acting in concert, other than the Company's senior managers who are also shareholders.

18.3.4 Measures taken to ensure that control is not exercised in an abusive manner

As described above, the Company is controlled by its founder and majority shareholder. However, the Company considers that there is no risk that control will be exercised in an abusive manner thanks to the measures taken within its corporate governance structures, notably the segregation of the positions of Chairman of the Board and Chief Executive Officer, and by the fact that there are five independent directors on the Board of Directors who are also members of the Board Committees.

18.4 ARRANGEMENTS WHICH MAY RESULT IN A CHANGE IN CONTROL OF THE COMPANY

Not applicable.

19. RELATED PARTY TRANSACTIONS

19. RELATED PARTY TRANSACTIONS

No transactions have been effected between the Group and entities or groups of entities that hold direct interests in the Company.

The related party agreements currently in effect are set out in the Statutory Auditors' special report on related party agreements in Appendix A of this registration document.

Details of transactions effected with the Company's senior managers are provided in Section 15.3.

See Note 32 to the 2009 consolidated financial statements for information on related party transactions.

**20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES,
FINANCIAL POSITION AND PROFITS AND LOSSES**

20.1 CONSOLIDATED FINANCIAL STATEMENTS FOR 2009, 2008 AND 2007

**20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES,
FINANCIAL POSITION AND PROFITS AND LOSSES**

20.1 CONSOLIDATED FINANCIAL STATEMENTS FOR 2009, 2008 AND 2007

In accordance with Article 28 of European Commission Regulation (EC) 809/2004, the following information is incorporated by reference in this registration document:

- The consolidated financial statements of the Iliad Group for the year ended December 31, 2007 and the report of the Statutory Auditors thereon, as set out in Section 20.1 of the registration document filed on April 15, 2008.
- The consolidated financial statements of the Iliad Group for the year ended December 31, 2008 and the report of the Statutory Auditors thereon, as set out in Section 20.1 of the registration document filed on April 30, 2009.

**20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES,
FINANCIAL POSITION AND PROFITS AND LOSSES**

20.1 CONSOLIDATED FINANCIAL STATEMENTS FOR 2009, 2008 AND 2007

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**20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES,
FINANCIAL POSITION AND PROFITS AND LOSSES**

20.1 CONSOLIDATED FINANCIAL STATEMENTS FOR 2009, 2008 AND 2007

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**20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES,
FINANCIAL POSITION AND PROFITS AND LOSSES**

20.1 CONSOLIDATED FINANCIAL STATEMENTS FOR 2009, 2008 AND 2007

CONSOLIDATED INCOME STATEMENT

<u>(in € thousands)</u>	<u>Note</u>	<u>2009</u>	<u>2008</u>
Revenues	4	1,954,500	1,565,035
Purchases used in production	5	(920,336)	(781,467)
Payroll costs	6	(108,580)	(79,813)
External charges		(153,960)	(109,502)
Taxes other than on income		(42,890)	(27,907)
Additions to provisions	9	(29,290)	(25,201)
Other income from operations	8	18,297	27,477
Other expenses from operations	8	(56,366)	(43,884)
Earnings before interest, tax, depreciation and amortization (EBITDA)		661,375	524,738
Share-based payment expense	27	(7,281)	(5,388)
Depreciation, amortization and provisions for impairment of non-current assets ...	9	(294,741)	(316,374)
Profit from ordinary activities		359,353	202,976
Other operating income	10	5,984	0
Other operating expenses	10	(32,475)	(30,684)
Operating profit		332,862	172,292
Income from cash and cash equivalents	11	5,613	13,718
Finance costs, gross	11	(56,346)	(33,628)
Finance costs, net	11	(50,733)	(19,910)
Other financial income	11	1,724	581
Other financial expenses	11	0	(193)
Corporate income tax	12	(108,995)	(52,305)
Profit for the period before profit from discontinued operations		174,858	100,465
Profit/(loss), net of taxes, from discontinued operations	13	1,010	(66)
PROFIT FOR THE PERIOD		175,868	100,399
<i>Attributable to:</i>			
• <i>Owners of the Company</i>		175,663	100,255
• <i>Minority interests</i>		205	144
<i>Earnings per share (in €):</i>			
• <i>Basic earnings per share</i>	14	3.23	1.85
• <i>Diluted earnings per share</i>	14	3.17	1.84
<i>Earnings per share from continuing operations (in €):</i>			
• <i>Basic earnings per share from continuing operations.</i>	14	3.21	1.85
• <i>Diluted earnings per share from continuing operations.</i>	14	3.16	1.84

**20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES,
FINANCIAL POSITION AND PROFITS AND LOSSES**

20.1 CONSOLIDATED FINANCIAL STATEMENTS FOR 2009, 2008 AND 2007

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<u>(in € thousands)</u>	<u>Note</u>	<u>2009</u>	<u>2008</u>
PROFIT FOR THE PERIOD		175,868	100,399
• Fair value gains/(losses) on interest rate and currency hedging instruments, net of tax		(3,810)	(10,038)
Total income and expenses recognized directly in equity		(3,810)	(10,038)
Total comprehensive income for the period		172,058	90,361

Note: Minority interests have not been analyzed as they represent a non-material amount.

**20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES,
FINANCIAL POSITION AND PROFITS AND LOSSES**

20.1 CONSOLIDATED FINANCIAL STATEMENTS FOR 2009, 2008 AND 2007

CONSOLIDATED BALANCE SHEET – ASSETS

<u>(in € thousands)</u>	<u>Note</u>	<u>At December 31, 2009</u>	<u>At December 31, 2008</u>
Goodwill	17	214,048	164,835
Intangible assets	18	80,291	87,997
Property, plant and equipment	20	1,087,470	996,541
Other long-term financial assets	21	12,517	4,471
Deferred income tax assets	12	191,983	291,147
Other non-current assets		16,662	0
TOTAL NON-CURRENT ASSETS		<u>1,602,971</u>	<u>1,544,991</u>
Inventories	22	719	1,665
Current income tax assets		1,108	100,724
Trade and other receivables	23	185,024	257,106
Other short-term financial assets	21	16	0
Cash and cash equivalents	24	633,901	335,733
TOTAL CURRENT ASSETS		<u>820,768</u>	<u>695,228</u>
ASSETS HELD FOR SALE	25	<u>31,509</u>	<u>16,790</u>
TOTAL ASSETS		<u>2,455,248</u>	<u>2,257,009</u>

**20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES,
FINANCIAL POSITION AND PROFITS AND LOSSES**

20.1 CONSOLIDATED FINANCIAL STATEMENTS FOR 2009, 2008 AND 2007

CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES

<u>(in € thousands)</u>	<u>Note</u>	<u>At December 31, 2009</u>	<u>At December 31, 2008</u>
Share capital	26	12,096	12,062
Additional paid-in capital		93,362	89,121
Retained earnings and other reserves	26	658,952	496,365
TOTAL EQUITY		764,410	597,548
• <i>Attributable to owners of the Company</i>		<i>763,873</i>	<i>597,133</i>
• <i>Minority interests</i>		<i>537</i>	<i>415</i>
Long-term provisions	28	1,397	1,147
Long-term financial liabilities	29	1,120,118	1,198,324
Deferred income tax liabilities	12	16,789	19,347
Other non-current liabilities	30	2,169	8,985
TOTAL NON-CURRENT LIABILITIES		1,140,473	1,227,803
Short-term provisions	28	8,880	33,661
Taxes payable		159	141
Trade and other payables	30	362,666	378,407
Short-term financial liabilities	29	178,660	19,449
TOTAL CURRENT LIABILITIES		550,365	431,658
TOTAL EQUITY AND LIABILITIES		2,455,248	2,257,009

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<u>(in € thousands)</u>	<u>Share capital</u>	<u>Additional paid-in capital</u>	<u>Own shares held</u>	<u>Reserves</u>	<u>Retained earnings</u>	<u>Total equity</u>
Total equity at January 1, 2008	12,000	84,624	(1,987)	25,132	396,924	516,693
Movements in 2008						
• Profit for the period					100,399	100,399
• Income and expenses recognized in equity:						
• Impact of interest rate and currency hedges				(10,038)		(10,038)
Total income and expenses recognized in equity				(10,038)	100,399	90,361
• Capital increase	62	4,497				4,559
• Dividends paid by Iliad SA					(16,863)	(16,863)
• Dividends paid by subsidiaries						
• Purchases/sales of own shares			(2,602)			(2,602)
• Impact of stock options				5,388		5,388
• Equity component of convertible bonds						
• Other				12		12
Total equity at December 31, 2008	12,062	89,121	(4,589)	20,494	480,460	597,548
Total equity at January 1, 2009	12,062	89,121	(4,589)	20,494	480,460	597,548
Movements in 2009						
• Profit for the period					175,868	175,868
• Income and expenses recognized in equity:						
• Impact of interest rate and currency hedges				(3,810)		(3,810)
Total income and expenses recognized in equity				(3,810)	175,868	172,058
• Capital increase	34	4,241				4,275
• Dividends paid by Iliad SA					(18,509)	(18,509)
• Dividends paid by subsidiaries					(25)	(25)
• Purchases/sales of own shares			1,839			1,839
• Impact of stock options				7,281		7,281
• Equity component of convertible bonds						
• Other				(57)		(57)
Total equity at December 31, 2009	12,096	93,362	(2,750)	23,908	637,794	764,410

Note: Minority interests have not been analyzed as they represent a non-material amount.

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CONSOLIDATED STATEMENT OF CASH FLOWS

<u>(in € thousands)</u>	<u>Note</u>	<u>2009</u>	<u>2008</u>
Profit for the period (including minority interests)		175,868	100,399
+/- Depreciation, amortization and provisions against non-current assets and net additions to provisions for contingencies and charges (excluding restructuring costs)		285,184	345,165
+/- Unrealized gains and losses on changes in fair value		(3,603)	2,200
+/- Income and expenses related to stock options and other share-based payments		7,281	5,388
- / + Other income and expenses, net		41	1,567
- / + Gains and losses on disposals of assets		(7,873)	(9,284)
- / + Dilution gains and losses		0	0
+/- Share of profit of associates		0	0
- Dividends (investments in non-consolidated undertakings)		0	0
- Restructuring costs		26,491	
Cash flows from operations after finance costs, net, and income tax (excluding restructuring costs)		483,389	445,435
+ Finance costs, net	11	50,733	19,910
+/- Income tax expense (including deferred taxes)	12	108,995	52,305
Cash flows from operations before finance costs, net, and income tax (excluding restructuring costs) (A)		643,117	517,650
- <i>Income tax paid (B)</i>		98,743	(64,368)
+/- Change in operating working capital requirement (including employee benefit obligations) (C)	15	(7,610)	20,939
= Net cash generated from operating activities before restructuring costs (D) = (A + B + C)		734,250	474,221
- Restructuring costs (E)		(26,293)	0
= Net cash generated from operating activities after restructuring costs (F) = (D) + (E)		707,957	474,221
- Acquisitions of property, plant and equipment and intangible assets	15	(428,325)	(395,790)
+ Disposals of property, plant and equipment and intangible assets		8,728	14,317
- Acquisitions of investments in non-consolidated undertakings		0	0
+ Disposals of investments in non-consolidated undertakings		0	0
+/- Effect of changes in Group structure – acquisitions and earn-outs		44,125	(772,015)
+/- Effect of changes in Group structure – disposals		0	2,000
+/- Change in outstanding loans and advances		(7,671)	(743)
+ Cash inflows from assets held for sale		6,276	1,130
- Cash outflows for assets held for sale		(20,995)	(8,681)
+/- Other		0	540
= Net cash used in investing activities (G)		(397,862)	(1,159,242)
+ Proceeds from capital increases:			
. Paid by owners of the Company		0	0
. Paid by minority shareholders of consolidated companies		0	0
+ Proceeds received on the exercise of stock options		1,560	4,560
- / + Own-share transactions		1,839	(2,602)
- Dividends paid during the period:			
. Dividends paid to owners of the Company		0	0
. Dividends paid to owners of the Company		(18,509)	(16,863)
. Dividends paid to minority shareholders of consolidated companies		(25)	0
+ Proceeds from new borrowings	29	105,022	832,536
- Repayment of borrowings (including finance leases)	29	(64,019)	(9,087)
- Net interest paid (including on finance leases)		(43,004)	(9,173)
= Net cash generated from (used in) financing activities (H)		(17,136)	799,371
+/- Effect of exchange-rate movements on cash and cash equivalents (I)		(2)	2
= Net change in cash and cash equivalents (F + G + H + I)		292,957	114,352
Cash and cash equivalents at beginning of year	15	337,441	223,089
Cash and cash equivalents at year-end	15	630,398	337,441

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NOTE 1: ACCOUNTING PRINCIPLES

1-1. GENERAL INFORMATION

Iliad SA is a *société anonyme* registered in France and listed on Eurolist by Euronext Paris under the symbol "ILD". The Company's registered office is located at 8 rue de la Ville l'Evêque, 75008 Paris, France.

The Iliad Group is a leading operator in the French internet access and telecommunications markets. Its businesses are conducted by Free (an alternative broadband operator that uses the Free and Alice brands), Free Infrastructure (optical fiber), One.Tel and Iliad Telecom (landline telephony operators), and IFW (specialized in Wimax).

The Board of Directors approved the consolidated financial statements for the year ended December 31, 2009 on March 18, 2010 and their publication date was set for March 23, 2010. These financial statements will only be definitive after approval by the Company's shareholders at the Annual Shareholders' Meeting scheduled to be held on May 25, 2010.

1-2. APPLICABLE ACCOUNTING STANDARDS

The principal accounting policies adopted for the preparation of these consolidated financial statements are set out below. Unless otherwise specified, the same policies have been consistently applied for all of the periods presented.

Basis of preparation

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. The historical cost convention has been applied, except for financial assets and liabilities which are carried at fair value with changes in fair value recognized either directly in the income statement or in equity when hedge accounting is applied.

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

Following Management's analysis of the estimated useful lives applied for depreciating and amortizing non-current assets begun in late 2008, the Group has increased the depreciation periods applicable to modems, access fees to the France Télécom service and certain network components from three to four years.

The following new standards, amendments to existing standards and interpretations are mandatory for the financial year beginning January 1, 2009:

- *Revised version of IAS 1, Presentation of Financial Statements* (applicable for annual periods beginning on or after January 1, 2009). Under this revised standard, entities are required to present a statement of comprehensive income that shows profit for the period and income and expenses recognized directly in equity. Entities can choose whether to present this statement alone or two statements (the statement of comprehensive income and the income statement). The Group has elected to present two statements.

The following new standards, amendments to existing standards and interpretations are mandatory for the first time for the financial year beginning January 1, 2009 but did not impact the Group's financial statements:

- *IFRS 8, Operating Segments* (applicable for annual periods beginning on or after January 1 2009). This new standard requires entities to disclose information to enable users of their financial statements to evaluate the nature and financial effects of the business activities in which they engage and the economic environments in which they operate.

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IFRS 8 defines what an operating segment is and specifies the disclosures required. Management considers that the segment presentation that the Group already used for the purposes of IAS 14 complies with the criteria in IFRS 8. Consequently the adoption of IFRS 8 did not impact the Group's financial statements.

- *Amendment to IAS 23, Borrowing Costs* (applicable for annual periods beginning on or after January 1, 2009). This amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs is no longer available. Management believes that the amended version of IAS 23 is not relevant to Iliad's operations in view of the type of capital expenditure the Group incurs.
- *Amendment to IFRS 2, Share-based Payment* (applicable for annual periods beginning on or after January 1, 2009). The amended standard clarifies that vesting conditions are service conditions and performance conditions only and states that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Management considers that in view of the volumes concerned, cancellations of share-based payments did not have a material impact on the consolidated financial statements.
- *Amendments to IFRS 1 and IAS 27, Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (applicable for annual periods beginning on or after January 1, 2009). The amendment to IFRS 1 specifies the accounting treatment applicable by first-time adopters of IFRS when measuring the cost of an investment in a subsidiary, jointly controlled entity or associate. This amendment is not relevant to the Group's operations.

In the revised version of IAS 27 the definition of the cost method has been removed and replaced with a requirement to present dividends received from a subsidiary, jointly controlled entity or associate as income in the separate financial statements of the investor, even when the dividend is paid out of pre-acquisition retained earnings.

- *IFRIC 13, Customer Loyalty Programmes* (applicable for annual periods beginning on or after January 1, 2009). This interpretation provides guidance on how to account for customer loyalty award credits. After reviewing the effect of applying IFRIC 13, Management considers that this interpretation did not have a material impact on the consolidated financial statements.
- *Amendments to IAS 39 and IFRIC 9, Embedded Derivatives* (applicable for annual periods beginning on or after January 1, 2009). The purpose of these amendments is to clarify the accounting treatment of embedded derivatives when an entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. The Iliad Group does not have any derivatives that fall within the scope of application of these amendments.
- *Amendments to IFRS 4 and IFRS 7, Improving Disclosures about Financial Instruments* (applicable for annual periods beginning on or after January 1, 2009). The Group applies these amendments, which require enhanced disclosures about fair value measurement and liquidity risk related to financial instruments.

The following new standards, amendments to existing standards and interpretations are applicable for annual periods beginning on or after January 1, 2009 but are not currently relevant to the Group's operations:

- *Amendments to IAS 32 and IAS 1, Puttable Financial Instruments and Obligations Arising on Liquidation* (applicable for annual periods beginning on or after January 1, 2009). These amendments prescribe the accounting treatment to be applied for financial instruments issued by an entity that have characteristics similar to ordinary shares but which are currently classified as financial liabilities. In accordance with the amendments these instruments must now be classified as equity. Additional disclosures are required in relation to these instruments and new reclassification rules apply. Management considers that the Group's application of the amendments to IAS 32 and IAS 1 did not affect the consolidated financial statements as Iliad has not issued any such instruments.

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- *IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset: Minimum Funding Requirements and their Interaction* (applicable for annual periods beginning on or after January 1, 2009). This interpretation applies to all post-employment defined benefits and other long-term employee defined benefits where dedicated plan assets exist. It is not relevant to the Iliad Group.
- *IFRIC 15, Agreements for the Construction of Real Estate* (applicable for annual periods beginning on or after January 1, 2009). IFRIC 15 clarifies the treatment to be applied in accounting for revenue by entities that undertake the construction of real estate, either directly or through subcontractors. In addition to the construction of real estate, agreements within the scope of IFRIC 15 may include the delivery of other goods or services. This interpretation is not relevant to Iliad as the Group does not carry out any real estate construction operations.
- *IFRIC 17, Distributions of Non-cash Assets to Owners* (applicable for annual periods beginning on or after July 1, 2009). This interpretation applies to the following types of non-reciprocal distributions by an entity to its owners acting in their capacity as owners: (i) distributions of non-cash assets and (ii) distributions that give owners a choice of receiving either non-cash assets or a cash alternative. It is not relevant to the Iliad Group as the Company does not distribute non-cash assets to its owners.
- *IFRIC 18, Transfers of Assets from Customers* (effective from July 1, 2009). This interpretation applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. It is not relevant to Iliad as the Group does not carry out such transfers.

The following amendments to existing standards and interpretations have been issued, but are not effective for the financial year beginning January 1, 2009 and have not been early adopted by the Group:

- *Revised version of IFRS 3, Business Combinations (phase 2) and consequential amendments to IAS 27, Consolidated and Separate Financial Statements* (applicable for annual periods beginning on or after July 1, 2009). This revised standard and amendments concern the accounting treatment to be applied for acquisitions (notably goodwill) and changes in Group structure. The Group will apply the revised versions of IFRS 3 and IAS 27 to all business combinations from January 1, 2010.
- *IFRIC 16, Hedges of a Net Investment in a Foreign Operation* (applicable for annual periods beginning on or after July 1, 2009). IFRIC 16 applies to entities that hedge the foreign currency risk arising from net investments in foreign operations and wish to qualify for hedge accounting in accordance with IAS 39. This interpretation is not relevant to the Iliad Group.
- *Amendment to IAS 32, Classification of Rights Issues* (applicable for annual periods beginning on or after February 1, 2010). The purpose of this amendment is to clarify the accounting treatment for rights issues denominated in a currency other than the issuer's functional currency. It is not currently relevant to the Iliad Group.
- *Amendment to IAS 39, Financial Instruments: Recognition and Measurement, Eligible Hedged Items* (applicable for annual periods beginning on or after July 1, 2009). This amendment clarifies how the existing principles underlying hedge accounting should be applied concerning (i) inflation in a financial hedged item and (ii) purchased option hedging instruments. After reviewing the effect of applying this amendment, Management considers that it would not have a material impact on the consolidated financial statements.

1-3. CONSOLIDATION

Consolidation methods

Subsidiaries

Subsidiaries are entities that are controlled by the Group.

Control is presumed to exist when the Group has the power to govern an entity's financial and operating policies, either directly or indirectly, so as to obtain benefits from its activities, generally accompanying a shareholding representing more than one half of the voting rights.

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Subsidiaries are fully consolidated from the date on which control is transferred to the Group and they are deconsolidated from the date that control ceases.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group does not have any investments in special-purpose entities, associates or joint ventures.

Eliminations on consolidation

All intragroup transactions and balances are eliminated on consolidation as well as gains and losses on transactions between subsidiaries.

Business combinations

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus all costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, including any minority interests.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected, the combination is accounted for using those provisional values and any adjustments made as a result of completing the initial accounting are recognized within 12 months of the acquisition date.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition.

Goodwill arising on acquisitions of subsidiaries is recognized as an intangible asset. Goodwill on acquisitions of associates is included in investments in associates. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Impairment losses are recorded under "Other operating expenses" within operating profit in the income statement.

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in euros, which is the Group's presentation currency. Unless otherwise specified, all amounts are presented in thousands of euros.

Foreign currency translation

Assets and liabilities of Group companies that are denominated in foreign currencies are translated into euros at the year-end rate. Income and expense items are translated at average exchange rates for the year.

All resulting exchange differences are recognized directly in equity.

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Fiscal year-end

All Group companies have a December 31 fiscal year-end.

1-4. PRESENTATION OF THE FINANCIAL STATEMENTS

As permitted under IAS 1, *Presentation of Financial Statements*, the Group's income statement is presented by nature.

Operating profit corresponds to profit for the period, before:

- financial income and expenses (as defined in Note 11);
- current and deferred taxes; and
- profit from discontinued operations.

Profit from ordinary activities corresponds to operating profit as defined above, before "Other operating income" and "Other operating expenses". These items include income and expenses which are rare, unusual and infrequent, which represent material amounts and whose presentation within other items relating to ordinary activities could be misleading for users of the financial statements in their understanding of the Group's performance.

The Iliad Group has presented EBITDA on a separate line in the income statement. EBITDA is a key indicator of the Group's operating performance and corresponds to profit from ordinary activities as defined above, before:

- depreciation, amortization and impairment of property, plant and equipment and intangible assets; and
- share-based payment expense.

1-5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The main accounting policies applied by the Group are as follows:

Revenues

Revenues from the Group's operations are recognized and presented as follows in accordance with IAS 18, *Revenue*:

- Revenues from usage of connection time are recognized in the period in which the usage took place.
- Revenues from subscriptions and fixed-rate packages are recognized over the period covered by the subscriptions or packages.
- Revenues from the sales or provision of content supplied by external parties are presented as a gross amount when the Group is deemed to be the party in the transaction with primary responsibility in relation to the end-customer. These revenues are presented net of the amounts due to the content supplier when the latter is responsible for supplying the content to the end-customer and setting the retail price.
- Revenues from the sale of advertising banners are spread over the period during which the banners are displayed.
- Revenues from website hosting activities are recognized during the period in which the service is rendered.

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Foreign currency transactions

The recognition and measurement rules for foreign currency transactions are set out in IAS 21, *The Effects of Changes in Foreign Exchange Rates*. In accordance with that standard, transactions denominated in foreign currencies are recorded at their value in euros at the date of the transaction. At each balance sheet date, foreign currency monetary items are translated at the applicable closing rate and any exchange differences are recognized in profit as follows:

- As operating items for commercial transactions.
- As financial income or expenses for financial transactions.

Earnings per share

The Iliad Group presents basic and diluted earnings per share.

Basic earnings per share is obtained by dividing attributable profit for the period by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by adjusting the figures for attributable profit for the period and the weighted average number of shares outstanding, for the impact of all potential dilutive instruments.

Intangible assets

Intangible assets primarily include:

- Development costs capitalized in accordance with IAS 38, which are amortized over the period during which the Group is expected to consume the related future economic benefits. These costs are incurred in relation to designing new equipment and are recognized as intangible assets when they relate to distinctly separate projects for which (i) the costs can be clearly identified, (ii) the technical feasibility of successfully completing the project can be demonstrated, and (iii) it is probable that future benefits will be generated. These conditions are deemed to be met when the six general criteria defined in IAS 38 are fulfilled, i.e. when the Group can demonstrate:
 - 1) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
 - 2) its intention to complete the intangible asset and use or sell it;
 - 3) its ability to use or sell the asset;
 - 4) how the intangible asset will generate probable future economic benefits;
 - 5) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
 - 6) its ability to measure reliably the expenditure attributable to the intangible asset during its development.
- Intangible assets acquired in connection with a business combination. These assets are recognized separately from goodwill when (i) their fair value can be measured reliably, (ii) they are controlled by the Group, and (iii) they are identifiable, i.e., are separable or arise from contractual or other legal rights. Where these assets have a finite useful life they are amortized from the date they are made available for use in the same way as for intangible assets acquired separately, and an impairment loss is recorded if their carrying amount exceeds their recoverable amount.

Intangible assets with indefinite useful lives are not amortized but are systematically tested for impairment on an annual basis at the year-end (December 31) or whenever there is an indication that they may be impaired.

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Licenses are amortized over the license period from the date when the related network is technically ready for the service to be marketed.

Impairment losses are recorded under "Other operating expenses" within operating profit in the income statement.

- Software, which is amortized on a straight-line basis over a period of one to three years.
- The Alice customer base, which is being amortized over a period of 12 years.

Property, plant and equipment

Property, plant and equipment are stated at the acquisition cost, including transaction expenses, or at production cost. Cost includes any expenses directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by Group Management.

Depreciation is calculated by the straight-line method, based on the following estimated useful lives:

- Buildings 15 to 50 years
- Technical equipment 3 to 14 years
- General equipment 10 years
- Computer equipment 3 to 5 years
- Office furniture and equipment 2 to 10 years

- Access fees for co-location facilities used to conduct unbundling operations are depreciated over a period of ten years.
- Access fees for services specific to broadband Internet operations are depreciated over four years.
- Amounts paid as consideration for obtaining indefeasible rights of use (IRU) on dark optical fibers are depreciated over the term of use of the fiber concerned, which can be 11, 15, 20, 25 or 27 years.
- External costs incurred by the Group for acquiring new customers are depreciated over the term of the contract signed by each customer concerned.

At each balance sheet date, the Group assesses whether the depreciation schedules reflect the useful lives of its assets, and makes amendments where necessary.

Borrowing costs

In accordance with IAS 23, borrowing costs directly attributable to the acquisition or production of a qualifying asset are included in the cost of that asset.

Finance leases

Material assets acquired under finance leases are capitalized in the consolidated financial statements.

In accordance with IAS 17, leases are considered to be finance leases when they have the effect of transferring to the lessee substantially all the risks and rewards inherent to ownership of the asset covered by the lease.

In such cases:

- At the commencement of the lease term, the assets acquired are recognized in the balance sheet based on the fair value of the leased property or, if lower, the present value of the minimum lease payments. They are subsequently depreciated over their useful lives.
- The related obligation is recorded under debt, based on the lease terms.
- Lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

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Impairment of assets

Non-financial assets with indefinite useful lives are not amortized, but are tested for impairment on an annual basis at the year-end (December 31) or whenever there is an indication that they may be impaired. In assessing whether there is any indication that an asset may be impaired, the Group considers events or circumstances that suggest that significant unfavorable changes have taken place which may have a prolonged, adverse effect on the Group's economic or technological environment, or on the assumptions used on acquisition of the asset concerned.

All other assets are also tested for impairment on an annual basis or whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

Financial assets

- Financial assets held for trading are classified as financial assets at fair value through profit or loss and are recognized as current assets. Gains and losses arising from changes in the fair value of these assets are presented in the income statement.
- Financial assets that the Iliad Group has the intention and ability to hold to maturity are classified as held-to-maturity investments and measured at amortized cost. Gains and losses on these investments are recognized in the income statement when the assets are realized.
- Loans and receivables are also measured at amortized cost, with gains and losses recognized in the income statement when they are repaid or settled.
- The Group's other investments are classified as available-for-sale financial assets and are measured at fair value. Changes in the fair value of available-for-sale financial assets are recognized directly in equity. When a decline in the fair value of an available-for-sale financial asset has been recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity is removed from equity and recognized in the income statement.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method.

Receivables

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. The fair value of short-term receivables with no stated interest rate is measured at the original invoice amount if the effect of discounting is immaterial.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

The likelihood of collection is estimated based on the best possible assessment of the risk of non-recovery of the receivable concerned.

Deferred taxes

Deferred taxes are recognized using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

However, deferred taxes are not accounted for if they arise from initial recognition of an asset or liability in a transaction other than a business combination and there is no difference in the applicable tax and accounting treatment. Deferred taxes are determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

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Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred taxes are recognized on temporary differences arising on investments in subsidiaries except where it is probable that the temporary difference will not reverse in the foreseeable future.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, short-term investments with original maturities of less than three months and highly-liquid investments in money-market mutual funds. Short-term investments are marked-to-market at each balance sheet date.

Bank overdrafts are classified as current financial liabilities.

Own shares

Own shares held are recognized as a deduction from equity based on their acquisition cost. Gains and losses on the disposal of own shares held are also recorded in equity.

Provisions

In accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, when the Group's obligations to third parties known at the balance sheet date are certain or likely to cause an outflow of resources for the benefit of a third party, without at least equivalent consideration, a provision is recorded when the amount concerned can be estimated with sufficient reliability.

Borrowings

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date, in which case they are classified as non-current liabilities.

Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value, net of directly attributable transaction costs incurred. They are subsequently measured at amortized cost.

Convertible bonds

The fair value of the liability component of convertible bonds is determined based on prevailing market interest rates for similar bonds with no conversion rights. This amount is recognized as a liability based on amortized cost until the liability is settled when the bonds are converted or reach maturity. The balance of the bond issue proceeds is allocated to the conversion option and recognized in equity, net of tax.

Employee benefits

Other than share-based payments – which are described in a specific note – the only employee benefits within the Iliad Group correspond to pension benefits.

In accordance with IAS 19, *Employee Benefits*, independent actuarial valuations of post-employment benefit obligations under defined benefit plans are made using the projected unit credit method, with employee rights recorded on an accruals basis.

For each active participant, the benefit likely to be paid is estimated based on the rules defined in the applicable collective bargaining agreement and/or company-level agreement, using personal data projected to the standard age for payment of the benefit. The Group's total obligations toward each participant (total actuarial value of future benefits) are then calculated by multiplying the estimated benefit by an actuarial factor, which takes into account the following:

- assumptions concerning the employee's probability of either leaving the Group or dying before the age of payment of the benefit;
- the discounted value of the benefit at the valuation date.

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These total benefits are then allocated over each of the past and future years for which the participant accrued rights under the plan. The portion of the Group's obligation allocated to years prior to the measurement date (projected benefit obligation) corresponds to obligations for services rendered. The projected benefit obligation represents the Group's obligation existing at the balance sheet date.

The individual results of the valuation are then aggregated to obtain Group-level results.

Stock option plans

In accordance with IFRS 2, *Share-based Payment*, share purchase and subscription options, employee share issues, and share awards to Group employees are measured at fair value at the grant date.

Calculations of the fair value of stock options are performed based on criteria such as the exercise price and life of the options, the current price of the underlying shares, the volatility range of the share price, expected dividends on the shares and the risk-free interest rate over the life of the options.

The fair value of stock options is recognized under "Share-based payment expense" on a straight-line basis over the vesting period (i.e. the period between the grant date and the exercise date), with a corresponding adjustment to equity for equity-settled plans and to employee-related liabilities for cash-settled plans.

Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value at each balance sheet date. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the hedged item. The Group designates certain derivatives as hedges of a particular risk associated with a highly probable forecast transaction (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and hedging strategy. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are effective in offsetting changes in cash flows of hedged items.

The fair values of the various derivative instruments used for hedging purposes are disclosed in Note 33. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item exceeds 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

NOTE 2: SCOPE OF CONSOLIDATION

List of consolidated companies and consolidation methods

The scope of consolidation and consolidation methods used are described in Note 37 for the year ended December 31, 2009 and Note 38 for the year ended December 31, 2008.

CHANGES IN SCOPE OF CONSOLIDATION IN 2009

Changes in the scope of consolidation in 2009 – as set out in the table in Note 39 – concerned the following:

- Purchases of minority interests in Freebox.
- Purchases of minority interests in CitéFibre.
- Purchases of minority interests in Dedibox, which was merged into Online on July 30, 2009.

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NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group makes estimates and assumptions concerning the future. It continually evaluates these estimates and assumptions which are based both on past experience and on other factors deemed reasonable to be used for assessing the carrying amount of assets and liabilities. Actual amounts may differ significantly from these estimates should different assumptions or conditions apply.

The main accounting estimates and judgments used by the Group relate to (i) useful lives and impairment of assets and (ii) assessment of doubtful receivables and calculation of the corresponding provisions.

NOTE 4: REVENUES

An analysis of revenues by operating segment is provided in Note 16.

As substantially all of the Group's operations are in France, presenting data by region would not be significant.

NOTE 5: PURCHASES USED IN PRODUCTION

Purchases used in production include:

- Interconnect costs invoiced by other operators.
- Costs relating to unbundling operations.
- Acquisitions of goods and services for resale or for use in designing goods or services invoiced by the Group.

NOTE 6: HUMAN RESOURCES DATA

Payroll costs

Payroll costs break down as follows:

<u>(in € thousands)</u>	<u>2009</u>	<u>2008</u>
• Wages and salaries	79,371	57,288
• Payroll taxes	29,209	22,525
Total	108,580	79,813

Number of employees at year-end

The Iliad Group's headcount can be analyzed as follows by category:

	<u>At Dec. 31, 2009</u>	<u>At Dec. 31, 2008</u>
• Management	514	624
• Other	3,538	3,574
Total	4,052	4,198

Headcount by segment is presented in the "Segment information" table in Note 16.

Post-employment benefits

The methods used for recognizing and measuring pension and other post-employment benefit obligations comply with IAS 19, *Employee Benefits* (see Note 1).

Post-employment benefit obligations totaled €1,256,000 at December 31, 2009, compared with €602,000 at December 31, 2008.

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The following main economic assumptions were used to measure the Group's post-employment benefit obligation at December 31, 2009 and 2008:

	<u>2008</u>	<u>2009</u>
• Discount rate	5.70%	5%
• Inflation rate	2%	2%
• Salary growth rate	3%	3%

NOTE 7: DEVELOPMENT COSTS

Development costs – which are primarily incurred by Freebox – include the cost of developing new products, tailoring existing products to the Internet, and research and development of databases for new applications (see Note 1).

<u>(in € thousands)</u>	<u>2009</u>	<u>2008</u>
• Amortization of capitalized development costs	1,660	1,477
• Development costs recognized directly in the income statement	260	438
Total	<u>1,920</u>	<u>1,915</u>

NOTE 8: OTHER INCOME AND EXPENSES FROM OPERATIONS

“Other income from operations” breaks down as follows:

<u>(in € thousands)</u>	<u>2009</u>	<u>2008</u>
• Proceeds from sales of non-current assets	8,728	14,317
• Other	9,569	13,160
Total other income from operations	<u>18,297</u>	<u>27,477</u>

“Other expenses from operations” can be analyzed as follows:

<u>(in € thousands)</u>	<u>2009</u>	<u>2008</u>
• Carrying amount of divested non-current assets	(1,865)	(4,967)
• Royalties and similar fees	(37,720)	(28,575)
• Bad debts	(11,415)	(8,437)
• Other	(5,366)	(1,905)
Total other expenses from operations	<u>(56,366)</u>	<u>(43,884)</u>

Comments on 2008 and 2009 data

“Royalties and similar fees” primarily comprise expenses payable by the Group within the scope of its operations, including royalties, payments to the Universal Service Fund and costs relating to the use of various licenses.

NOTE 9: DEPRECIATION, AMORTIZATION AND PROVISIONS

The following tables show the breakdown between the various components of depreciation, amortization and provisions:

Depreciation, amortization and provisions for impairment in value of non-current assets

<u>(in € thousands)</u>	<u>2009</u>	<u>2008</u>
• Depreciation and amortization expense:		
• Intangible assets	15,567	17,315
• Property, plant and equipment	278,631	299,872
• Provisions for impairment in value of property, plant and equipment	1,001	(796)
• Amortization of investment grants recognized as intangible assets	(458)	(17)
Total	<u>294,741</u>	<u>316,374</u>

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Additions to other provisions

<u>(in € thousands)</u>	<u>2009</u>	<u>2008</u>
• Provisions for contingencies and charges	(1,650)	4,406
• Provisions for impairment in value of inventories and trade receivables	30,940	20,795
Total	<u>29,290</u>	<u>25,201</u>

Comments on 2009 data

As part of its analysis of the estimated useful lives applied for depreciating and amortizing non-current assets begun in late 2008, in 2009 the Group increased the depreciation periods applicable to modems, access fees to the France Télécom service and certain network components from three to four years. This change in accounting estimate had a positive impact of approximately €77 million on the 2009 financial statements.

Comments on 2008 data

The high level of depreciation and amortization relating to non-current assets in both 2007 and 2008 reflects the major capital expenditure incurred by the Group over the past few years.

NOTE 10: OTHER OPERATING INCOME AND EXPENSES

This item breaks down as follows:

<u>(in € thousands)</u>	<u>2009</u>	<u>2008</u>
• Other operating income	5,984	0
• Other operating expenses	(32,475)	(30,684)
Other operating expense, net	<u>(26,491)</u>	<u>(30,684)</u>

Comments on 2008 and 2009 data

Following the acquisition of Liberty Surf Group, as from 2008 Iliad incurred costs for (i) restructuring the operations conducted under the Alice brand with a view to returning them to breakeven and (ii) combining these operations with Free's business. In 2008, the Group decided to disclose these restructuring costs separately as they represented a material non-recurring amount.

In 2009 these restructuring costs primarily concerned:

- Expenses incurred to combine the IT systems and other technical tools of Telecom Italia SAS and Free SAS and render them compatible, as well as the commercial impact of the difficulties arising from these operations.
- An additional provision recorded for the Redeployment Plan decided on in late 2008.
- Costs caused by renegotiating or terminating contracts.

NOTE 11: FINANCIAL INCOME AND EXPENSES

Financial income and expenses can be analyzed as follows:

<u>(in € thousands)</u>	<u>2009</u>	<u>2008</u>
• Income from cash and cash equivalents	5,613	13,718
• Finance costs, gross	(56,346)	(33,628)
Finance costs, net	<u>(50,733)</u>	<u>(19,910)</u>
• Other financial income and expenses		
• Translation adjustments	148	581
• Other	1,576	(193)
Net financial expense	<u>(49,009)</u>	<u>(19,522)</u>

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The increase in the net financial expense figure in 2009 is primarily attributable to (i) the full-year impact of the cost of the syndicated credit facility set up in 2008 to finance the acquisition of Liberty Surf Group and (ii) lower returns from cash investments.

Income from cash and cash equivalents corresponds to income from short-term investments.

Finance costs, gross, comprises interest on borrowings and finance leases.

The expense for the year relating to the Group's OCEANE bonds includes interest payable both on the bonds and on the bond premium.

NOTE 12: CORPORATE INCOME TAX

Analysis of the corporate income tax charge

The corporate income tax charge breaks down as follows:

<u>(in € thousands)</u>	<u>2009</u>	<u>2008</u>
Current taxes		
• on income	(15,773)	(43,722)
Deferred taxes		
• on income	107,979	96,027
• on value added (CVAE)	<u>16,789</u>	<u>0</u>
Total tax charge	<u>108,995</u>	<u>52,305</u>

Under the 2010 French Finance Act adopted on December 30, 2009, as from 2010 the asset-based local business tax (*taxe professionnelle*) payable by companies operating in France will be abolished and replaced by a new tax comprising the following two types of contributions:

- The *Cotisation Foncière des Entreprises* (CFE), calculated based on the real estate rental values used for calculating the current *taxe professionnelle*.
- The *Cotisation sur la Valeur Ajoutée des Entreprises* (CVAE), calculated based on value added as reported in companies' individual financial statements.

Following these fiscal changes, Iliad reviewed the accounting treatment of taxes payable in France, based on IFRS and the latest available information, including the guidelines provided by the French Accounting Board (CNC) and the IFRIC.

Iliad considers that the CFE contribution – which, as stated above, is calculated based on real estate rental values and may be capped at a percentage of a company's value added – is very similar to the *taxe professionnelle*. Therefore, the CFE will be recorded as an operating expense in the 2010 consolidated financial statements in the same way as the *taxe professionnelle* in 2009.

Conversely, Iliad has decided to account for the CVAE contribution as part of its corporate income tax charge because there is a direct link between the Group's earnings and the CVAE calculation base.

In compliance with IAS 12, as the new Finance Act was adopted in 2009 the Group's classification of the CVAE contribution as an income tax charge led it to record a €16,789,000 deferred tax expense at December 31, 2009 relating to temporary differences existing at that date. This deferred tax expense was presented under "Corporate income tax" in the income statement. As from 2010, the total amount of current and deferred taxes relating to the CVAE contribution will be presented on the same line.

The bases used to calculate the 2009 deferred tax expense were as follows:

- Assets generating economic benefits subject to the CVAE contribution when the recovery of these assets cannot be deducted from value added.

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- Impairment losses on assets or provisions that are not deductible for the purposes of the CVAE contribution but which relate to expense items that can be deducted from the CVAE tax base at a later date.

Deferred taxes in this respect will also be recorded in subsequent years when the Group carries out business combinations.

Tax group

The Iliad Group has set up a tax group, which in 2009 included all consolidated companies except Assunet, Protelco and Total Call.

Tax proof

The table below reconciles the Group's theoretical tax rate with the effective tax rate calculated on consolidated profit from continuing operations before tax.

	<u>2009</u>	<u>2008</u>
Profit for the period	175,868	100,399
• Corporate income tax	108,995	52,305
• Profit/(loss), net of taxes, from discontinued operations	(1,010)	66
Consolidated profit from continuing operations before tax	<u>283,853</u>	<u>152,770</u>
Theoretical tax rate	34.43%	34.43%
• CVAE impact	+3.88%	0%
• Net impact of permanent differences	-0.37%	+0.47%
• Impact of unrecognized tax loss carryforwards	+0.06%	0%
• Impact of different tax rates	+0.01%	- 1.09%
• Other impacts	+0.39%	+0.43%
Effective tax rate	<u>38.40%</u>	<u>34.24%</u>

Unrecognized deferred tax assets

Unrecognized deferred tax assets concern:

- tax loss carryforwards of companies outside the Iliad tax group which have been in a loss-making position for several years and are not expected to return to profit in the near future;
- tax loss carryforwards that are not expected to be utilized based on the projected future earnings of the companies concerned at the balance sheet date, or when the companies concerned have been historically loss-making and their turnaround is in progress.

Unrecognized deferred taxes break down into the following broad categories:

<u>(in € thousands)</u>	<u>At Dec. 31, 2009</u>	<u>At Dec. 31, 2008</u>
• Temporary differences	0	0
• Tax loss carryforwards	3,792	3,756
• Consolidation entries	29	7
Total	<u>3,821</u>	<u>3,763</u>

NOTE 13: PROFIT FROM DISCONTINUED OPERATIONS

Comments on 2009 data

On February 7, 2007 Iliad sold its entire interest in Kertel. The sale agreement included an earn-out clause based on Kertel's EBIDTA for 2007.

During the first half of 2009 the final amount of the earn-out payment was set at €1,010,000.

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Comments on 2008 data

On November 28, 2008 the Iliad Group sold its entire interest in Intercall, a company specialized in prepaid phone cards that the Group acquired when it purchased Liberty Surf Group (see Note 2).

The Iliad Group recognized a loss of €66,000 on the sale of Intercall.

NOTE 14: BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share

<u>Number of shares used for the calculation</u>	<u>2009</u>	<u>2008</u>
• Number of shares at the year-end	54,583,440	54,431,275
• Weighted average number of shares	54,445,188	54,356,249

Diluted earnings per share

<u>Number of shares used for the calculation</u>	<u>2009</u>	<u>2008</u>
• Weighted average number of shares outstanding (see above)	54,445,188	54,356,249
• Number of share equivalents:		
• Stock options	194,878	155,845
• OCEANE bonds	3,754,968	0
Maximum weighted average number of shares after dilution	<u>58,395,034</u>	<u>54,512,094</u>

NOTE 15: NOTES TO THE STATEMENT OF CASH FLOWS

Cash flows from operating activities

Net cash generated from operating activities is determined by the indirect method, which consists of adding back to or deducting from profit for the period (i) all non-cash transactions, (ii) deferrals or adjustments concerning past or future cash inflows or outflows related to operations, and (iii) all cash flows relating to investing or financing activities.

Changes in operating working capital requirement

Changes in operating working capital requirement during 2009 and 2008 can be analyzed as follows:

<u>2009</u>	<u>Note</u>	<u>Balance at Jan. 1, 2009</u>	<u>Net debits</u>	<u>Net credits</u>	<u>Changes in Group structure³⁶</u>	<u>Other</u>	<u>Balance at Dec. 31, 2009</u>
• Net inventories	22	1,665		946			719
• Net trade receivables	23	133,541		18,539		(11,337)	103,665
• Net other receivables	23	81,159		2,223	(251)	(26)	78,659
• Supplier payables	30	211,740	28,814			(10,212)	193,138
• Other payables		84,502	504			6,000	77,998
TOTAL		<u>(79,877)</u>	<u>29,318</u>	<u>(21,708)</u>	<u>(251)</u>	<u>(15,575)</u>	<u>(88,093)</u>

**Change in operating working
capital requirement in 2009** **7,610**

³⁶ Corresponding to fair value adjustments to the identifiable assets and liabilities of Liberty Surf Group on completion of the initial accounting for the acquisition (see Note 17).

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The impact of restructuring costs on receivables and payables is included in the "Other" column and therefore does not affect changes in operating working capital requirement.

<u>2008</u>	<u>Note</u>	<u>Balance at Jan. 1, 2008</u>	<u>Net debits</u>	<u>Net credits</u>	<u>Changes in Group structure</u>	<u>Other</u>	<u>Balance at Dec. 31, 2008</u>
• Net inventories	22	505	625		535		1,665
• Net trade receivables	23	81,142		25,538	77,937		133,541
• Net other receivables	23	59,437		5,726	29,448	(2,000)	81,159
• Supplier payables	30	126,371	1,607		(86,976)		211,740
• Other payables		53,707	8,093		(37,879)	(1,009)	84,502
TOTAL		(38,994)	10,325	(31,264)	(16,935)	(3,009)	(79,877)
Change in operating working capital requirement in 2008				(20,939)			

Other receivables

This item can be analyzed as follows:

	<u>Note</u>	<u>Dec. 31, 2009</u>	<u>Dec. 31, 2008</u>
Trade and other receivables	23	185,024	257,106
• Net trade receivables	23	(103,665)	(133,541)
• Other items with no impact on working capital requirements		(2,700)	(42,406)
Recognized in statement of cash flows		78,659	81,159

Other payables

This item can be analyzed as follows:

	<u>Note</u>	<u>Dec. 31, 2009</u>	<u>Dec. 31, 2008</u>
Trade and other payables	30	364,835	387,392
• Suppliers of goods and services (incl. VAT)	30	(193,138)	(211,740)
• Suppliers of non-current assets (excl. VAT)		(93,498)	(90,347)
• Other items with no impact on working capital requirements		(201)	(803)
Recognized in statement of cash flows		77,998	84,502

Acquisitions of non-current assets

Acquisitions of non-current assets can be analyzed as follows:

	<u>Note</u>	<u>2009</u>	<u>2008</u>
• Intangible assets	18	1,973	4,292
• Property, plant and equipment	20	418,394	389,460
• Suppliers of non-current assets (excl. VAT)			
• at beginning of year		90,347	64,277
• impact of changes in Group structure ³⁷		11,109	28,108
• at year-end		(93,498)	(90,347)
Recognized in statement of cash flows		428,325	395,790

³⁷ For 2009 this item corresponds to fair value adjustments to the identifiable assets and liabilities of Liberty Surf Group on completion of the initial accounting for the acquisition (see Note 17).

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Cash and cash equivalents

	Note	Cash and cash equivalents at Dec. 31, 2009	Cash and cash equivalents at Dec. 31, 2008
Cash (including currency hedges)	24	9,536	12,549
Marketable securities	24	624,365	323,184
Sub-total		633,901	335,733
Bank borrowing facilities	29	(2,101)	(261)
Remeasurement of currency hedges	34	(1,402)	1,969
Total		630,398	337,441

Non-monetary flows relating to investing and financing activities

The following table presents transactions carried out by the Iliad Group that did not have an impact on cash flows, and which are therefore not included in the statement of cash flows.

<u>(in € thousands)</u>	<u>2009</u>	<u>2008</u>
• Acquisitions of assets under finance leases	24,975	16,354
• Acquisition of a company through a share issue	0	0
• Conversion of debt into equity	0	0

NOTE 16: SEGMENT INFORMATION

Reportable segments

The Group reports information on operating segments based on its business segments.

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

Segment reporting format

The Group has two operating segments, identified using criteria directly based on its organizational structure and internal reporting systems as defined by the Management Committee:

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

This segment reporting format complies with the criteria in IFRS 8.

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

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Analysis of the consolidated income statement by operating segment

<u>2009</u>	<u>Broadband</u>	<u>Traditional Telephony</u>	<u>Inter- segment</u>	<u>Total</u>
Revenues				
External revenues	1,938,280	16,220		1,954,500
Inter-segment revenues	5,159	23,964	(29,123)	0
Total revenues	1,943,439	40,184	(29,123)	1,954,500
Earnings				
EBITDA	661,142	233	0	661,375
Share-based payment expense	6,061	1,220	0	7,281
Depreciation, amortization and provisions for impairment of non-current assets	294,603	138	0	294,741
Profit/(loss) from ordinary activities	360,478	(1,125)	0	359,353
<u>2008</u>	<u>Broadband</u>	<u>Traditional Telephony</u>	<u>Inter- segment</u>	<u>Total</u>
Revenues				
External revenues	1,533,274	31,761		1,565,035
Inter-segment revenues	7,519	24,890	(32,409)	0
Total revenues	1,540,793	56,651	(32,409)	1,565,035
Earnings				
EBITDA	521,522	3,216	0	524,738
Share-based payment expense	4,572	816	0	5,388
Depreciation, amortization and provisions for impairment of non-current assets	316,200	174	0	316,374
Profit from ordinary activities	200,750	2,226	0	202,976

Capital expenditure by operating segment

<u>2009</u>	<u>Broadband</u>	<u>Traditional Telephony</u>	<u>Inter- segment</u>	<u>Total</u>
Intangible assets	1,960	13	0	1,973
Property, plant and equipment	426,242	110	0	426,352
<u>2008</u>	<u>Broadband</u>	<u>Traditional Telephony</u>	<u>Inter- segment</u>	<u>Total</u>
Intangible assets	4,282	10	0	4,292
Property, plant and equipment	391,350	148	0	391,498

Employee numbers by operating segment

<u>2009</u>	<u>Broadband</u>	<u>Traditional Telephony</u>	<u>Inter- segment</u>	<u>Total</u>
Number of employees at year-end	3,991	61	0	4,052
<u>2008</u>	<u>Broadband</u>	<u>Traditional Telephony</u>	<u>Inter- segment</u>	<u>Total</u>
Number of employees at year-end	4,143	55	0	4,198

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Analysis of consolidated assets by operating segment

<u>At December 31, 2009</u>	<u>Broadband</u>	<u>Traditional Telephony</u>	<u>Total</u>
Non-current assets (excl. taxes)	1,386,248	8,078	1,394,326
Current assets (excl. cash and cash equivalents and current income tax assets)	200,071	17,197	217,268
Inventories	719	0	719
Trade and other receivables	167,827	17,197	185,024
Other short-term financial assets	16	0	16
Assets held for sale	31,509	0	<u>31,509</u>
Cash and cash equivalents			<u>633,901</u>
<u>At December 31, 2008</u>	<u>Broadband</u>	<u>Traditional Telephony</u>	<u>Total</u>
Non-current assets (excl. deferred taxes)	1,252,139	1,705	1,253,844
Current assets (excl. cash and cash equivalents)	219,185	56,376	275,561
Inventories	1,665	0	1,665
Trade and other receivables	200,730	56,376	257,106
Other short-term financial assets	0	0	0
Assets held for sale	16,790	0	<u>16,790</u>
Cash and cash equivalents			<u>335,733</u>

Analysis of consolidated equity and liabilities by operating segment (excluding OCEANE convertible bonds)

<u>At December 31, 2009</u>	<u>Broadband</u>	<u>Traditional Telephony</u>	<u>Total</u>
Non-current liabilities (excl. deferred taxes)	807,286	676	807,962
Long-term provisions	1,003	394	1,397
Long-term financial liabilities	804,352	44	804,396
Other non-current liabilities	1,931	238	2,169
Current liabilities (excl. taxes payable)	523,066	19,866	542,932
Short-term provisions	8,810	70	8,880
Trade and other payables	344,104	18,562	362,666
Short-term financial liabilities	170,152	1,234	171,386
<u>At December 31, 2008</u>	<u>Broadband</u>	<u>Traditional Telephony</u>	<u>Total</u>
Non-current liabilities (excl. deferred taxes)	898,589	1,175	899,764
Long-term provisions	746	401	1,147
Long-term financial liabilities	889,588	44	889,632
Other non-current liabilities	8,255	730	8,985
Current liabilities (excl. taxes payable)	407,373	16,870	424,243
Short-term provisions	33,624	37	33,661
Trade and other payables	361,705	16,702	378,407
Short-term financial liabilities	12,044	131	12,175

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NOTE 17: GOODWILL

The main movements in goodwill in 2009 and 2008 were as follows:

<u>(in € thousands)</u>	<u>2009</u>	<u>2008</u>
Carrying amount at Jan. 1	164,835	31,206
Increase following acquisitions:		
• Free	0	132,597
• Freebox	468	1,032
• Online	179	0
Other movements ³⁸ :		
• Free	<u>48,566</u>	<u>0</u>
Carrying amount at Dec. 31	<u>214,048</u>	<u>164,835</u>

Comments on 2009 data

- **Free**

Iliad acquired Liberty Surf Group on August 26, 2008.

In its 2008 consolidated financial statements, Iliad recorded €132,597,000 in provisional goodwill on this acquisition. In accordance with the applicable accounting rules, the fair values provisionally assigned to Liberty Surf Group's identifiable assets, liabilities and contingent liabilities were analyzed and adjusted within twelve months of the acquisition date (the measurement period), which ended in 2009. This led to the recognition of a final goodwill amount of €181,163,000, notably reflecting the findings of analyses carried out on the various components of Liberty Surf Group's network acquired by Iliad.

- **Freebox**

The Group purchased several minority interests in Freebox in 2008 and 2009, recording €1,032,000 and €468,000 respectively in related goodwill.

- **Online**

The Group purchased several minority interests in Online in 2009, recording €179,000 in related goodwill.

Comments on 2008 data

- **Free**

Iliad SA acquired Liberty Surf Group on August 26, 2008. The key data regarding this acquisition is given in Note 2.

The fair values of the identifiable assets, liabilities and contingent liabilities acquired were still in the process of being analyzed at December 31, 2008. At the 2008 year-end, Management estimated that the valuation procedure would be completed within twelve months of the acquisition date.

Based on provisional fair values, at December 31, 2008 the Iliad Group recorded goodwill of €132,597,000 relating to Liberty Surf Group.

³⁸ For 2009 this item corresponds to fair value adjustments to the identifiable assets and liabilities of Liberty Surf Group on completion of the initial accounting for the acquisition (see Note 17).

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NOTE 18: INTANGIBLE ASSETS

Intangible assets break down as follows:

(in € thousands)	At December 31, 2009			At December 31, 2008		
	Gross	Amortization	Net	Gross	Amortization	Net
Acquisitions:						
• Development costs	139	139	0	154	51	103
• Wimax license ³⁹	54,296	0	54,296	54,296	0	54,296
• Alice customer base	25,000	2,778	22,222	25,000	695	24,305
• Other	6,245	4,367	1,878	23,396	15,832	7,564
Internally-generated intangible assets:						
• Development costs	3,380	1,485	1,895	3,042	1,313	1,729
• Other				0	0	0
Total	89,060	8,769	80,291	105,888	17,891	87,997

There are no restrictions on the legal title of the Group's intangible assets, and none of these assets have been pledged as security for borrowings.

Changes in net intangible assets can be analyzed as follows:

(in € thousands)	2009	2008
Net at Jan. 1	87,997	56,546
• Acquisitions	146	2,741
• Internally-generated intangible assets	1,827	1,551
Disposals	0	0
Impact of changes in Group structure	0	44,474
Reclassifications	5,951	0
Other	(522)	0
Amortization	(15,108)	(17,315)
Net at Dec. 31	80,291	87,997

NOTE 19: IMPAIRMENT TESTS ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

Intangible assets are tested for impairment on an annual basis at the year-end (December 31) or whenever there is an indication that they may be impaired.

At December 31, 2009 there was no indication that these assets were impaired, as there were no events or circumstances to suggest that any significant changes had taken place with a prolonged, adverse effect on the Group's economic or technological environment or the assumptions made on acquisition of the assets.

In 2008 and 2009 the Group tested its Wimax license for impairment by comparing its carrying amount with its fair value, based on the cost of obtaining regional licenses in France or similar licenses in other European countries.

Allocation of intangible assets with indefinite useful lives

The Iliad Group does not have any intangible assets with indefinite useful lives.

³⁹ The Wimax license owned by the Group is currently classified as an intangible asset in progress and will be amortized over the license period from the date when the related network is technically ready for the service to be marketed. The tests that need to be conducted prior to implementing Wimax-related technology which were begun in 2007 are still under way.

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Impairment tests

The recoverable amounts of the Group's CGUs were determined based on fair value less costs to sell. No impairment losses were recorded, as the carrying amounts of the CGUs did not exceed their recoverable amounts.

As over 98% of the Group's operations correspond to the Broadband CGU, the fair value less costs to sell of this CGU was determined by reference to the Group's market value, which is considerably higher than the CGU's carrying amount.

NOTE 20: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment can be analyzed as follows:

(in € thousands)	At December 31, 2009			At December 31, 2008		
	Gross	Depreciation	Net	Gross	Depreciation	Net
• Land and buildings ⁴⁰	65,563	518	65,045	36,280	413	35,867
• Network usage rights	173,334	51,300	122,034	214,743	39,004	175,739
• Service access fees	571,261	361,841	209,420	466,843	290,959	175,884
• Network equipment ⁴¹	1,107,299	501,822	605,477	869,295	321,617	547,678
• Other	108,448	22,954	85,494	78,018	16,645	61,373
Total	2,025,905	938,435	1,087,470	1,665,179	668,638	996,541
⁴⁰ of which finance leases	39,029	27	39,002	24,127	0	24,127
⁴¹ of which finance leases	46,438	26,101	20,337	36,365	20,124	16,241

There are no restrictions on the legal title of the Group's property, plant and equipment, and none of these assets have been pledged as security for borrowings.

Changes in net property, plant and equipment can be analyzed as follows:

(in € thousands)	2009	2008
Net at Jan. 1	996,541	676,600
Acquisitions*	443,369	405,814
Disposals	(1,865)	(4,967)
Impact of changes in Group structure ⁴²	(64,992)	218,170
Reclassifications	(5,951)	0
Depreciation	(279,632)	(299,076)
Net at Dec. 31	1,087,470	996,541
* Acquisitions excluding assets acquired under finance leases	418,394	389,460

Comments on 2008 and 2009 data

In 2008 and 2009 the Group continued to invest in expanding its operations and managing the ADSL subscriber base (including investments in Freebox modems and service access fees, as well as investments in Alice Box modems). It also pursued its capital expenditure programs relating to its ADSL operator business by extending the coverage of its optical fiber network (including through IRUs) and by further improving and renewing network equipment. In 2009 the Group unbundled 428 new France Telecom sites.

At the same time, the Group actively pursued the rollout of its FTTH network by (i) acquiring premises to house the necessary equipment, either through real estate finance leases or outright acquisitions; and (ii) continuing to lay optical fiber cable.

⁴² For 2009 this item corresponds to fair value adjustments to the identifiable assets and liabilities of Liberty Surf Group on completion of the initial accounting for the acquisition (see Note 17).

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Impairment of property, plant and equipment

Items of property, plant and equipment are tested for impairment on an annual basis or whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. No such events or changes in circumstances were identified at December 31, 2009.

Assets under construction

The carrying amount of assets under construction is included in the carrying amounts of each item of property, plant and equipment, as follows:

<u>(in € thousands)</u>	<u>At December 31, 2009</u>	<u>At December 31, 2008</u>
• Land and buildings	56,631	32,915
• Network usage rights	9,934	9,985
• Network equipment	191,863	127,037
Total	<u>258,428</u>	<u>169,937</u>

NOTE 21 : OTHER FINANCIAL ASSETS

Other financial assets break down as follows:

<u>(in € thousands)</u>	<u>At December 31, 2009</u>	<u>At December 31, 2008</u>
	<u>Net</u>	<u>Net</u>
Other long-term financial assets		
• Loans	3,104	10
• Other investment securities	3,517	18
• Guarantees and deposits	5,896	4,443
Total other long-term financial assets	<u>12,517</u>	<u>4,471</u>
Other short-term financial assets		
• Loans	16	0
• Other	0	0
Total other short-term financial assets	<u>16</u>	<u>0</u>
Total other financial assets	<u>12,533</u>	<u>4,471</u>

Other short-term and long-term financial assets correspond to the portion of receivables due within one year and beyond one year respectively.

Other financial assets break down as follows by function:

<u>(in € thousands)</u>	<u>At December 31, 2009</u>	<u>At December 31, 2008</u>
	<u>Net</u>	<u>Net</u>
▪ Financial assets at fair value through profit or loss	17	18
▪ Held-for-trading investments	0	0
▪ Held-to-maturity investments	0	0
▪ Loans and receivables issued by the Group	9,016	4,453
▪ Available-for-sale financial assets	3,500	0
Total other financial assets	<u>12,533</u>	<u>4,471</u>

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Changes in net other financial assets can be analyzed as follows:

<u>(in € thousands)</u>	<u>2009</u>	<u>2008</u>
Net at Jan. 1	4,471	1,983
Acquisitions	10,617	1,643
Redemptions and repayments	(2,930)	(900)
Impact of changes in Group structure	0	1,772
Changes in provisions	<u>375</u>	<u>(27)</u>
Net at Dec. 31	<u>12,533</u>	<u>4,471</u>

Comments on 2008 and 2009 data

Acquisitions and redemptions and repayments in 2008 and 2009 related to movements in guarantees and deposits paid.

NOTE 22: INVENTORIES

Inventories break down as follows:

<u>(in € thousands)</u>	<u>At December 31, 2009</u>	<u>At December 31, 2008</u>
Raw materials	573	443
Work-in-progress	0	0
Finished products	<u>687</u>	<u>1,810</u>
Inventories – gross	<u>1,260</u>	<u>2,253</u>
Provisions:		
• raw materials	(521)	(410)
• finished products	<u>(20)</u>	<u>(178)</u>
Total provisions	<u>(541)</u>	<u>(588)</u>
Inventories – net	<u>719</u>	<u>1,665</u>

Comments on 2008 and 2009 data

Finished products inventories correspond primarily to WiFi cards, as well as cell phones and various accessories marketed by the Iliad Group.

NOTE 23: TRADE AND OTHER RECEIVABLES

Trade and other receivables break down as follows:

<u>(in € thousands)</u>	<u>At December 31, 2009</u>	<u>At December 31, 2008</u>
Trade and other receivables		
Trade receivables	162,006	160,858
Advances and prepayments	1,139	751
Tax receivables (VAT)	45,870	45,658
Other	19,445	63,844
Prepaid expenses	<u>16,129</u>	<u>14,537</u>
Total – gross	<u>244,589</u>	<u>285,648</u>
Provisions for trade receivables	<u>(58,340)</u>	<u>(27,317)</u>
Provisions for other receivables	<u>(1,225)</u>	<u>(1,225)</u>
Net trade and other receivables	<u>185,024</u>	<u>257,106</u>
Net trade receivables	<u>103,666</u>	<u>133,541</u>
Net other receivables	<u>81,358</u>	<u>123,565</u>

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NOTE 24: CASH AND CASH EQUIVALENTS

Cash and cash equivalents can be analyzed as follows:

<u>(in € thousands)</u>	<u>At December 31, 2009</u>		<u>At December 31, 2008</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
Certificates of deposit				
Net value	0	0	50,649	50,649
Mutual funds (UCITs)				
Net value	624,365	624,365	272,535	272,535
Cash	9,536	9,536	12,549	12,549
Total, net	633,901	633,901	335,733	335,733

The Group's portfolio of UCITs consists of units that can be sold at immediate notice and which fall within the "euro monetary" and "international monetary" classifications of the French securities regulator (AMF).

NOTE 25: ASSETS HELD FOR SALE

Assets held for sale break down as follows:

<u>(in € thousands)</u>	<u>At December 31, 2009</u>	<u>At December 31, 2008</u>
Buildings held for sale	<u>31,509</u>	<u>16,790</u>
Total	<u>31,509</u>	<u>16,790</u>

Comments on 2008 and 2009 data

In line with its strategy of acquiring the premises necessary for rolling out its FTTH network – particularly in Paris – the Group has purchased certain buildings of which it intends to only keep part for its future operations. The remaining portion of these buildings will therefore be sold. The portion of the buildings acquired that the Group intends to subsequently sell have been classified under "Assets held for sale". A specialist subsidiary was set up in 2007 to manage these transactions (Immobilière Iliad EURL).

Assets held for sale had no related liabilities at December 31, 2008 or 2009. They gave rise to the recognition of a €1,000 net gain in the 2008 income statement and a €217,000 net gain in 2009.

An analysis of assets held for sale is provided by operating segment in Note 16.

NOTE 26: EQUITY

Share capital

Stock options granted by the Iliad Group on January 20, 2004 have been exercisable by their beneficiaries since January 20, 2008. Similarly, the first tranche of the stock options granted on December 20, 2005 has been exercisable since December 20, 2009.

At December 31, 2009, 152,165 stock options had been exercised for the same number of new shares. Consequently, the Group's share capital stood at €12,096,000 at December 31, 2009, €34,000 higher than the year-earlier figure of €12,062,000.

At December 31, 2009 the Group held 60,473 Iliad shares. At that date Iliad's ownership structure was as follows:

<u>Shareholder</u>	<u>Number of shares</u>	<u>%</u>
Executive Management	38,217,183	70.02
Public	16,366,257	29.98
Total	54,583,440	100.00

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Dividends paid and dividends recommended to shareholders at the Annual General Meeting

The dividend paid in 2009 for 2008 totaled €18,509,000. No interim dividend was paid during the year.

At the next Annual General Meeting, shareholders will be invited to approve a dividend payment of €0.37 per share.

Cash flow hedge reserve

Hedges were set up in 2008 to cover the Group's exposure to changes in interest rates on bank borrowings taken out in 2008 and 2009. These hedges are described in Note 34.

At December 31, 2008 and 2009 the cash flow hedge reserve had negative balances of €13,750,000 and €17,560,000 respectively.

NOTE 27: STOCK OPTION PLANS

The following tables summarize the main features of the various stock option plans approved in 2009 and prior years and outstanding at the year-end.

At December 31, 2009

<u>Date of Shareholders' Meeting</u>	<u>Date of plan launch</u>	<u>Exercise price (in €)</u>	<u>Number of options outstanding at Jan. 1, 2009</u>	<u>Number of options granted in 2009</u>	<u>Number of options cancelled in 2009</u>	<u>Number of options exercised in 2009</u>	<u>Number of options outstanding and exercisable at Dec. 31, 2009</u>	<u>Number of options not exercisable at Dec. 31, 2009</u>
December 12, 2003 ..	January 20, 2004	16.30	129,709	0	0	96,338	33,371	0
December 12, 2003 ..	December 20, 2005	48.44	197,002	0	0	55,827	141,175	0
December 12, 2003 ..	December 20, 2005	48.44	197,003	0	0	0	0	197,003
May 29, 2006	June 14, 2007	74.62	162,455	0	0	0	0	162,455
May 29, 2006	August 30, 2007	68.17	701,331	0	6,572	0	0	694,759
May 29, 2008	November 5, 2008	53.79	596,600	0	7,200	0	0	589,400

At December 31, 2008

<u>Date of Shareholders' Meeting</u>	<u>Date of plan launch</u>	<u>Exercise price (in €)</u>	<u>Number of options outstanding at Jan. 1, 2008</u>	<u>Number of options granted in 2008</u>	<u>Number of options cancelled in 2008</u>	<u>Number of options exercised in 2008</u>	<u>Number of options outstanding and exercisable at Dec. 31, 2008</u>	<u>Number of options not exercisable at Dec. 31, 2008</u>
December 12, 2003 ..	January 20, 2004	16.30	409,434	0	0	279,725	129,709	0
December 12, 2003 ..	December 20, 2005	48.44	219,601	0	22,599	0	0	197,002
December 12, 2003 ..	December 20, 2005	48.44	219,602	0	22,599	0	0	197,003
May 29, 2006	June 14, 2007	74.62	162,455	0	0	0	0	162,455
May 29, 2006	August 30, 2007	68.17	703,960	0	2,629	0	0	701,331
May 29, 2008	November 5, 2008	53.79	0	596,600	0	0	0	596,600

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Exercise date of the options

The exercise terms and conditions applicable to the outstanding stock options are as follows:

<u>Date of plan launch</u>	<u>Exercise terms and conditions</u>
January 20, 2004	Options exercisable since January 20, 2008
December 20, 2005	Half of the options exercisable from December 20, 2009 and half from December 20, 2010
June 14, 2007	Options exercisable from June 13, 2012
August 30, 2007	Options exercisable from August 30, 2012
November 5, 2008	Options exercisable from November 5, 2013

Fair value of options granted

The fair value of the options granted was calculated using the Black & Scholes option pricing model.

The main assumptions applied under this model were as follows:

	<u>12/19/2005</u>	<u>12/19/2005</u>	<u>06/14/2007</u>	<u>08/30/2007</u>	<u>11/05/2008</u>
Quantity	270,758	270,757	162,455	703,960	596,600
Exercise price	€ 48.44	€ 48.44	€ 74.62	€ 68.17	€ 53.79
Life of the options	4 years	5 years	5 years	5 years	5 years
Underlying volatility	30.40%	30.40%	22.50%	22.50%	30%
Annual cost (in € thousands)	865	675	700	2,800	2,265

The expense recorded in relation to these plans totaled €7,281,000 in 2009 and €5,388,000 in 2008.

NOTE 28: PROVISIONS

Provisions break down as follows:

<u>(in € thousands)</u>	<u>At December 31, 2009</u>	<u>At December 31, 2008</u>
Long-term provisions		
Provisions for charges	1,397	1,147
Total long-term provisions	1,397	1,147
Short-term provisions		
Provisions for contingencies	5,191	9,161
Provisions for charges*	3,689	24,500
Total short-term provisions	8,880	33,661
Total provisions	10,277	34,808

Provisions are considered to be “long-term” when the Iliad Group does not expect to use them within 12 months of the balance sheet date. In all other cases they are deemed to be “short-term”.

Provisions for contingencies and charges break down as follows:

<u>(in € thousands)</u>	<u>At December 31, 2009</u>	<u>At December 31, 2008</u>
Provisions for charges	5,086	25,647
Provisions for contingencies	5,191	9,161
Total provisions for contingencies and charges	10,277	34,808

* See Note 10

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Movements in provisions for contingencies and charges were as follows in 2009:

<u>(in € thousands)</u>	<u>At Dec. 31, 2008</u>	<u>Increases in 2009</u>	<u>Decreases in 2009 (utilizations)</u>	<u>Decreases in 2009 (surplus provisions)</u>	<u>Changes in Group structure</u>	<u>Other movements⁴³</u>	<u>At Dec. 31, 2009</u>
Provisions for claims and litigation and general contingencies	9,161	1,156	(7,525)	(3,601)	0	6,000	5,191
Provisions for charges	<u>25,647</u>	<u>5,383</u>	<u>(25,938)</u>	<u>(6)</u>	<u>0</u>	<u>0</u>	<u>5,086</u>
Total	<u>34,808</u>	<u>6,539</u>	<u>(33,463)</u>	<u>(3,607)</u>	<u>0</u>	<u>6,000</u>	<u>10,277</u>

Movements in provisions for contingencies and charges were as follows in 2008:

<u>(in € thousands)</u>	<u>At Dec. 31, 2007</u>	<u>Increases in 2008</u>	<u>Decreases in 2008 (utilizations)</u>	<u>Decreases in 2008 (surplus provisions)</u>	<u>Changes in Group structure</u>	<u>Other movements⁴⁴</u>	<u>At Dec. 31, 2008</u>
Provisions for claims and litigation and general contingencies	1,152	4,483	(133)	(356)	4,015	0	9,161
Provisions for charges	<u>1,416</u>	<u>24,779</u>	<u>(9)</u>	<u>0</u>	<u>466</u>	<u>(1,005)</u>	<u>25,647</u>
Total	<u>2,568</u>	<u>29,262</u>	<u>(142)</u>	<u>(356)</u>	<u>4,481</u>	<u>(1,005)</u>	<u>34,808</u>

The increase in provisions for charges in 2008 included the impact of the Redeployment Plan.

The income statement impact of movements in provisions was as follows:

<u>(in € thousands)</u>	<u>2009</u>	<u>2008</u>
Profit from ordinary activities	9,175	(4,273)
Operating profit	21,350	(24,500)
Financial income and expense, net	<u>6</u>	<u>9</u>
Total	<u>30,531</u>	<u>(28,764)</u>

NOTE 29: FINANCIAL LIABILITIES

Financial liabilities can be analyzed as follows:

<u>(in € thousands)</u>	<u>At December 31, 2009</u>	<u>At December 31, 2008</u>
Bank borrowings	729,444	833,393
Convertible bonds	315,722	308,692
Borrowings related to finance leases	42,904	29,356
Cash flow hedges	26,780	21,323
Other	<u>5,268</u>	<u>5,560</u>
Total long-term financial liabilities	<u>1,120,118</u>	<u>1,198,324</u>
Bank borrowings	156,642	0
Convertible bonds	7,274	7,274
Borrowings related to finance leases	9,694	7,197
Other bank borrowing facilities	2,101	261
Cash flow hedges	0	0
Other	<u>2,949</u>	<u>4,717</u>
Total short-term financial liabilities	<u>178,660</u>	<u>19,449</u>
Total	<u>1,298,778</u>	<u>1,217,773</u>

⁴³ Reclassifications to payables

⁴⁴ Provisions recorded for pension and other post-employment benefit obligations were reclassified as long-term employee-related payables.

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Short- and long-term financial liabilities correspond to the portion of payables due within one year and beyond one year respectively.

All Group borrowings are in euros.

The table below summarizes movements in borrowings in 2009 and 2008:

<u>(in € thousands)</u>	<u>2009</u>	<u>2008</u>
Borrowings at Jan. 1	1,217,772	355,363
New borrowings*	129,997	848,890
Repayments of borrowings	(64,019)	(9,087)
Change in other bank borrowing facilities	1,840	(20,028)
Impact of changes in Group structure	0	14,661
Interest on OCEANE bonds and bond premium	7,030	6,766
Impact of cash flow hedges	5,457	15,663
Other	701	5,545
Total borrowings at Dec. 31	1,298,778	1,217,773

* New borrowings excluding borrowings related to finance leases

	105,022	832,536
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Convertible bonds

On June 21, 2006, Iliad issued 3,265,190 OCEANE bonds convertible into new shares and/or exchangeable for existing shares, with a total face value of €287.5 million and paying interest at a rate of 2.20%. After the full exercise of the greenshoe option to the financial institutions which underwrote the issue, the number of OCEANE bonds outstanding at June 29, 2006 totaled 3,754,968, representing a total value of €326.3 million net of issuance costs.

The bonds mature on January 1, 2012 and are redeemable at face value, i.e. €88.05 per bond.

The bond indenture includes standard early redemption clauses. Notably, the bondholders may hold a General Meeting to decide that all of the bonds must be redeemed in advance of term in the following cases:

- if the Company fails to pay any interest due on any bonds within ten business days of the due date for payment thereof;
- if the Company fails to comply with any other obligations relating to the bonds and such failure is not remedied within ten business days of the Company receiving notice thereof;
- if the Company or one of its major subsidiaries defaults on the payment of a loan or a loan guarantee representing a total amount of at least €5 million;
- if the Company or one of its major subsidiaries is required to repay another form of borrowing in advance of term;
- if the Company reduces its interest in Free S.A.S to below 95%;
- if the Company or one of its major subsidiaries is subject to any of the procedures provided for in Chapter 6 of the French Commercial Code relating to corporate insolvency or any similar measure or procedure;
- if the Company's shares are no longer listed on a regulated or similar market in the European Union.

Guarantees given

The Iliad Group has not given any specific guarantees in return for its existing borrowing facilities with banks other than those specified below.

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Description of the Group's main bank borrowing facilities outstanding at December 31, 2009

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

- a €700 million line dedicated to the acquisition, which had been fully drawn down at December 31, 2009;
- an additional €250 million line also dedicated to the acquisition as well as to restructuring costs, of which €195.1 million had been drawn down at December 31, 2009; and
- a €250 million revolving credit facility, none of which had been used at December 31, 2009.

The interest rate on these credit facilities is based on Euribor plus a margin ranging between 0.70% and 1.45% depending on the Group's leverage ratio.

The financial covenants for the overall syndicated credit facility as well as the related interest rate hedges set up are described in Note 34.

Breakdown of borrowings by type of rate

Gross borrowings at the year-end can be analyzed as follows by type of rate:

<u>(in € thousands)</u>	<u>At December 31, 2009</u>	<u>At December 31, 2008</u>
Fixed-rate borrowings	783,810	754,879
Variable-rate borrowings	514,968	462,894
Total borrowings	<u>1,298,778</u>	<u>1,217,773</u>

Breakdown of borrowings by nature and maturity

The following table presents borrowings by nature and maturity at December 31, 2009:

<u>(in € thousands)</u>	<u>Due within 1 year</u>	<u>Due in 1 to 5 years</u>	<u>Due beyond 5 years</u>	<u>Total</u>
Convertible bonds	7,274	315,722	0	322,996
Bank borrowings	156,642	729,444	0	886,086
Borrowings related to finance leases	9,694	26,599	16,305	52,598
Other bank borrowing facilities	2,101	0	0	2,101
Sundry borrowings	2,949	26,780	5,268	34,997
Total	<u>178,660</u>	<u>1,098,545</u>	<u>21,573</u>	<u>1,298,778</u>

The following table presents borrowings by nature and maturity at December 31, 2008:

<u>(in € thousands)</u>	<u>Due within 1 year</u>	<u>Due in 1 to 5 years</u>	<u>Due beyond 5 years</u>	<u>Total</u>
Convertible bonds	7,274	308,692	0	315,966
Bank borrowings	0	833,393	0	833,393
Borrowings related to finance leases	7,197	17,855	11,501	36,553
Other bank borrowing facilities	261	0	0	261
Sundry borrowings	4,717	21,323	5,560	31,600
Total	<u>19,449</u>	<u>1,181,263</u>	<u>17,061</u>	<u>1,217,773</u>

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Description of the Group's main finance leases outstanding at December 31, 2009

Real estate finance leases

The Group purchases premises to house the technical equipment required for rolling out its FTTH network. As part of this process, in January 2007 Iliad entered into a master agreement with Genefim to finance the purchase of such premises through a real-estate finance lease with a 12-year term following which the related assets may be acquired for a token amount of €1. The agreement does not contain any contingent lease payment or renewal options and does not impose specific restrictions, for example concerning dividends, additional debt or further leasing.

Equipment finance leases

As part of its operations, the Group holds several items of equipment (mainly switching equipment) under finance leases with terms of between three and seven years. None of the lease arrangements contain contingent lease payments or impose specific restrictions, for example concerning dividends, additional debt or further leasing. All of the contracts include bargain purchase options at the end of the lease term.

Present value of future minimum lease payments due under finance leases

The following table presents a reconciliation between total future minimum lease payments due under finance leases at December 31, 2009 and their present value.

<u>(in € thousands)</u>	<u>Due within 1 year</u>	<u>Due in 1 to 5 years</u>	<u>Due beyond 5 years</u>	<u>Total</u>
Future minimum lease payments	9,694	26,599	16,305	52,598
Present value	9,694	23,930	12,038	45,662

Present value is determined by applying a 4.80% discount rate.

NOTE 30: TRADE AND OTHER PAYABLES

These items break down as follows:

<u>(in € thousands)</u>	<u>At December 31, 2009</u>	<u>At December 31, 2008</u>
Trade and other payables recorded under other non-current liabilities		
Trade payables	0	468
Accrued taxes and employee-related payables	1,569	602
Other payables	600	7,915
Sub-total	2,169	8,985
Trade and other payables recorded under current liabilities		
Trade payables	294,476	311,688
Advances and prepayments	0	0
Accrued taxes and employee-related payables	64,181	56,248
Other payables	2,471	4,363
Deferred income	1,538	6,108
Sub-total	362,666	378,407
Total	364,835	387,392

Total trade payables can be analyzed as follows:

<u>(in € thousands)</u>	<u>At December 31, 2009</u>	<u>At December 31, 2008</u>
Suppliers of goods and services	193,138	211,740
Suppliers of non-current assets	101,338	100,416
Total	294,476	312,156

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NOTE 31: LEASE COMMITMENTS

Lease expenses recognized in the income statement break down as follows:

<u>(in € thousands)</u>	<u>2009</u>	<u>2008</u>
• Minimum lease payments	14,517	8,184
• Contingent lease payments	0	0
• Sub-leases	3,616	4,163
Total	<u>18,133</u>	<u>12,347</u>

The table below analyzes the Group's lease commitments at December 31, 2009 by type of asset and maturity.

<u>(in € thousands)</u> <u>Type of leased asset</u>	<u>Due within 1 year</u>	<u>Due in 1 to 2 years</u>	<u>Due in 2 to 3 years</u>	<u>Due in 3 to 4 years</u>	<u>Due in 4 to 5 years</u>	<u>Due beyond 5 years</u>	<u>Total</u>
Real estate	13,231	6,179	3,037	9	9	156	22,621
Vehicles	1,516	1,038	194	0	0	0	2,748
Equipment	1,350	528	440	372	317	1,489	4,496
Total	<u>16,097</u>	<u>7,745</u>	<u>3,671</u>	<u>381</u>	<u>326</u>	<u>1,645</u>	<u>29,865</u>

None of the Group's lease arrangements contain material contingent lease payments or renewal options, nor do they impose specific restrictions, for example concerning dividends, additional debt or further leasing.

NOTE 32: RELATED-PARTY TRANSACTIONS

Related-party transactions solely correspond to transactions with key management personnel.

Transactions with key management personnel

- Persons concerned:

Under IAS 24, key management personnel are those persons who have authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly. For the Iliad Group, these persons correspond to members of the Board of Directors of Iliad SA and members of the Management Committee.

- Compensation paid to key management personnel in 2009 and 2008 breaks down as follows:

<u>(in € thousands)</u>	<u>2009</u>	<u>2008</u>
• Total compensation	1,812	1,730
• Short-term benefits	0	0
• Post-employment benefits	0	0
• Other long-term benefits	0	0
• Termination benefits	0	0
• Share-based payments	3,714	2,783
Total	<u>5,526</u>	<u>4,513</u>

In addition, in 2009 the Iliad Group purchased 36 Freebox shares from Rani Assaf for €240,000 and 18 Freebox shares from Sébastien Boutruche for €120,000.

No liabilities have been recognized in the balance sheet in relation to compensation payable to key management personnel.

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NOTE 33: FINANCIAL INSTRUMENTS

Reconciliation by class of instrument and accounting category

(in € thousands)	Assets carried at fair value through profit or loss	Other available-for- sale financial assets	Hedging instruments carried at fair value with changes recognized in equity	Loans and receivables	Liabilities carried at amortized cost	Carrying amount	Fair value
At December 31, 2009							
Cash	9,536					9,536	9,536
Marketable securities	624,365					624,365	624,365
Trade receivables				103,666		103,666	103,666
Other receivables				81,358		81,358	81,358
Other short-term financial assets				16		16	16
Other long-term financial assets	17	3,500		9,000		12,517	12,517
Long-term financial liabilities (excl. OCEANE bonds)			(26,780)		(777,616)	(804,396)	(804,396)
Short-term financial liabilities (excl. OCEANE bonds)					(171,386)	(171,386)	(171,386)
OCEANE bonds					(322,996)	(322,996)	See ⁴⁵
Other non-current liabilities					(2,169)	(2,169)	(2,169)
Other current liabilities					(362,666)	(362,666)	(362,666)
Total carrying amount	633,918	3,500	(26,780)	194,040	(1,636,833)	(832,155)	N/A

(in € thousands)	Assets carried at fair value through profit or loss	Other available-for- sale financial assets	Hedging instruments carried at fair value with changes recognized in equity	Loans and receivables	Liabilities carried at amortized cost	Carrying amount	Fair value
At December 31, 2008							
Cash	12,549					12,549	12,549
Marketable securities	323,184					323,184	323,184
Trade receivables				133,541		133,541	133,541
Other receivables				123,565		123,565	123,565
Other long-term financial assets	18	0		4,453		4,471	4,471
Long-term financial liabilities (excl. OCEANE bonds)			(21,323)		(868,309)	(889,632)	(889,632)
Short-term financial liabilities (excl. OCEANE bonds)					(12,175)	(12,175)	(12,175)
OCEANE bonds					(315,966)	(315,966)	See ⁴⁵
Other non-current liabilities					(8,985)	(8,985)	(8,985)
Other current liabilities					(378,407)	(378,407)	(378,407)
Total carrying amount	335,751	0	(21,323)	261,559	(1,583,842)	(1,007,855)	N/A

The main components of each financial instrument category and the applicable measurement methods are as follows:

- Assets carried at fair value through profit or loss primarily correspond to cash and cash equivalents. They are measured by reference to a quoted market price in an active market where such a market exists.

⁴⁵ The Group was unable to determine the fair value of these bonds at the balance sheet date as they are not listed on a regulated market and have a low trading volume.

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- Loans and receivables primarily comprise trade and other short-term receivables.
- Liabilities carried at amortized cost – calculated using the effective interest method – essentially correspond to borrowings, trade payables and other short- and long-term payables.
- Derivative instruments are carried at fair value with changes in fair value recognized either directly in the income statement or in equity when hedge accounting is applied.

The fair value of financial assets and liabilities is primarily determined as follows:

- The fair value of (i) trade receivables and payables; and (ii) other short-term receivables and payables, corresponds to their carrying amount in view of their very short maturities.
- The fair value of bonds is estimated at each balance sheet date.
- The fair value of liabilities related to finance leases corresponds to their carrying amount in view of their differing forms and maturities.

NOTE 34: FINANCIAL RISK MANAGEMENT

Market risks

Foreign exchange risk

The Iliad Group's functional currency is the euro. However, it purchases certain goods and services outside France and is therefore exposed to foreign exchange risks arising from various currency exposures, mainly with respect to the US dollar.

Detailed forecasts of the Group's future purchases denominated in US dollars are drawn up as part of the budget process. These transactions are regularly hedged over a maximum period of one and a half years. Up until June 30, 2009, hedges used by the Group were zero-premium collars. Since that date, the Group has hedged the transactions through purchases of call options.

Consequently, the Group's residual exposure after hedging foreign exchange risk on US dollar-denominated transactions was not material in 2009.

At December 31, 2009 all of these currency hedges qualified as cash flow hedges under IAS 39.

The tables below set out the Group's foreign exchange risks and related sensitivity.

Foreign exchange risk

At Dec. 31, 2009 (in € thousands)	Assets (a)	Liabilities (b)	Foreign currency commitments (c)	Net position before hedging (d) = (a) – (b) +/- (c)	Hedging instruments (e)	Net position after hedging (f) = (d) – (e)
US dollar	<u>7,577</u>	<u>39,799</u>	<u>0</u>	<u>32,222</u>	<u>0</u>	<u>32,222</u>
Total	<u>7,577</u>	<u>39,799</u>	<u>0</u>	<u>32,222</u>	<u>0</u>	<u>32,222</u>

Foreign exchange risk sensitivity

(in € thousands)	USD
Net position after hedging	32,222
Net position after hedging based on the assumption that the USD exchange rate changes unfavorably for the Group by €0.01	32,448
Sensitivity	226

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Interest rate risk

The Iliad Group set up a €1,200 million syndicated credit facility to finance its acquisition of Liberty Surf Group. Further details of this financing arrangement are provided in Note 29.

As a protection against interest rate fluctuations, when the line of credit was set up the Group also purchased swaps converting interest on a notional amount of €400 million from a variable rate indexed to the 3-month Euribor to a fixed rate. The swaps hedge €400 million worth of variable rate debt with the same maturity as the swaps.

The swaps have been classified as cash flow hedges and changes in their fair value are recognized in equity. At December 31, 2009 these derivatives had a negative fair value of €26,780,000.

Obligations under finance leases and equipment leasing arrangements amounted to €52.6 million at December 31, 2009 compared with €36.5 million at December 31, 2008. The majority of the financing lease arrangements entered into by Iliad in 2008 and 2009 related to the rollout of the Group's FTTH network. In 2009, the Group entered into €14.9 million worth of obligations under real estate finance leases with Genefim (a Société Générale subsidiary) to acquire Optical Nodes (ONs), corresponding to the premises where all optical fiber connections are made for a given geographic area. Also during the year, the Group entered into FTTH equipment leasing contracts with Cisco Capital representing obligations of close to €6.9 million.

The Group does not have any exposure to interest rate risk on its finance leases or equipment leasing arrangements as the related contracts are primarily at fixed rates.

Taking into account the above-described hedges and fixed rate contracts, over 60% of the Group's total debt was hedged against changes in interest rates at December 31, 2009.

The Group has no significant financial assets (such as bonds, treasury bills, other money market securities, loans or advances) and no off-balance sheet commitments (such as repos or forward rate agreements) that expose it to interest rate risk.

The tables below show the Group's net interest rate exposure at December 31, 2009 and an analysis of sensitivity to interest rate fluctuations.

<u>(in € thousands)</u>	<u>Within 1 year</u>	<u>Between 1 and 5 years</u>	<u>Beyond 5 years</u>
Financial liabilities	178,660	1,098,545	21,573
Financial assets	16	3,104	5,896
Net position before hedging	178,644	1,095,441	15,677
Off-balance sheet position	0	0	0
Net position after hedging	178,644	1,095,441	15,677
Net position to be rolled over within one year and long-term variable rate borrowings (in € thousands)	178,644	334,206	0
Change in interest rate	1%	1%	1%
Average remaining life (in months)	12	12	12
Sensitivity (in € thousands)	1,786	3,342	0

Equity risk

The Group does not hold any equities in its investment portfolio apart from a non-material stake in Mandrake Soft. It does, however, hold a number of its own shares but in view of the very low number concerned any change in the Iliad share price would have only a minimal impact on the Group's earnings and equity (see Note 26).

Liquidity risk

The Group has historically financed its growth principally through internal resources, with limited recourse to borrowing to finance external growth.

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At December 31, 2009 the Group's borrowings as described above were not subject to any liquidity risk and it had not breached any of the covenants applicable to the syndicated credit facility.

These covenants (which take the form of financial ratios) were as follows at December 31, 2009:

	<u>Applicable financial ratios</u>	<u>Consequence of breach</u>	<u>Actual ratios at December 31, 2009</u>
€1,200 million credit facility (Borrower – Iliad)	Leverage ratio < 2.75 Interest cover ratio > 5.1	Acceleration of payment	Leverage ratio: 0.96 Interest cover ratio: 14.09

The Group's leverage ratio corresponds to the ratio of consolidated net debt to EBITDA (excluding provisions) for the period. The interest cover ratio represents the ratio of consolidated EBITDA (excluding provisions) to net financial expenses for the period.

At December 31, 2009 the Group was not exposed to any liquidity risk in view of the high level of cash generated by its ADSL operations, the maturity schedule of its debt (see Note 29) and its extremely low leverage.

Credit and counterparty risk

The Group's financial assets primarily comprise cash and cash equivalents – particularly investments – as well as trade and other receivables (see Note 33 “Financial instruments”).

The financial assets which could expose the Group to credit or counterparty risk chiefly correspond to the following:

- Trade receivables: at December 31, 2009 trade receivables represented a gross amount of €162 million and a net amount of €104 million (see Note 23 “Trade and other receivables”). The Group's exposure to customer credit risk is monitored daily through cash collection and debt recovery processes.
- Investments: the Group's policy is to invest in (i) money market securities with maturities of less than three months such as commercial paper and (ii) other monetary instruments with short-term maturities, generally not exceeding one month. It also takes care to diversify its investments and ensure that the securities in its portfolio are issued by leading companies and financial institutions in order to minimize counterparty risk.

At December 31, 2009, the Group's short-term investments – which amounted to €624 million (see Note 24 “Cash and cash equivalents”) – exclusively comprised units in French and other European mutual funds (UCITs) whose prices are quoted daily and which are invested for less than three months. Consequently, these investments do not expose the Group to a significant level of counterparty risk.

In addition, as part of its foreign exchange risk management strategy, the Group sets up hedges with leading financial institutions for which the counterparty risk is deemed to be negligible.

Analysis of trade receivables

At December 31, 2009 trade receivables totaled €162 million and provisions for doubtful receivables amounted to €58 million.

At the same date, substantially all past-due receivables were classified as doubtful and provisions had been recorded based on statistical recovery rates. At December 31, 2009 the amount of past-due trade receivables that had not been written down was not material.

Concentration risk

The Group is not exposed to any concentration risk in view of its high number of customers (subscribers).

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NOTE 35: OFF BALANCE SHEET COMMITMENTS AND CONTINGENCIES

Commitments given

The following table itemizes the commitments given by Iliad to third parties:

<u>Beneficiary</u>	<u>Amount (in € thousands)</u>	<u>Purpose</u>
SITA (Suez Environnement)	1,700	Guarantee relating to premises at Rue de la Ville l'Evêque
ARCEP	(1)	Investments to be made by IFW
France Telecom	(2)	Investments relating to dark optical fiber
BNP/Paris City authorities	3,000	Financial guarantee for commitments given by Free Infrastructure
ARCEP/ANFR	242,739	Guarantee for financial commitments given by Free Mobile in connection with the acquisition of France's fourth 3G mobile telecommunications license, corresponding to guarantees of €240,000,000 given to ARCEP and €2,739,000 to ANFR.

(1) *In a ruling handed down on December 9, 2003, the French Telecommunications Regulatory Authority (ARCEP) granted IFW the right to use across France a batch of frequencies included in the 3.5 GHz bandwidth of the wireless local loop. In connection with this ruling, IFW committed to guarantee a minimum population coverage rate and to undertake the requisite capital expenditure to do so. The minimum rate was set at 33.4% of the population in Normandy and the Greater Paris area for December 31, 2005. At the same date it was set at 5% of the population for other regions in mainland France, to be raised to 7% at December 31, 2008 and 9% at December 31, 2011.*

(2) *In April 2006, the Iliad Group signed an agreement subscribing to France Telecom's subscriber connection node service which involves leasing dark optical fibers specially dedicated to unbundling operators. Under this open-ended agreement, the Group can request France Telecom to provide it with one or more dark optical fiber links between (i) one of France Telecom's subscriber connection nodes where the Group is present and one of Free's POPs*; or (ii) two France Telecom subscriber connection nodes where the Group is present. These services are provided subject to availability and in return for an annual fee.*

The Group may decide whether to lease these optical fiber links either for a period of three or fifteen years. In May 2006, the Group issued its first batch of requests for dark optical fiber links for a period of fifteen years.

Commitments received

At December 31, 2009, the Group had access to:

- A €950 million credit facility set up to finance the acquisition of Liberty Surf Group, of which €895.1 million had been drawn down at the year-end.
- A €250 million revolving credit facility, none of which had been used at the year-end.

One of the Group's financial partners has given a €3 million financial guarantee to the Paris City authorities in connection with the right to use public land granted by the said authorities to the Iliad Group in 2006.

In addition, one of the Group's financial partners has granted financial guarantees to ARCEP and ANFR amounting to €240,000,000 and €2,739,000 respectively to cover the guarantees given by the Iliad Group when Free Mobile was awarded France's fourth 3G mobile telecommunications license.

⁴⁶ POP (point of presence): physical site from which the operator can use an interconnection link to connect to the interconnect point of another operator

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In 2006, the Group announced plans to begin rolling out an FTTH optical fiber network to provide home subscribers in eligible areas with optical fiber dedicated to multi-media use.

In January 2007, Iliad entered into a master finance lease with Genefim to finance the purchase of premises to house equipment required to develop the FTTH network. Under the terms of the master lease, Genefim agreed to finance all property acquisitions made in the period to June 30, 2008, up to an aggregate maximum of €50 million, through 12-year finance leases. The master lease agreement was subsequently extended to December 31, 2009 and then to June 30, 2010 and the aggregate maximum amount of the property acquisitions covered was increased by €15 million to €65 million. At December 31, 2009, the Group had used €40,281,000 of this amount.

Collateralized debt

None of the assets belonging to the Iliad Group have been used as collateral for any debt.

Accrued discounted trade notes

The Iliad Group does not use this type of financing.

Statutory training entitlement

In accordance with French Act no. 2004-391 of May 4, 2004 relating to professional training, the Group's French companies grant their employees an entitlement to at least 20 hours' training per calendar year, which may be carried forward for up to six years. If all or part of the cumulative entitlement is not used within six years, it is capped at 120 hours. At December 31, 2009 the Group's employees had accumulated a total of 140,914 unused training hours.

Iliad does not record a provision for this statutory training entitlement as it considers that the Group will receive a future benefit from any training given to employees because the underlying aim of the related training courses is to develop employee skills within the Group's core businesses. In addition, only a very small number of training requests are lodged by employees who have left the Group or retired early.

Dependence of the Iliad Group on patents and licenses

The Iliad Group holds a license to use the One.Tel brand in France, granted in 2001 by Centrica Telecommunications Ltd for a 10-year period in return for an annual fee based on revenues but capped at €250,000.

The Group also holds a license to use the Alice brand in France, granted in 2008 by Telecom Italia for a 5-year period in return for a fee of €1.5 million.

Claims and litigation

Group companies are involved in a certain number of disputes arising in the normal course of business. When the Group and its legal advisors estimate that it is probable that these disputes will lead to an outflow of resources embodying economic benefits, provisions for contingencies and charges are recorded, in accordance with IAS 37.

The Group considers that the provisions set up to cover such contingencies, litigation or disputes known of or in progress at December 31, 2009 are sufficient to ensure that there would be no material impact on the Group's consolidated financial position in the event of unfavorable outcomes.

NOTE 36: EVENTS AFTER THE BALANCE SHEET DATE

On December 19, 2009, the French Telecommunications Regulatory Authority (ARCEP) announced that it intended to award the Iliad subsidiary, Free Mobile, the fourth 3G mobile telecommunications license for mainland France.

20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES

20.1 CONSOLIDATED FINANCIAL STATEMENTS FOR 2009, 2008 AND 2007

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

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

NOTE 37: LIST OF CONSOLIDATED COMPANIES AT DECEMBER 31, 2009

	Registration number	Head office	Percentage control at Dec. 31, 2009	Percentage control at Dec. 31, 2008	Percentage ownership at Dec. 31, 2009	Percentage ownership at Dec. 31, 2008	Consolidation method in 2009
ILIAD							
8 rue de la Ville l'Evêque 75008 Paris	342 376 332	Paris	100.00%	100.00%	100.00%	100.00%	Full
ASSUNET							
8 rue de la Ville l'Evêque 75008 Paris	421 259 797	Paris	89.96%	89.96%	89.96%	89.96%	Full
CENTRAPEL							
8 rue de la Ville l'Evêque 75008 Paris	434 130 860	Paris	99.98%	99.98%	99.98%	99.98%	Full
CITEFIBRE							
8 rue de la Ville l'Evêque 75008 Paris	479 015 240	Paris	99.89%	99.78%	99.89%	99.78%	Full
DEDIBOX							
8 rue de la Ville l'Evêque 75008 Paris	484 961 206	Paris	0%	90.00%	0%	90.00%	N.C.
FREE							
8 rue de la Ville l'Evêque 75008 Paris	421 938 861	Paris	100.00%	100.00%	100.00%	100.00%	Full
FREEBOX							
8 rue de la Ville l'Evêque 75008 Paris	433 910 616	Paris	96.86%	96.59%	96.86%	96.59%	Full
FREE INFRASTRUCTURE							
8 rue de la Ville l'Evêque 75008 Paris	488 095 803	Paris	100.00%	100.00%	100.00%	100.00%	Full
FREE MOBILE							
8 rue de la Ville l'Evêque 75008 Paris	499 247 138	Paris	100.00%	100.00%	100.00%	100.00%	Full
IFW							
8 rue de la Ville l'Evêque 75008 Paris	400 089 942	Paris	100.00%	100.00%	100.00%	100.00%	Full
IH							
8 rue de la Ville l'Evêque 75008 Paris	441 532 173	Paris	100.00%	100.00%	100.00%	100.00%	Full
IMMOBILIERE ILIAD							
8 rue de la Ville l'Evêque 75008 Paris	501 194 419	Paris	100.00%	100.00%	100.00%	100.00%	Full
IRE							
8 rue de la Ville l'Evêque 75008 Paris	489 741 645	Paris	100.00%	100.00%	100.00%	100.00%	Full
KEDRA							
8 rue de la Ville l'Evêque 75008 Paris	439 597 857	Paris	100.00%	100.00%	100.00%	100.00%	Full

**20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES,
FINANCIAL POSITION AND PROFITS AND LOSSES**

20.1 CONSOLIDATED FINANCIAL STATEMENTS FOR 2009, 2008 AND 2007

	<u>Registration number</u>	<u>Head office</u>	<u>Percentage control at Dec. 31, 2009</u>	<u>Percentage control at Dec. 31, 2008</u>	<u>Percentage ownership at Dec. 31, 2009</u>	<u>Percentage ownership at Dec. 31, 2008</u>	<u>Consolidation method in 2009</u>
ONLINE							
8 rue de la Ville l'Evêque 75008 Paris	433 115 904	Paris	95.18%	100.00%	95.18%	100.00%	Full
ONE TEL							
8 rue de la Ville l'Evêque 75008 Paris	419 392 931	Paris	100.00%	100.00%	100.00%	100.00%	Full
PROTELCO							
8 rue de la Ville l'Evêque 75008 Paris	509 760 948	Paris	100.00%	100.00%	100.00%	100.00%	Full
TOTAL CALL							
Technoparc – Route de Nouceur Sidi Maar Casablanca - Morocco	/	Morocco	100.00%	100.00%	100.00%	100.00%	Full
TOUTCOM							
8 rue de la Ville l'Evêque 75008 Paris	387 601 636	Paris	0%	98.00%	0%	98.00%	N.C.

NOTE 38: LIST OF CONSOLIDATED COMPANIES AT DECEMBER 31, 2008

	<u>Registration number</u>	<u>Head office</u>	<u>Percentage control at Dec. 31, 2008</u>	<u>Percentage control at Dec. 31, 2007</u>	<u>Percentage ownership at Dec. 31, 2008</u>	<u>Percentage ownership at Dec. 31, 2007</u>	<u>Consolidation method in 2008</u>
ILIAD							
8 rue de la Ville l'Evêque 75008 Paris	342 376 332	Paris	100.00%	100.00%	100.00%	100.00%	Full
ASSUNET							
8 rue de la Ville l'Evêque 75008 Paris	421 259 797	Paris	89.96%	89.96%	89.96%	89.96%	Full
CENTRAPEL							
8 rue de la Ville l'Evêque 75008 Paris	434 130 860	Paris	99.98%	99.98%	99.98%	99.98%	Full
CITEFIBRE							
8 rue de la Ville l'Evêque 75008 Paris	479 015 240	Paris	99.78%	99.78%	99.78%	99.78%	Full
DEDIBOX							
8 rue de la Ville l'Evêque 75008 Paris	484 961 206	Paris	90.00%	90.00%	90.00%	90.00%	Full
FREE							
8 rue de la Ville l'Evêque 75008 Paris	421 938 861	Paris	100.00%	100.00%	100.00%	100.00%	Full
FREEBOX							
8 rue de la Ville l'Evêque 75008 Paris	433 910 616	Paris	96.59%	96.08%	96.59%	96.08%	Full
FREE INFRASTRUCTURE							
8 rue de la Ville l'Evêque 75008 Paris	488 095 803	Paris	100.00%	100.00%	100.00%	100.00%	Full
FREE MOBILE							
8 rue de la Ville l'Evêque 75008 Paris	499 247 138	Paris	100.00%	100.00%	100.00%	100.00%	Full
IFW							
8 rue de la Ville l'Evêque 75008 Paris	400 089 942	Paris	100.00%	100.00%	100.00%	100.00%	Full
IH							
8 rue de la Ville l'Evêque 75008 Paris	441 532 173	Paris	100.00%	100.00%	100.00%	100.00%	Full

20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES

20.1 CONSOLIDATED FINANCIAL STATEMENTS FOR 2009, 2008 AND 2007

	<u>Registration number</u>	<u>Head office</u>	<u>Percentage control at Dec. 31, 2008</u>	<u>Percentage control at Dec. 31, 2007</u>	<u>Percentage ownership at Dec. 31, 2008</u>	<u>Percentage ownership at Dec. 31, 2007</u>	<u>Consolidation method in 2008</u>
IMMOBILIERE ILIAD							
8 rue de la Ville l'Evêque 75008 Paris	501 194 419	Paris	100.00%	100.00%	100.00%	100.00%	Full
IRE							
8 rue de la Ville l'Evêque 75008 Paris	489 741 645	Paris	100.00%	100.00%	100.00%	100.00%	Full
KEDRA							
8 rue de la Ville l'Evêque 75008 Paris	439 597 857	Paris	100.00%	100.00%	100.00%	100.00%	Full
ONLINE							
8 rue de la Ville l'Evêque 75008 Paris	433 115 904	Paris	100.00%	100.00%	100.00%	100.00%	Full
ONE TEL							
8 rue de la Ville l'Evêque 75008 Paris	419 392 931	Paris	100.00%	100.00%	100.00%	100.00%	Full
PROTELCO							
8 rue de la Ville l'Evêque 75008 Paris	509 760 948	Paris	100.00%	/	100.00%	/	Full
TOTAL CALL							
Technoparc – Route de Nouceur Sidi Maar Casablanca - Morocco	/	Morocco	100.00%	100.00%	100.00%	100.00%	Full
TOUTCOM							
8 rue de la Ville l'Evêque 75008 Paris	387 601 636	Paris	98.00%	98.00%	98.00%	98.00%	Full

NOTE 39: CHANGES IN SCOPE OF CONSOLIDATION AND PERCENTAGE CONTROL IN 2009

Consolidated companies:

	<u>Percentage control at Dec. 31, 2008</u>	<u>Consolidation method at Dec. 31, 2008</u>	<u>Acquisition/ incorporation date</u>	<u>Percentage control at Dec. 31, 2009</u>	<u>Consolidation method at Dec. 31, 2009</u>
FREEBOX	96.59%	Full	April 23, 2009	96.86%	Full
CITEFIBRE	99.78%	Full	March 19, 2009	99.89%	Full

**20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES,
FINANCIAL POSITION AND PROFITS AND LOSSES**
20.1 CONSOLIDATED FINANCIAL STATEMENTS FOR 2009, 2008 AND 2007

**STATUTORY AUDITORS' REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS**

(Year ended December 31, 2009)

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

ILIAD SA

8, rue de la Ville l'Evêque
75008 Paris

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2009, on:

- the audit of the accompanying consolidated financial statements of Iliad;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

I – Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group at December 31, 2009 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES

20.1 CONSOLIDATED FINANCIAL STATEMENTS FOR 2009, 2008 AND 2007

II – Justification of our assessments

In accordance with the requirements of Article L.823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

- Note 3 to the consolidated financial statements describes the significant accounting estimates and judgments made by management. Our work consisted of assessing the data and assumptions on which these accounting estimates were based; reviewing, on a test basis, the calculations performed by the Company; comparing the accounting estimates made in prior periods with actual results; examining management's procedures for approving these estimates; and verifying that the notes to the consolidated financial statements contain the appropriate disclosures as regards the assumptions and options applied by the Company.
- As described in Note 17 to the consolidated financial statements, the Company completed the final allocation of the purchase price of Liberty Surf Group during the year. We reviewed the methods and assumptions used to estimate fair values of the identifiable assets and liabilities and ensured that the abovementioned note contained the appropriate disclosures.
- Your Company tested goodwill and its Wimax license, which has not yet been brought into commercial use, for impairment and also assessed whether there was an indication that the non-current assets were impaired, in accordance with the methods described in Notes 18, 19 and 20 to the consolidated financial statements. We reviewed the methods used to carry out these impairment tests and to determine the recoverable amounts of the Broadband Internet cash-generating unit and the Wimax license. We also examined the underlying documentation and assessed the consistency of the data used and verified that Note 19 contained the appropriate disclosures.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III – Specific verification

As required by law and in accordance with professional standards applicable in France, we have also verified the information presented in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-sur-Seine and Paris, March 23, 2010

The Statutory Auditors

PricewaterhouseCoopers Audit

Boissière Expertise Audit

Xavier Cauchois

Jean-Luc Cohen

**20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES,
FINANCIAL POSITION AND PROFITS AND LOSSES**

20.2 PARENT COMPANY FINANCIAL STATEMENTS FOR 2009

20.2 PARENT COMPANY FINANCIAL STATEMENTS FOR 2009

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**20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES,
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**20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES,
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20.2 PARENT COMPANY FINANCIAL STATEMENTS FOR 2009

BALANCE SHEET – ASSETS

<u>(In € thousands)</u>	<u>Gross</u>	<u>Depr., amort. and provisions</u>	<u>Net at Dec. 31, 2009</u>	<u>Net at Dec. 31, 2008</u>
INTANGIBLE ASSETS				
Start-up costs	0	0	0	0
Research and development costs	0	0	0	0
Concessions, patents and trademarks	154	148	6	12
Business goodwill	0	0	0	0
Other	48	33	15	8
PROPERTY, PLANT AND EQUIPMENT				
Land	119	0	119	119
Buildings	356	288	68	85
Fixtures and fittings	856	777	79	110
Technical equipment	0	0	0	0
Computer equipment	256	132	124	79
Furniture	148	123	25	30
Advances and prepayments	0	0	0	0
LONG-TERM INVESTMENTS				
Investments in subsidiaries and affiliates	613,520	3,239	610,281	603,126
Loans and advances to subsidiaries and affiliates	273,457	6,872	266,585	500,398
Other investment securities	1,753	1,738	15	18
Other loans	3,038	0	3,038	0
Other long-term investments	1,072	0	1,072	1,223
TOTAL FIXED ASSETS	894,777	13,350	881,427	1,105,208
Inventories	0	0	0	0
Advances and prepayments on orders	0	0	0	0
Trade receivables	4,721	54	4,667	3,138
Receivables from suppliers	0	0	0	0
Employee-related receivables	0	0	0	3
Recoverable corporate income tax	17,770	0	17,770	99,644
Recoverable sales taxes	3,012	0	3,012	1,792
Other receivables	15,548	1,220	14,328	7,272
Other advances and prepayments made	0	0	0	0
Marketable securities	612,141	680	611,461	330,148
Cash and cash equivalents	91	0	91	2,037
Prepaid expenses	183	0	183	1,186
TOTAL CURRENT ASSETS	653,466	1,954	651,512	445,220
ACCRUALS				
Debt issuance costs	10,598	0	10,598	13,858
Conversion losses	0	0	0	0
TOTAL ASSETS	1,558,841	15,304	1,543,537	1,564,286

**20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES,
FINANCIAL POSITION AND PROFITS AND LOSSES**

20.2 PARENT COMPANY FINANCIAL STATEMENTS FOR 2009

BALANCE SHEET – EQUITY AND LIABILITIES

<u>(In € thousands)</u>	<u>At Dec. 31, 2009</u>	<u>At Dec. 31, 2008</u>
Share capital	12,096	12,062
Additional paid-in capital	93,362	89,121
Legal reserve	1,208	1,208
Regulated reserves	0	0
Other reserves	114,776	731
Retained earnings	0	128,673
Interim dividends	0	0
<i>Profit for the year</i>	17,264	3,881
TOTAL EQUITY	<u>238,706</u>	<u>235,676</u>
OTHER EQUITY		
Provisions for contingencies	0	28
Provisions for charges	0	0
TOTAL PROVISIONS	<u>0</u>	<u>28</u>
Convertible bonds	337,910	337,910
Bank borrowings	898,048	849,588
Bank overdrafts	1,219	0
Other borrowings	405	417
Current accounts with subsidiaries	36,297	118,124
Trade payables	13,302	11,123
Employee-related payables	256	203
Accrued payroll and other employee-related taxes	342	1,250
Accrued corporate income tax	0	0
Accrued sales taxes	2,296	1,608
Other accrued taxes	145	124
Amounts due on fixed assets	2	0
Other liabilities	14,609	8,235
Deferred income	0	0
TOTAL ACCRUALS AND OTHER LIABILITIES	<u>1,304,831</u>	<u>1,328,582</u>
TOTAL EQUITY AND LIABILITIES	<u>1,543,537</u>	<u>1,564,286</u>

**20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES,
FINANCIAL POSITION AND PROFITS AND LOSSES**

20.2 PARENT COMPANY FINANCIAL STATEMENTS FOR 2009

INCOME STATEMENT

<u>(In € thousands)</u>	<u>2009</u>	<u>2008</u>
Sales in France	28,428	26,946
Sales outside France	0	0
TOTAL REVENUES	28,428	26,946
Reversals of depreciation, amortization and provisions, expense transfers	28	22
Other revenues	118	144
TOTAL OPERATING INCOME	28,574	27,112
Rebilled purchases	18,347	15,141
Other purchases and external charges	11,803	11,432
Taxes other than on income	245	236
Wages and salaries	2,743	2,712
Payroll taxes	509	2,117
Depreciation and amortization of fixed assets	3,394	1,809
Additions to provisions for impairment of current assets	24	8
Additions to provisions for contingencies and charges	0	0
Other expenses	200	268
TOTAL OPERATING EXPENSES	37,265	33,723
NET OPERATING EXPENSE	(8,691)	(6,611)
Interest and other financial income	59,213	24,240
Reversals of provisions	25	0
Net gains on disposals of marketable securities	7,391	10,678
TOTAL FINANCIAL INCOME	66,629	34,918
Interest and other financial expense	50,290	25,901
Additions to provisions	4,881	52
Net losses on disposals of marketable securities	677	1,804
TOTAL FINANCIAL EXPENSE	55,848	27,757
NET FINANCIAL INCOME	10,781	7,161
OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS AND TAX	2,090	550

**20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES,
FINANCIAL POSITION AND PROFITS AND LOSSES**

20.2 PARENT COMPANY FINANCIAL STATEMENTS FOR 2009

INCOME STATEMENT (cont'd)

<u>(In € thousands)</u>	<u>2009</u>	<u>2008</u>
Exceptional income from operating transactions	444	0
Exceptional income from capital transactions	1,010	0
Reversals of provisions	275	0
TOTAL EXCEPTIONAL INCOME	1,729	0
Exceptional expense on operating transactions	0	0
Exceptional expense on capital transactions	275	310
Exceptional depreciation, amortization and provision expense	0	0
TOTAL EXCEPTIONAL EXPENSE	275	310
NET EXCEPTIONAL INCOME/(EXPENSE)	1,454	(310)
Corporate income tax	(13,720)	(3,641)
TOTAL INCOME	96,932	62,030
TOTAL EXPENSE	79,668	58,149
PROFIT FOR THE YEAR	17,264	3,881

**20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES,
FINANCIAL POSITION AND PROFITS AND LOSSES**

20.2 PARENT COMPANY FINANCIAL STATEMENTS FOR 2009

STATEMENT OF CHANGES IN EQUITY

<u>(in € thousands)</u>	<u>Share capital</u>	<u>Additional paid-in capital</u>	<u>Retained earnings and other reserves</u>	<u>Profit for the year</u>	<u>Total equity</u>
Equity at December 31, 2007	12,000	84,623	115,061	32,415	244,099
Movements in 2008					
• Issuance/cancellation of shares	62				62
• Appropriation of 2007 profit			32,415	(32,415)	0
• Dividends paid			(16,864)	0	(16,864)
• Profit for the year				3,881	3,881
• Other		4,498			4,498
Equity at December 31, 2008	12,062	89,121	130,612	3,881	235,676
Movements in 2009					
• Issuance/cancellation of shares	34				34
• Appropriation of 2008 profit			3,881	(3,881)	0
• Dividends paid			(18,509)	0	(18,509)
• Profit for the year				17,264	17,264
• Other		4,241			4,241
Equity at December 31, 2009	12,096	93,362	115,984	17,264	238,706

**20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES,
FINANCIAL POSITION AND PROFITS AND LOSSES**
20.2 PARENT COMPANY FINANCIAL STATEMENTS FOR 2009

NOTES TO THE FINANCIAL STATEMENTS

The parent company financial statements and notes thereto have been prepared based on the following data, within the meaning of French Decree 2005-1757 dated December 30, 2005:

- Year-end: *December 31, 2009*
- Accounting period: *12 months*
- Previous accounting period: *12 months*
- Total assets at December 31, 2009: *€1,543,537,000*
- 2009 revenues: *€28,428,000*
- Number of employees at December 31, 2009: *44*

In application of Articles L.123-16 and R.123-200 of the French Commercial Code, the attached notes are presented in the standard format. Certain additional material data has also been provided.

Note: Unless otherwise specified, all amounts in the following notes are stated in thousands of euros.

**20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES,
FINANCIAL POSITION AND PROFITS AND LOSSES**
20.2 PARENT COMPANY FINANCIAL STATEMENTS FOR 2009

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 GENERAL ACCOUNTING PRINCIPLES

The financial statements have been prepared on a going concern basis, in accordance with French law and French generally accepted accounting principles – including the principle of segregation of accounting periods – applied consistently from one accounting period to the next.

1.2 EXCEPTIONS

No exceptions to French generally accepted accounting principles were applied in the preparation of these financial statements.

1.3 MAIN ACCOUNTING POLICIES

The main accounting policies applied by the Company are described below.

1.3.1 Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are stated at acquisition cost (including transaction expenses) or production cost.

Depreciation and amortization are calculated by the straight-line method, as follows:

• Software	2	years
• Trademarks	2 to 10	years
• Buildings	20 or 30	years
• Fixtures and fittings	5	years
• Furniture	6	years
• Computer equipment	5	years

1.3.2 Investments in subsidiaries and affiliates, loans and advances to subsidiaries and affiliates, and other investment securities

Investments in subsidiaries and affiliates, loans and advances to subsidiaries and affiliates, and other investment securities are stated at the lower of cost and fair value, excluding incidental expenses. Fair value is determined based on the net assets of the company concerned and its projected future earnings.

1.3.3 Receivables

Receivables are stated at nominal value.

A provision is recorded for doubtful accounts based on the estimated risk of non-recovery.

1.3.4 Foreign currency transactions

Income and expenses in foreign currencies are converted at the exchange rate prevailing on the date of the transaction.

Balance sheet items are converted at the year-end rate.

1.3.5 Provisions for contingencies and charges

When Iliad's obligations to third parties known at the balance sheet date are certain or likely to cause an outflow of resources, without at least equivalent consideration, a provision is recorded when the amount can be estimated reliably.

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1.3.6 Convertible bonds

The issue price of the Company's OCEANE bonds is recognized in full on the liabilities side of the balance sheet, under "Convertible bonds". The related debt issuance costs are amortized over the life of the bonds.

1.3.7 Difference between operating and exceptional items

Exceptional income and expense include both exceptional items relating to ordinary activities and extraordinary items.

Exceptional items relating to ordinary activities correspond to items that are unusual in terms of their size or impact or which arise from events that occur rarely.

1.3.8 Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in France involves the use of estimates and assumptions which may have an impact on the reported amounts in the financial statements and accompanying notes. Actual amounts may differ from these estimates.

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2 NOTES TO THE BALANCE SHEET AT DECEMBER 31, 2009

2.1 INTANGIBLE ASSETS

2.1.1 Movements in 2009

Movements in intangible assets in 2009 can be analyzed as follows:

	At Jan. 1, 2009	Acquisitions	Disposals	At Dec. 31, 2009
Software	57	12	21	48
Trademarks	154	0	0	154
TOTAL	211	12	21	202

2.1.2 Trademarks

The Company has registered several trademarks related to its corporate name and businesses.

2.2 PROPERTY, PLANT AND EQUIPMENT

2.2.1 Movements in 2009

Movements in property, plant and equipment in 2009 can be analyzed as follows:

	At Jan. 1, 2009	Acquisitions	Disposals	At Dec. 31, 2009
Land	119	0	0	119
Buildings	356	0	0	356
Fixtures and fittings	926	0	70	856
Technical equipment	7	0	7	0
Computer equipment	561	95	400	256
Furniture	140	18	10	148
TOTAL	2,109	113	487	1,735

2.2.2 Analysis of property, plant and equipment

• Land and buildings

The Company owns a building at Rue de Crimée in Paris.

• Computer equipment

This item corresponds to purchases of computer equipment.

2.3 LONG-TERM INVESTMENTS

2.3.1 Movements in 2009

	At Jan. 1, 2009	Acquisitions	Disposals	At Dec. 31, 2009
Investments in subsidiaries and affiliates	606,634	51,064	44,178	613,520
Loans and advances to subsidiaries and affiliates	502,423	128,583	357,549	273,457
Other investment securities	1,753	0	0	1,753
Other loans	0	3,038	0	3,038
Guarantee deposits	1,223	23	174	1,072
TOTAL	1,112,033	182,708	401,901	892,840

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2.3.2 *Investments in subsidiaries and affiliates*

The main movements during the year are described below.

- **FREEBOX**

Iliad purchased several minority interests in Freebox during the year, raising its interest in the company from 96.59% to 96.86%.

- **CITEFIBRE**

Iliad purchased several minority interests in Citéfibre during the year, raising its interest in the company from 99.78% to 99.89%.

- **DEDIBOX**

Iliad purchased several minority interests in Dedibox during the year, raising its interest in the company from 90% to 92%. Dedibox was subsequently merged into Online, on July 30, 2009.

- **RECAPITALIZATION TRANSACTIONS BY ILIAD SUBSIDIARIES**

In 2009, Iliad SA invested the following amounts in share issues carried out by its subsidiaries for recapitalization purposes:

- Free Infrastructure: €31,338,000
- Free Mobile: €15,099,000
- IRE: €3,917,000

2.3.3 *Loans and advances to subsidiaries and affiliates*

Iliad SA is responsible for the Group's overall cash management and notably provides financing for the investments in optical fiber made by Free Infrastructure, IRE and Immobilière Iliad.

2.3.4 *List of subsidiaries and affiliates*

See table on following page.

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(in € thousands)	Share capital	Retained earnings and other reserves	% ownership	2009 profit/(loss)	Gross value of shares held	Net value of shares held	Loans and advances granted by the Company	Commitments given	2009 revenues	Dividends received during the year
ASSUNET SAS	38	28	89.96	429	34	34	0	/	1,170	225
CENTRAPEL SAS	38	(775)	99.98	342	38	38	958	/	19,387	0
CITEFIBRE SA	826	(6,065)	99.89	(1,797)	2,942	0	6,872	/	93	0
FREE SAS	3,442	925,567	100.00	178,869	497,298	497,298	3,180	22,052	1,934,800	35,000
FREEBOX SAS	50	4,531	96.86	(701)	3,636	3,636	11,946	\$31,000	208,542	0
FREE INFRASTRUCTURE SAS	1,000	17,000	100.00	(17,473)	31,378	31,378	168,450	7,500	296	0
FREE MOBILE SAS	15,000	0	100.00	(857)	15,139	15,139	0	242,739	0	0
IFW SAS	2,584	(5,315)	100.00	(2,345)	57,930	57,930	7,108	/	296	0
IH SAS	39	4	100.00	53	39	39	14	/	1,137	57
IMMOBILIERE ILJAD EURL	1	(599)	100.00	(1,921)	1	1	51,044	/	6,313	0
IRE SAS	100	2,000	100.00	(2,183)	3,954	3,954	12,266	65,000	3,112	0
KEDRA SAS	39	(158)	100.00	(268)	39	39	0	/	6	0
ONLINE SAS	214	4,228	95.18	1,966	341	341	2,725	/	10,396	0
ONE TEL SAS	2,511	11,644	100.00	3,799	0	0	0	/	10,461	5,663
PROTELCO SAS	37	0	100.00	(29)	37	37	5,011	5,000	32,249	0
SNDM EURL	2	(403)	100.00	6	297	0	0	/	0	0
TOTAL CALL	417	2,869	100.00	(708)	414	414	344	/	18,284	0

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2.3.5 Related-party transactions

	<u>Debit balances</u>	<u>Credit balances</u>
<i>Loans and advances to subsidiaries and affiliates</i>	273,457	
Trade receivables	3,796	
Business premises deposits received		362
Other borrowings		36,294
Trade payables		384
Other receivables/payables	<u>2,923</u>	<u>14,405</u>
Financial expense	5,284	
Financial income		<u>58,292</u>

2.4 DEPRECIATION AND AMORTIZATION

Movements in depreciation and amortization are broken down in the following table:

	<u>Depreciation and amortization at Jan. 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Depreciation and amortization at Dec. 31, 2009</u>
Intangible assets				
SUB-TOTAL I	<u>191</u>	<u>13</u>	<u>23</u>	<u>181</u>
Buildings	271	17	0	288
Plant and equipment	7	0	7	0
Other property, plant and equipment				
Fixtures and fittings	816	32	71	777
Furniture, office and computer equipment	<u>592</u>	<u>72</u>	<u>409</u>	<u>255</u>
SUB-TOTAL II	<u>1,686</u>	<u>121</u>	<u>487</u>	<u>1,320</u>
TOTAL (I+II)	<u>1,877</u>	<u>134</u>	<u>510</u>	<u>1,501</u>

2.5 OTHER ASSETS

2.5.1 Analysis of receivables by maturity

<u>At December 31, 2009</u>	<u>Gross amount</u>	<u>Due within 1 year</u>	<u>Due beyond 1 year</u>
<i>Fixed assets</i>			
• Loans and advances to subsidiaries and affiliates	273,457	273,457	0
• Other loans	3,038	0	3,038
• Other long-term investments	<u>1,072</u>	<u>0</u>	<u>1,072</u>
<i>Current assets</i>			
• Advances and prepayments	0	0	0
• Trade receivables	4,721	4,721	0
• Doubtful and disputed receivables	0	0	0
• Recoverable payroll and other employee-related taxes	0	0	0
• Employee-related receivables	0	0	0
• Recoverable corporate income tax	17,770	1,108	16,662
• Recoverable VAT	3,012	3,012	0
• Other receivables (including inter-company current accounts)	15,548	15,548	0
• Prepaid expenses	<u>183</u>	<u>183</u>	<u>0</u>
TOTAL	<u>318,801</u>	<u>298,029</u>	<u>20,772</u>

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2.5.2 Debt issuance costs

A total of €4,370,000 was recognized under assets in 2006 corresponding to the costs incurred for Iliad's convertible bond issue (see Note 2.8).

Expenses incurred in relation to setting up the Group's €1.2 billion syndicated credit facility were recognized under assets in 2008 in an amount of €12,335,000.

These costs are being amortized on a straight-line basis over the life of the borrowings concerned.

Changes in debt issuance costs were as follows in 2009:

<u>(In € thousands)</u>	<u>OCEANE bonds</u>	<u>Syndicated credit facility</u>
• Debt issuance costs	4,370	12,335
• Prior period amortization	(1,990)	(857)
• Amortization charge for the year	<u>(793)</u>	<u>(2,467)</u>
Net at December 31, 2009	<u>1,587</u>	<u>9,011</u>

2.5.3 Marketable securities

Marketable securities break down as follows:

<u>(In € thousands)</u>	<u>Dec. 31, 2009</u>		<u>Dec. 31, 2008</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
Certificates of deposit				
Net value	0	0	50,649	50,649
UCITS				
Net value	<u>605,142</u>	<u>605,142</u>	<u>271,341</u>	<u>271,341</u>
Total, net	<u>605,142</u>	<u>605,142</u>	<u>321,990</u>	<u>321,990</u>

The Group's portfolio of UCITS consists of units that can be sold at immediate notice and which fall within the "euro monetary" and "international monetary" classifications of the AMF.

2.6 SHARE CAPITAL AND CHANGES IN CAPITAL

2.6.1 Share capital

The Company's share capital at December 31, 2009 amounted to €12,096,000, divided into 54,583,440 fully paid-up shares, compared with €12,062,000 at December 31, 2008.

2.6.2 Form of the shares

Iliad's shares may be held in either registered or bearer form.

The Company does not have any preferred shares.

2.6.3 Changes in Iliad's share capital

The stock options granted by the Iliad Group on January 20, 2004 and the first tranche of the options granted on December 20, 2005 have been exercisable by their beneficiaries since January 20, 2008 and December 20, 2009 respectively.

In 2009, 152,165 stock options were exercised for the same number of new shares. The Group's share capital therefore increased by €34,000 to €12,096,000 at December 31, 2009 from €12,062,000 one year earlier.

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2.6.4 Ownership structure

At December 31, 2009, Iliad's ownership structure was as follows:

<u>Shareholder</u>	<u>Number of shares</u>	<u>%</u>
Executive Management	38,217,183	70.02
Public	16,366,257	29.98
Total	54,583,440	100.00

2.6.5 Own shares

In view of favorable market conditions, on October 8, 2008 the Company's Management decided to use the share buyback authorization granted in the ninth resolution of the May 29, 2008 Shareholders' Meeting to purchase 35,700 Iliad shares at a price of €49 per share.

The Company also holds 24,773 of its own shares under a liquidity contract.

The shares purchased under the buyback program will be allocated on exercise of stock options granted under the December 20, 2005 stock option plan set up for employees and officers of the Group in accordance with the applicable law. Half of the options granted under this plan are exercisable as from December 20, 2009 and the other half from December 29, 2010.

To date, the Group intends to apply the standard procedure of issuing new shares to be allocated on exercise of the stock options under its other plans.

2.6.6 Stock option plans

The following tables summarize the main features of the various stock option plans approved in 2009 and prior years, and outstanding at the year-end.

At December 31, 2009

<u>Date of Shareholders' Meeting</u>	<u>Date of plan launch</u>	<u>Exercise price</u>	<u>Number of options outstanding at Jan. 1, 2009</u>	<u>Number of options granted in 2009</u>	<u>Number of options forfeited in 2009</u>	<u>Number of options exercised in 2009</u>	<u>Number of exercisable options outstanding at Dec. 31, 2009</u>	<u>Number of non-exercisable options outstanding at Dec. 31, 2009</u>
December 12, 2003	January 20, 2004	16.30	129,709	0	0	96,338	33,371	0
December 12, 2003	December 20, 2005	48.44	197,002	0	0	55,827	141,175	0
December 12, 2003	December 20, 2005	48.44	197,003	0	0	0	0	197,003
May 29, 2006	June 14, 2007	74.62	162,455	0	0	0	0	162,455
May 29, 2006	August 30, 2007	68.17	701,331	0	6,572	0	0	694,759
May 29, 2008	November 5, 2008	53.79	596,600	0	7,200	0	0	589,400

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The exercise terms and conditions applicable to the outstanding stock options are as follows:

<u>Date of plan launch</u>	<u>Exercise terms and conditions</u>
January 20, 2004	Options exercisable since January 20, 2008
December 20, 2005	Half of the options exercisable since December 20, 2009 and half as from December 20, 2010
June 14, 2007	Options exercisable on June 13, 2012
August 30, 2007	Options exercisable on August 30, 2012
November 5, 2008	Options exercisable on November 5, 2013

2.7 PROVISIONS FOR CONTINGENCIES AND CHARGES

At December 31, 2009 the Company's balance sheet no longer contained any provisions for contingencies and charges as all the provisions previously recorded were reversed during the year because the corresponding risks were extinguished.

2.8 OTHER LIABILITIES

None of the Company's debts are significantly aged or unusual.

The table below analyzes the Company's liabilities by maturity.

<u>At December 31, 2009</u>	<u>Gross amount</u>	<u>Due within 1 year</u>	<u>Due in 1 to 5 years</u>	<u>Due beyond 5 years</u>
• Bonds:				
• due within one year at issue date	7,285	7,285	0	0
• due beyond one year at issue date	330,625	0	330,625	0
• Bank borrowings:				
• due within one year at inception of loan	0	0	0	0
• due beyond one year at inception of loan	898,048	159,598	738,456	0
• Bank overdrafts	1,219	1,219	0	0
• Other borrowings	0	0	0	0
• Guarantees and deposits received	405	0	405	0
• Trade payables	13,302	13,302	0	
• Employee-related payables	256	256	0	0
• Accrued payroll and other employee-related taxes	342	342	0	0
• Other accrued taxes:				
• Corporate income tax	0	0	0	0
• Value-added tax	2,296	2,296	0	0
• Other	145	145	0	0
• Amounts due on fixed assets	2	2	0	0
• Other liabilities	50,906	50,906	0	0
TOTAL	<u>1,304,831</u>	<u>235,345</u>	<u>1,069,486</u>	<u>0</u>

Issuance of OCEANE convertible/exchangeable bonds

On June 21, 2006, Iliad issued 3,265,190 OCEANE bonds convertible into new shares and/or exchangeable for existing shares, with a total face value of €287.5 million and paying interest at a rate of 2.20%. After the full exercise of the greenshoe option granted to the financial institutions which underwrote the issue, the number of OCEANE bonds outstanding at June 29, 2006 totaled 3,754,968, representing a total value of €326.3 million net of issuance costs.

The bonds mature on January 1, 2012 and are redeemable at face value, i.e., €88.05 per bond.

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The bondholders may hold a General Meeting to decide that all of the bonds must be redeemed in advance of term in certain circumstances, notably if:

- the Company fails to pay any interest due on any bonds within ten business days of the due date for payment thereof;
- the Company fails to comply with any other obligations relating to the bonds and such failure is not remedied within ten business days of the Company receiving notice thereof;
- the Company or any one of its major subsidiaries defaults on the payment of a loan or a loan guarantee representing a total amount of at least €5 million;
- the Company or any one of its major subsidiaries is required to repay another form of borrowing in advance of term;
- the Company reduces its interest in Free SA S to below 95%;
- the Company or any one of its major subsidiaries is subject to any of the procedures provided for in Chapter 6 of the French Commercial Code relating to corporate insolvency or any similar measure or procedure;
- the Company's shares are no longer listed on a regulated or similar market in the European Union.

Other borrowings

On July 31, 2008, as part of its acquisition of Liberty Surf Group SAS, Iliad set up a €1.2 billion syndicated credit facility with 12 European banks, breaking down as:

- a €700 million line dedicated to the acquisition, which had been fully drawn down at December 31, 2009;
- an additional €250 million line also dedicated to the acquisition as well as to restructuring costs, of which €195.1 million had been drawn down at December 31, 2009; and
- a €250 million revolving credit facility, none of which had been used at December 31, 2009.

The interest rate on these credit facilities is based on Euribor plus a margin ranging between 0.70% and 1.45% depending on the Group's leverage ratio.

As a protection against interest rate fluctuations, when this credit facility was set up Iliad also purchased swaps converting interest on a notional amount of €400 million from a variable rate indexed to the 3-month Euribor to a fixed rate. The swaps hedge €400 million worth of variable rate debt with the same maturity as the swaps.

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3 2009 REVIEW OF OPERATIONS

3.1 REVENUES

2009 revenues can be analyzed as follows by segment:

• Minitel services	€ 1,079,000
• Iliad Telecom services	€ 2,893,000
• Inter-company re-invoicing	€24,017,000
• Other revenues	€ 439,000
TOTAL	€28,428,000

All of the Company's revenues are generated in France.

3.2 NUMBER OF EMPLOYEES

At December 31, 2009, Iliad SA had 44 employees, breaking down as follows by category:

	<u>Men</u>	<u>Women</u>	<u>Total</u>
• Management	22	11	33
• Other	<u>4</u>	<u>7</u>	<u>11</u>
TOTAL	<u>26</u>	<u>18</u>	<u>44</u>

3.3 NET FINANCIAL INCOME

Net financial income came to €10,781,000 in 2009, breaking down as follows by category:

	<u>(in € thousands)</u>
• Net interest on subsidiaries' current accounts	12,063
• Interest income from loans and other receivables	921
• Income from securities	40,945
• Overdraft charges, interest on borrowings and other financial expenses	(45,006)
• Net gains on disposals of marketable securities	5,658
• Additions to provisions, net of reversals	(4,855)
• Net gains on disposals of own shares	<u>1,055</u>
	<u>10,781</u>

Additions to and reversals of provisions can be analyzed as follows:

• Additions to provisions for investments in subsidiaries and affiliates	(8)
• Additions to provisions for loans and advances to subsidiaries and affiliates	(4,872)
• Reversals of provisions for loans and advances to subsidiaries and affiliates	<u>25</u>
	<u>(4,855)</u>

3.4 EXCEPTIONAL ITEMS

Net exceptional income came to €1,454,000 in 2009, corresponding to:

- €1,010,000 in earn-out payments received by Iliad in connection with the 2007 sale of its interest in Kertel.
- €444,000 in proceeds received under a return to profitability clause concerning one of Iliad's subsidiaries.

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3.5 EXECUTIVE REMUNERATION

The tables below set out aggregate information concerning the remuneration and benefits paid to members of Iliad's administrative and management bodies.

<u>Administrative bodies</u> <u>(in €)</u>	<u>2009</u>	<u>2008</u>
• Salaries, commission and other remuneration (including lump-sum expense allowances), and paid leave	856,440	503,057
• Directors' fees:		
• Exempt from payroll taxes	90,000	60,000
<u>Management bodies</u> <u>(in €)</u>	<u>2009</u>	<u>2008</u>
• Salaries, commission and other remuneration (including lump-sum expense allowances), and paid leave	146,760	570,746
• Benefits-in-kind	0	21,891

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4 FINANCIAL INFORMATION

4.1 FINANCE LEASES

Iliad had no outstanding finance leases at December 31, 2009.

4.2 FINANCIAL COMMITMENTS

<u>Company concerned</u>	<u>Beneficiary</u>	<u>Amount</u> (in € thousands)	<u>Purpose</u>
Iliad	SITA (Suez Environnement)	1,700	Guarantee relating to premises at Rue de la Ville l'Evêque

Guarantees given by Iliad on behalf of Group companies

<u>Company concerned</u>	<u>Beneficiary</u>	<u>Amount</u> (in € thousands)	<u>Purpose</u>
Free	Cisco Systems Capital	22,052	Financing for the purchase of equipment under 71 finance and equipment leases
IH	Rugelec	/	Guarantee for financial commitments made by IH in relation to a memorandum of understanding signed on December 11, 2003
IRE	Genefim	65,000	12-year guarantee agreement effective from January 11, 2007
Free Infrastructure	BNP/Paris City Council	3,000	Financial guarantee for commitments given by Free Infrastructure
Free Infrastructure	Axione	1,000	Guarantee for commitments given by Free Infrastructure in relation to a turnkey contract for developing optical fiber networks
Free Infrastructure	Tyco	500	Guarantee for commitments given by Free Infrastructure in relation to purchases of splice boxes
Free Infrastructure	GTIE Telecoms	3,000	Guarantee for commitments given by Free Infrastructure in relation to a contract for developing optical fiber networks
Freebox	Unihan	\$25,000	Guarantee for financial commitments given by Freebox in relation to purchases of electronic components
Freebox	Seagate	\$6,000	Guarantee for financial commitments given by Freebox
Free Mobile	ARCEP/ANFR	242,739	Guarantee for financial commitments given by Free Mobile in relation to the acquisition of the fourth mobile operator license in France (commitments given to ARCEP in an amount of €240,000,000 and ANFR for €2,739,000)
Protelco Free Infrastructure	Citroën Crédipar	5,000	Guarantee for financial commitments given by Free Infrastructure and Protelco in relation to taking on lease contracts

4.2.1 Collateralized debt

None of the property belonging to the Company has been used as collateral for any debt.

4.3 POST-EMPLOYMENT BENEFITS

Actuarial valuations of post-employment benefit obligations are made using the projected unit credit method, with employee rights recorded on an accruals basis.

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For each active participant, the benefit likely to be paid is estimated based on the rules defined in the applicable collective bargaining agreement and/or company-level agreement, using personal data projected to the standard age for payment of the benefit. The Company's total obligations toward each participant (total actuarial value of future benefits) are then calculated by multiplying the estimated benefit by an actuarial factor, which takes into account the following:

- Assumptions concerning the employee's probability of departure or death before the age of payment of the benefit.
- The discounted value of the benefit at the valuation date.

These obligations are then allocated over each of the past and future years for which rights accrue for beneficiaries under the plan. This allocation can be analyzed as follows:

- The portion of the Group's obligation allocated to years prior to the measurement date (projected benefit obligation) corresponds to obligations for services rendered. The projected benefit obligation represents the Group's obligation existing at the balance sheet date.
- The portion of the Company's obligations allocated to the year following the measurement date (service cost) corresponds to the probable increase in obligations due to the additional year's service that the participant will have provided to the Company at the end of the year.

The individual results of the measurement process are subsequently aggregated to obtain Company-level results.

The Company's obligation in relation to post-employment benefits amounted to €41,000 at December 31, 2009. This obligation was not recognized in the 2009 financial statements.

4.4 STATUTORY TRAINING ENTITLEMENT

In accordance with French Law 2004-391 of May 4, 2004 relating to professional training, the Company grants its employees an entitlement to at least 20 hours' training per calendar year, which may be carried forward for up to six years. If all or part of the cumulative entitlement is not used within six years, it is capped at 120 hours.

At December 31, 2009 the Company's employees had accumulated a total of 3,233 unused training hours.

Iliad does not record a provision for this statutory training entitlement as it considers that the Company will receive a future benefit from any training given to employees because the underlying aim of the related training courses is to develop employee skills within the Company's businesses. In addition, only a very small number of training requests are lodged by employees who have left the Company or retired early.

**20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES,
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20.2 PARENT COMPANY FINANCIAL STATEMENTS FOR 2009

5 OTHER INFORMATION

5.1 CONSOLIDATION

Iliad SA prepares consolidated financial statements in its capacity as the parent company of the Iliad Group.

5.2 TAX-RELATED INFORMATION

5.2.1 Tax group

Iliad has set up a tax group which included the following companies in 2009:

- | | |
|---|--|
| <ul style="list-style-type: none"> • SA ILIAD • SAS CENTRAPEL • SA CITEFIBRE • SAS FREE • SAS FREEBOX • SAS FREE INFRASTRUCTURE • SAS FREE MOBILE • SAS IFW | <ul style="list-style-type: none"> • SAS IH • EURL IMMOBILIERE ILIAD • SAS IRE • SAS KEDRA • SAS ONE TEL • SAS ONLINE • EURL SNDM |
|---|--|

The following rules apply within the tax group:

- Each company in the tax group, including the parent company, records in its accounts the amount of tax that it would have paid on a stand-alone basis.
- Any tax savings relating to tax losses made by members of the tax group are held at the level of the parent company and therefore do not have any impact on profit.

For as long as they remain members of the tax group, subsidiaries may offset their tax losses generated during their membership of the tax group against future taxable income.

Iliad records these tax savings on the liabilities side of its balance sheet under "Other liabilities". They totaled €14,043,000 at December 31, 2009.

- Any tax charges or savings relating to adjustments to total earnings, as well as any tax credits for loss-making companies, are recorded at the level of Iliad SA.
- No payments in relation to these matters may be due by Iliad when a company leaves the tax group.

5.2.2 Deferred taxes

Items subject to adjustments for the purposes of calculating taxable income will have the following expected impact on taxes in future years:

TYPE OF TEMPORARY DIFFERENCE	Amount (in € thousands)
Deferred tax liabilities	/
TOTAL	/
Total deferred tax liabilities	/
Deferred tax assets	
Government housing levy	4
"Contribution sociale" surtax	14
Fair value adjustments to UCITS	427
TOTAL	445
Total deferred tax assets	445
Tax loss carryforwards of the Company	None
 TAX GROUP	
Long-term capital losses	None

20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES

20.2 PARENT COMPANY FINANCIAL STATEMENTS FOR 2009

5.2.3 Corporate income tax relating to exceptional items

Corporate income tax payable for 2009 amounted to €13,720,000 breaking down as follows:

- Corporate income tax relating to ordinary activities: €(13,737,000)
- Corporate income tax relating to exceptional items: €17,000

5.3 INFORMATION ON THE SEGREGATION OF ACCOUNTING PERIODS

5.3.1 Accrued income

Accrued income included in balance sheet items can be broken down as follows:

<u>Balance sheet item</u>	<u>Amount</u>
Loans and advances to subsidiaries and affiliates	0
Other long-term investments	0
Trade receivables	220
Other receivables	8,670
Cash and cash equivalents	0
TOTAL	<u>8,890</u>

5.3.2 Accrued expenses

Accrued expenses included in balance sheet items can be broken down as follows:

<u>Balance sheet item</u>	<u>Amount</u>
Convertible bonds	7,285
Other bonds	0
Bank borrowings	2,950
Other borrowings	0
Trade payables	573
Accrued taxes and payroll costs	491
Other liabilities	0
TOTAL	<u>11,299</u>

5.3.3 Deferred income and prepaid expenses

Deferred income and prepaid expenses break down as follows:

	<u>Prepaid expenses</u>	<u>Deferred income</u>
Operating expense/income	183	0
Financial expense/income	0	0
Exceptional expense/income	0	0
TOTAL	<u>183</u>	<u>0</u>

5.4 EVENTS AFTER THE BALANCE SHEET DATE

On December 19, 2009, the French Telecommunications Regulatory Authority (ARCEP) announced that it intended to award the Iliad subsidiary, Free Mobile, the fourth 3G mobile telecommunications license for mainland France.

On January 12, 2010, ARCEP issued Decision 2010-043 which officially authorized Free Mobile to use the necessary frequencies to set up and operate a third generation telecommunications network. The €240 million cost of the license was paid by Free Mobile to ARCEP on January 13, 2010. This transaction did not have any impact on the 2009 consolidated financial statements.

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

**20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES,
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20.2 PARENT COMPANY FINANCIAL STATEMENTS FOR 2009

**STATUTORY AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS**

(Year ended December 31, 2009)

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the financial statements and includes an explanatory paragraph discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Iliad

8, rue de la Ville l'Evêque
75008 Paris

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2009, on:

- the audit of the accompanying financial statements of Iliad;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I – Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company at December 31, 2009 and of the results of its operations for the year then ended in accordance with French accounting principles.

II – Justification of our assessments

In accordance with the requirements of Article L.823-9 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

Note 1.3.2. to the financial statements sets out the accounting rules and methods applied in valuing investments in subsidiaries and affiliates, and loans and advances to subsidiaries and affiliates. As part of our assessment of the accounting rules and principles applied by your Company, we verified the appropriateness of these accounting methods and of the calculation of provisions for impairment.

**20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES,
FINANCIAL POSITION AND PROFITS AND LOSSES**

20.2 PARENT COMPANY FINANCIAL STATEMENTS FOR 2009

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III – Specific verifications and information

In accordance with professional standards applicable in France, we have also performed the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of Article L.225-102-1 of the French Commercial Code relating to remuneration and benefits received by corporate officers and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling it or controlled by it. Based on this work, we attest to the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of shareholders and holders of the voting rights has been properly disclosed in the management report.

Neuilly-sur-Seine and Paris, March 23, 2010

The Statutory Auditors

PricewaterhouseCoopers Audit

Boissière Expertise Audit

Xavier Cauchois

Jean-Luc Cohen

20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES

20.3 DIVIDEND POLICY

20.3 DIVIDEND POLICY

The Board of Directors determines the dividend policy based on a review of the Company's earnings and financial position and other factors. At the Annual Shareholders' Meeting to be held on May 25, 2010, the Board will recommend the payment of a €0.37 dividend per share (excluding taxes) for all the shares making up the Company's share capital at that date, and carrying rights to the 2009 dividend.

The Company expects its dividend policy to be consistent with its expansion strategy in 2010. This does not, however, represent any commitment on the Company's part, which may decide to reduce its dividend payment, or not make any dividend payment, depending on its financial results, capital expenditure requirements, and level of debt.

20.3.1 Provisions of the bylaws relating to distributable profit

Distributable profit represents profit for the year, less any losses carried forward from prior years, and any amount to be appropriated to reserves pursuant to applicable law or the Company's bylaws, plus any retained earnings. The Annual Shareholders' Meeting may appropriate all or part of this amount to any optional reserves or to retained earnings.

The Annual Shareholders' Meeting may also decide to distribute funds drawn from available reserves, expressly indicating the reserve account from which the distributed amounts are to be taken. However, dividends are deducted in priority from distributable profit.

The Annual Shareholders Meeting may decide to offer each shareholder the option of receiving all or part of the final dividend or any interim dividends in the form of shares.

Dividends must be paid no later than nine months following the close of the fiscal year unless an extension is authorized by a court of law.

The total dividend payout must take into account all of the shares making up the Company's capital at the dividend date. If at that date (i) the Company holds any of its own shares or (ii) any shares that should have been issued on the exercise of stock options granted by the Board of Directors have not actually been issued, the amount corresponding to the dividends payable on the shares referred to in (i) and (ii) will be allocated to the "Other reserves" account.

20.3.2 Dividends paid in the past five fiscal years

The Company paid dividends for all of the past five fiscal years (2004, 2005, 2006, 2007 and 2008).

The Shareholders' Meeting of May 28, 2004 resolved to pay a total dividend of €5,345,223 (€0.10 per share), representing approximately 92.35% of profit for 2003.

At its meeting on December 6, 2004, the Board of Directors approved the payment of an interim dividend corresponding to €4,008,917 (€0.075 per share), representing approximately 41.45% of profit for the first three quarters of fiscal 2004.

The Shareholders' Meeting of May 27, 2005 resolved to pay a total dividend of €6,174,979.25 (€0.115 per share) for all of the shares making up the Company's share capital at that date, and carrying rights to the 2004 dividend.

This dividend was settled by way of a €4,008,917.25 interim dividend paid on December 6, 2004, with the balance of €2,166,062 paid on June 8, 2005.

The Shareholders' Meeting of May 29, 2006 resolved to pay a total dividend of €10,830,310 (€0.20 per share).

The Shareholders' Meeting of May 29, 2007 resolved to pay a total dividend of €14,620,918.50 (€0.27 per share).

20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES

20.3 DIVIDEND POLICY

The Shareholders' Meeting of May 29, 2008 resolved to pay a total dividend of €16,913,905.00 (€0.31 per share).

The Shareholders' Meeting of June 23, 2009 resolved to pay a total dividend of €20,247,246 (€0.34 per share).

For individuals domiciled in France for tax purposes, cash dividends are taken into account when calculating personal income tax. They are eligible for the tax allowance provided for under Article 158.3-2 of the French General Tax Code (40% for 2006, 2007 and 2008 and 50% for 2004) subject to the applicable conditions and ceilings set down by law, unless the shareholders concerned opt for the 18% flat-rate withholding tax provided for under Article 117 *quater* of said Code.

20.3.3. Statute of limitations for dividends

Dividends that have not been claimed within five years are time-barred and are remitted to the French State.

20.4 LITIGATION AND ARBITRATION PROCEEDINGS

Apart from the cases described in Section 4 of this registration document, there have been no governmental, legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the Company's financial position or profitability and, as far as Iliad is aware, no such proceedings are pending or threatened against the Company.

The aggregate amount of provisions set aside to cover all of the Group's claims and litigation (see Note 28 to the consolidated financial statements in Section 20) corresponds to all of the outflows of resources (excluding any possible reimbursements) that are deemed probable for all types of claims and litigation in which the Group is involved as a result of conducting its business.

20.5 SIGNIFICANT CHANGES IN THE COMPANY'S FINANCIAL OR TRADING POSITION

There were no significant changes in the Company's financial or trading position between December 31, 2009 and the date on which this registration document was filed. Events that may reasonably be expected to affect the Company's business and outlook for 2010 are described in Section 9 (notably Section 9.4.2) and were described by the Company during the presentation of Iliad's 2009 results held on March 23, 2010.

21 ADDITIONAL INFORMATION

21.1 SHARE CAPITAL

21.1.1 Amount of share capital

At the date this registration document was filed, the Company's share capital amounted to €12,095,706.82, divided into 54,583,440 shares, all issued, fully paid up and of the same class. The par value of the shares is not set in the Company's bylaws.

21.1.2 Shares not representing capital

At the date this registration document was filed, the Company had not issued any shares not representing capital.

21.1.3 Share buyback programs

The twenty-first resolution of the June 23, 2009 Shareholders' Meeting authorized the Board of Directors, with authority to delegate under the terms provided by law, to acquire shares representing up to 10% of the Company's capital. This authorization was granted for a period of eighteen months and remains in effect until December 22, 2010.

The maximum purchase price under this program is €200 per share.

The objectives of the share buyback program, in decreasing order of priority, are as follows:

- Market making for the Company's shares under a liquidity contract that complies with the code of ethics recognized by the French securities regulator (AMF) as an approved market practice.
- To allocate shares to employees and corporate officers of the Company and Group subsidiaries, in accordance with the applicable legislation, including by carrying out share grants as permitted by Articles L.225-197-1 *et seq.* of the French Commercial Code, or by granting stock options in accordance with Articles L.225-179 *et seq.* of said Code, or as part of a profit-sharing scheme.
- To purchase shares to be held and subsequently used in connection with external growth transactions (as consideration, in exchange for shares in another company, or any other use).
- To allocate shares on the exercise of stock options granted to the Company's employees and corporate officers in accordance with the law.
- To cancel all or some of the shares purchased, subject to adoption of the twenty-eighth resolution of the June 23, 2009 Shareholders' Meeting.
- To attribute shares on redemption, conversion, exercise or exchange of share equivalents.

The Company carried out the following transactions in connection with the share buyback program during 2009:

	<u>Purchases</u>	<u>Sales</u>
Number of shares	569,384	589,203
Average unweighted transaction price (<i>in</i> €)	72.22	72.47
Total (<i>in</i> €)	41,123,090.51	42,697,329.92

21 ADDITIONAL INFORMATION

21.1 SHARE CAPITAL

Following the above transactions, the Company held the following Iliad shares at December 31, 2009:

Percentage of capital held directly or indirectly by the Company	0.11 %
For the purpose of:	
• Market-making	0.05 %
• Granting stock options	0.06 %
Number of shares cancelled in the past 24 months	0
Number of shares held in the portfolio	60,473
Carrying amount of the portfolio (in €)	3,773,897
Market value of the portfolio ⁴⁷ (in €)	5,050,705

At its meeting on March 18, 2010, the Board of Directors decided to recommend to shareholders at the Annual Shareholders' Meeting to be held on May 25, 2010 that they renew the authorization to implement a share buyback program in accordance with the General Regulations of the AMF, which reflect European Commission Regulation 2273/2003 of December 22, 2003 implementing European Directive 2003/6/EC of January 28, 2003.

21.1.4 Potential capital

21.1.4.1 Stock options

In accordance with Articles L.225-177 *et seq.* of the French Commercial Code, the Extraordinary Shareholders' Meeting held on May 29, 2008 authorized the Board of Directors to grant on one or more occasions to senior managers or other employees of the Company, or related companies within the meaning of Article L.225-180 of the French Commercial Code, options to purchase new or existing shares in the Company.

The total number of stock options granted, taking into account options granted under previous authorizations, may not be exercisable for shares representing over 6% of the Company's capital at the grant date. This authorization was given for a period of thirty-eight months from the date of the Shareholders' Meeting, i.e., until July 28, 2011.

The exercise price of the options granted under this authorization may not represent less than 80% of the average of the prices quoted for the Company's shares over the 20 trading sessions preceding the grant date. No stock options may be granted less than 20 trading sessions following the ex-dividend date or the issue date of a preferential right to subscribe for new shares issued by the Company. In addition, the exercise price for options to purchase existing shares may not represent less than 80% of the average price paid for shares held by the Company pursuant to Article L.225-208 of the French Commercial Code or any share buyback program in effect.

No stock options were granted in 2009.

On November 5, 2008 the Board of Directors used the above authorization given at the May 29, 2008 Shareholders Meeting to grant:

- 80,000 stock options under a new plan to be set up for a Group corporate officer, with each option exercisable for one new share at a unit price of €53.79.
- 516,600 stock options under a new plan to be set up for 120 Group employees, with each option exercisable for one new share at a unit price of €53.79.

On June 14, 2007 the Board of Directors used the authorization previously granted at the May 29, 2006 Shareholders' Meeting to set up a new stock option plan and grant 162,455 stock options to a Group corporate officer, with each option exercisable for one new share at a unit price of €74.62.

The Board of Directors used the same authorization at its August 30, 2007 meeting to set up a new stock option plan and grant 162,455 stock options to a Group employee, with each option exercisable for one new share at a unit price of €68.17.

⁴⁷ Based on the Iliad closing share price on December 31, 2009, i.e., €83

21 ADDITIONAL INFORMATION

21.1 SHARE CAPITAL

On the same date the Board of Directors also decided to set up a further new stock option plan and grant 541,505 stock options to 95 Group employees and corporate officers, with each option exercisable for one new share at a unit price of €68.17.

Lastly, at its January 20, and January 29, 2004 meetings, the Board of Directors used the authorization granted by shareholders on December 12, 2003 to set up a new stock option plan and grant 485,769 stock options to 22 Group employees, with each option exercisable for one new share at a unit price of €16.30.

The Board of Directors also used this authorization at its December 20, 2005 meeting to set up a new stock option plan and grant 541,515 stock options to 84 Group employees and corporate officers, with each option exercisable for one new share at a unit price of €48.44.

21 ADDITIONAL INFORMATION

21.1 SHARE CAPITAL

The table below sets out information concerning the stock options granted by the Company which were outstanding at March 31, 2010.

	<u>Jan. 20, 2004 plan</u>	<u>Dec. 12, 2003 plan</u>	<u>May 29, 2006 plan</u>	<u>May 29, 2006 plan</u>	<u>May 29, 2006 plan</u>	<u>May 29, 2008 plan</u>	<u>May 29, 2008 plan</u>
Date of Shareholders' Meeting	Dec. 12, 2003	Dec. 12, 2003	May 29, 2006	May 29, 2006	May 29, 2006	May 29, 2008	May 29, 2008
Date of Board meeting	Jan. 20, 2004	Dec. 20, 2005	June 14, 2007	Aug. 30, 2007	Aug. 30, 2007	Nov. 5, 2008	Nov. 5, 2008
Total number of shares under option	485,769	541,515 ⁴⁸	162,455	162,455	541,505	80,000	516,600
Total number of beneficiaries	22	84	1	1	95	1	120
o/w corporate officers ⁴⁹		-Cyril Poidatz (40,614) - Olivier Rosenfeld ⁵⁰ (40,614) - Michael Boukobza ⁵¹ (40,614) - Antoine Levavasseur (40,614)	Maxime Lombardini	N/A	N/A	Maxime Lombardini	Thomas Reynaud (80,000)
Start date of exercise period	Jan. 20, 2008	- First tranche Dec. 20, 2009 - Second tranche Dec. 20, 2010	June 14, 2012	Aug. 30, 2012	Aug. 30, 2012	Nov. 5, 2013	Nov. 5, 2013
Expiration date	Jan. 19, 2014	Dec. 19, 2015	June 13, 2017	Aug. 29, 2017	Aug. 29, 2017	Nov. 4, 2018	Nov. 4, 2018
Exercise price (in €)	16.30	48.44	74.62	68.17	68.17	53.79	53.79
Number of options exercised	378,518	68,608	0	0	0	0	0
Total number of options canceled or forfeited	76,335	147,510 ⁵²	0	0	9,201	0	7,200
Outstanding options at year-end	30,916	128,394	162,455	162,455	532,304	80,000	509,400
Dilutive impact	0.06%	0.60%	0.30%	0.30%	0.96%	0.15%	0.93%

During first-quarter 2010, 326,623 stock subscription options were exercised.

At March 31, 2010:

- 3 Group employees held 30,916 options exercisable for the same number of new Iliad shares at a unit price of €16.30.
- 67 Group employees held 325,397 options exercisable for the same number of new Iliad shares at a unit price of €48.44.
- 1 Group corporate officer held 162,455 options exercisable for the same number of new Iliad shares at a unit price of €74.62.
- 1 Group employee held 162,455 options exercisable for the same number of new Iliad shares at a unit price of €68.17.
- 92 Group employees held 532,304 options exercisable for the same number of new Iliad shares at a unit price of €68.17.
- 117 Group employees – including two corporate officers – held 589,400 options exercisable for the same number of new Iliad shares at a unit price of €53.79.

⁴⁸ O/w half exercisable at each exercise date

⁴⁹ At the grant date

⁵⁰ Olivier Rosenfeld stepped down from his position as Senior Vice-President on January 3, 2008.

⁵¹ Michael Boukobza stepped down from his position as a director and Senior Vice-President on June 14, 2007

⁵² O/w 81,228 options held by former employees or Board members.

21.1.4.2 OCEANE bonds convertible into new shares and/or exchangeable for existing shares of the Company

On June 29, 2006 the Company issued 3,265,190 convertible/exchangeable bonds governed by Articles L.228-91 *et seq.* of the French Commercial Code (OCEANE bonds). Following the exercise of the related greenshoe option the number of bonds issued was increased to 3,754,968 representing a total nominal value of €330,624,932.40, or €88.05 per bond. A prospectus relating to the issue was approved by the AMF on June 21, 2006 under number 06-219 and a legal notice was published in the *Bulletin des Annonces Légales Obligatoires* on June 26, 2006.

The OCEANE bonds bear interest at an annual rate of 2.20% and will be redeemed at par on January 1, 2012, unless they are redeemed in advance at the option of the Company under certain conditions, or at the option of the bondholders in the event of a change of control of the Company within the meaning of Article L.233-3 of the French Commercial Code. Early redemption of the bonds may also be required in certain other circumstances, notably if (i) the Company does not comply with its obligations relating to the bonds, (ii) the Company or one of its major subsidiaries defaults on the payment of a loan or a loan guarantee representing a total amount of at least €5 million, (iii) the Company or one of its major subsidiaries is required to repay another form of borrowing in advance of term, or (iv) the Company reduces its interest in Free SAS to below 95%.

Each bond is convertible into/exchangeable for one Iliad share at any time up to the seventh working day preceding the redemption or early redemption date, subject to any subsequent adjustments. Where OCEANE bondholders exercise their rights to receive Iliad shares, the Company may elect to allocate newly issued or existing shares, or a combination of new and existing shares.

The OCEANE bonds (including interest thereon) constitute direct, general, unconditional, unsubordinated, unsecured debts of the Company. They rank equally at all times among themselves, and with all other present and future unsecured obligations of the Company (other than those that are deemed to be preferred, in accordance with the law). The Company has undertaken that for as long as the OCEANE bonds remain outstanding it will not grant (i) any mortgages over its existing or future real estate or property rights or (ii) any pledges or other form of collateral over its business or trade receivables, for the benefit of any other bonds without granting the same type of guarantee with the same ranking for the OCEANE bonds.

The OCEANE bonds are listed on the Eurolist market of Euronext Paris (ISIN code FR0010350280).

21.1.4.3 Information about the potential dilutive impact on the Company's capital following operations relating to the Company's potential dilutive instruments during the past three fiscal years

Except for the stock options and OCEANE bonds described respectively in Sections 21.1.4.1 and 21.1.4.2 above (the "Dilutive Instruments"), there are no securities that are convertible, redeemable, exchangeable or otherwise exercisable for the Company's shares or voting rights either now or in the future.

<u>Type of Dilutive Instrument</u>	<u>Date of grant or issue</u>	<u>Exercise price</u> (in €)	<u>Expiration date of exercise, exchange or conversion period</u>	<u>Number of new shares to be issued</u>	<u>Dilutive impact</u> (%)
Stock options	January 20, 2004	16.30	January 19, 2014	30,916	0.06%
Stock options	December 20, 2005	48.44	December 19, 2015	325,397	0.60%
OCEANE bonds	June 29, 2006	N/A	December 21, 2011 ⁵³	3,754,968	6.88%
Stock options	June 14, 2007	74.62	June 13, 2017	162,455	0.30%
Stock options	August 30, 2007	68.17	August 29, 2017	162,455	0.30%
Stock options	August 30, 2007	68.17	August 29, 2017	523,304	0.96%
Stock options	November 5, 2008	53.79	November 4, 2018	80,000	0.15%
Stock options	November 5, 2008	53.79	November 4, 2018	509,400	0.93%
Total				5,548,895	10.16%

⁵³ Seventh working day preceding the redemption date, i.e., January 1, 2012, unless the bonds are redeemed in advance.

21 ADDITIONAL INFORMATION

21.1 SHARE CAPITAL

21.1.5 Information about the terms of any acquisition rights or any obligations over authorized but unissued capital or an undertaking to increase the share capital

Not applicable.

21.1.6 Information about the share capital of any member of the Group which is under option or agreed conditionally or unconditionally to be put under option and details of such options (including those persons to whom such options relate)

There are no options or conditional or unconditional agreements providing for the share capital of any member of the Group to be placed under option.

21.1.7 Changes in the Company's share capital over the past five years

Date of Shareholders' Meeting or Board Meeting	Transaction	Number of shares issued	Nominal amount of capital increase (in €)	Issue premium (in €)	Aggregate issue premiums (in €)	Total par value of share capital (in €)	Total shares outstanding	Per-share par value (in €)
April 8, 2005	Capital increase through exercise of founders' warrants	699,320	130,830.84	859,978.96	84,623,395.86	10,130,830.84	54,151,550	0.19
July 11, 2005	Capital increase through capitalization of reserves	0	1,869,169.16	0	84,623,395.86	12,000,000	54,151,550	0.22
2006	—	0	0	0	84,623,395.86	12,000,000	54,151,550	0.22
2007	—	0	0	0	84,623,395.86	12,000,000	54,151,550	0.22
March 10, 2008	Capital increase following exercise of stock options	59,517	13,188.97	956,938.13	85,580,333.99	12,013,188.97	54,211,067	0.22
April 23, 2009	Capital increase following exercise of stock options	220,208	48,798.09	3,900,592.30	89,120,926.30	12,061,987.06	54,431,275	0.22
March 18, 2010	Capital increase following exercise of stock options	152,165	33,719.76	4,240,849.53	93,361,775.83	12,095,706.82	54,583,440	0.22

21 ADDITIONAL INFORMATION

21.1 SHARE CAPITAL

21.1.8 Authorized unissued share capital

At the Extraordinary Meetings of May 29, 2008 and June 23, 2009 the shareholders authorized the Board of Directors to increase the Company's capital as follows:

Authorization given to the Board of Directors at the Extraordinary Shareholders' Meeting	Nominal amount (in €)		Expiration date	Change in ceilings and/or expiration dates of authorizations submitted for approval at the Shareholders' Meeting of May 25, 2010	
	Authorized	Used		Validity period	Ceiling (in €)
To issue shares and/or share equivalents with pre-emptive subscription rights for existing shareholders ⁵⁴	5,000,000	N/A	July 28, 2010	26 months	5,000,000
To issue shares and/or share equivalents without pre-emptive subscription rights for existing shareholders ⁵⁴	5,000,000	N/A	July 28, 2010	26 months	5,000,000
To increase the maximum number of securities that may be issued as part of a capital increase ⁵³ (either with or without pre-emptive subscription rights for existing shareholders)	5,000,000		July 28, 2010	26 months	5,000,000
To issue shares and/or share equivalents to certain categories of persons without pre-emptive subscription rights for existing shareholders	N/A	N/A	N/A	N/A	N/A
To issue shares and/or share equivalents in the case of a public tender offer launched by the Company ⁵⁴	1,500,000	N/A	July 28, 2010	26 months	1,500,000
To issue shares and/or share equivalents as consideration for transferred assets ⁵⁴	1,201,319	N/A	July 28, 2010	26 months	1,200,836
To issue shares for allocation on exercise of stock options ⁵⁴	3,249,093 (corresponding to 6% of the Company's capital, or €800,000)	596,600	July 28, 2011	N/A	N/A
To carry out share grants ⁵⁴	60,066	N/A	July 28, 2011	N/A	N/A
To increase the Company's capital through capitalization of reserves, profits or premiums ⁵⁵	75,000,000	N/A	August 22, 2011	N/A	N/A
To issue shares and/or share equivalents, without pre-emptive subscription rights for existing shareholders, as part of an offer governed by Article L.411-2 II of the French Monetary and Financial Code ⁵⁵	5,000,000	N/A	August 22, 2011	N/A	N/A
To increase the maximum number of securities to be issued as part of a capital increase, without pre-emptive subscription rights for existing shareholders, as part of an offer governed by Article L.411-2 II of the French Monetary and Financial Code ⁵⁵	5,000,000	N/A	August 22, 2011	N/A	N/A
To issue shares to employees who are members of a corporate savings plan ⁵⁵	100,000 Rejected by shareholders	N/A	N/A	26 months	100,000

⁵⁴ Authorization granted at the Shareholders' Meeting of May 29, 2008

⁵⁵ Authorization granted at the Shareholders' Meeting of June 23, 2009

21.2 BYLAWS

21.2.1 *Corporate purpose (Article 2 of the bylaws)*

The Company's purpose is to directly or indirectly conduct the following activities in France or any other country:

- to study, implement, maintain, operate, manage and/or market all systems, equipment, networks or services in the fields of telecommunications, the Internet, data processing, telematics and communications, including the installation and operation of electronic communications networks;
- to publish and broadcast all services, programs and information, in particular, to publish and provide telephone and telematics services to the public and broadcast audiovisual communications services by any technical means, including through the press, radio, audio-visual media, video or remote transmission, on magnetic or other media;
- to acquire by any means and manage investments in the capital of any French or foreign company, regardless of its form and purpose, by purchase, subscription of shares or otherwise;
- to acquire, by any means, bonds, founders' shares or other securities issued by such companies;
- to provide any services relating to commercial, financial, accounting and administrative activities;
- to directly or indirectly invest, through contributions from partnerships or otherwise, in any companies having one or more activities directly or indirectly related to the Company's corporate purpose;
- to invest in any business or company with one or more activities which may be directly or indirectly related to the Company's corporate purpose or to any similar or associated purpose, in particular by creating new companies, or through contributions, mergers, joint ventures, partnerships or consortia;
- and more generally, to conduct any industrial, commercial or financial transactions, or any transactions involving either real estate or securities directly or indirectly related to the Company's corporate purpose or any similar or associated purpose.

21.2.2 *Management of the Company*

21.2.2.1 *Board of Directors*

The Company is governed by a Board of Directors.

The Board of Directors is responsible for defining and implementing the Company's strategies. Except for the powers directly vested in shareholders and within the scope of the corporate purpose, the Board is responsible for dealing with all matters related to the efficient running of the Company and for making all related decisions.

21.2.2.2 *Senior Management*

As required by law, the Company is managed either by the Chairman of the Board of Directors, who then has the title of Chairman and Chief Executive Officer, or by another person appointed by the Board of Directors with the title of Chief Executive Officer.

The Board of Directors selects one of these two options for managing the Company. The selected management structure must subsequently remain in place for a period of no less than one year.

21.2.3 *Rights and obligations attached to shares*

21.2.3.1 *Appropriation of profit (Article 31 of the bylaws)*

The Company's income statement shows its profit or loss for the fiscal year after deducting depreciation, amortization and provisions.

At least 5% of profit for the year, less any losses carried forward from prior years, is allocated to the legal reserve until such time as that reserve represents one-tenth of the Company's share capital. Further transfers are made on the same basis if the legal reserve falls to below one-tenth of the Company's share capital for any reason.

21 ADDITIONAL INFORMATION

21.2 BYLAWS

Distributable profit represents profit for the year, less any losses carried forward from prior years, and any amount to be appropriated to reserves pursuant to applicable law or the Company's bylaws, plus any retained earnings. The Shareholders' Meeting may appropriate all or part of this amount to any optional reserves or to retained earnings.

The Shareholders' Meeting may also decide to distribute funds drawn from available reserves, expressly indicating the reserve account from which the distributed amounts are to be taken. However, dividends are deducted in priority from distributable profit.

Except in the case of a capital reduction, no distribution may be made to shareholders if the Company's shareholders' equity represents or would represent after the planned distribution less than the sum of its share capital plus any reserves which, under applicable laws or the Company's bylaws, are not available for distribution.

The revaluation reserve may not be distributed, but all or part of it may be incorporated into the Company's share capital.

Any losses are carried forward to be offset against profit in future years.

21.2.3.2 Legal form of securities issued by the Company

The securities issued by the Company may be held in the form of registered or bearer securities, at the holder's choice. Their existence is evidenced by their registration in securities accounts held in the name of the holder for that purpose under the terms and conditions set out by law either by the Company or its appointed custodian in the case of registered securities or by an intermediary authorized for that purpose in the case of bearer securities.

21.2.3.3 Voting rights

Each share entitles its holder to vote at Shareholders' Meetings in accordance with the conditions set down in the applicable laws and regulations as well as in the Company's bylaws.

Unless otherwise agreed and notified to the Company, voting rights attached to shares are exercised by the beneficial owners of the shares at Ordinary Shareholders' Meetings and by the legal owner of the shares at Extraordinary Shareholders' Meetings.

Information relating to double voting rights is set out in Sections 21.2.5.5 and 18.2 of this registration document.

21.2.4 Changes in the rights of shareholders

Any changes in the rights attached to shares are subject to the provisions of the applicable laws governing French joint-stock corporations as there are no specific related provisions in the Company's bylaws.

21.2.5 Shareholders' Meetings

The collective decisions of the Company's shareholders are made in Shareholders' Meetings, which are classified as ordinary or extraordinary according to the types of decisions they are called to make.

Shareholders' Meetings duly convened and constituted represent all of the Company's shareholders. Their decisions are binding on all shareholders, including those absent, dissenting or disqualified.

21.2.5.1 Notice and conduct of meetings (Article 24 of the bylaws)

Shareholders' Meetings are called by the Board of Directors or, if necessary, by the Statutory Auditors or any person authorized by law.

The meetings take place at the Company's registered office or any other location indicated in the notice of meeting.

They may be held by videoconference or any other means of telecommunications technology, including the Internet, which permits identification of the shareholders under the terms and conditions prescribed by the applicable laws and regulations.

21.2.5.2 Agenda (Article 25 of the bylaws)

The agenda for Shareholders' Meetings is determined by the party calling the meeting.

However, one or more shareholders or the works council may request that proposed resolutions be included in the agenda under the terms and conditions prescribed by the applicable laws and regulations.

The Shareholders' Meeting may not consider matters that do not form part of the agenda. Nevertheless, in any circumstances it may remove from office and replace one or more directors.

The agenda for a Shareholders' Meeting may not be amended on second call.

21.2.5.3 Access to and representation at Shareholders' Meetings (Article 26 of the bylaws)

a) Any shareholder may participate in Shareholders' Meetings in person or by proxy, regardless of the number of shares owned, subject to proof of the shareholder's identity.

Where it deems fit, the Board of Directors may provide shareholders with individual named admission cards and require them to produce such cards in order to gain entry to a meeting. Shareholders who wish to attend a meeting in person and have not received their admission card by 12:00 a.m. (CET) on the third working day preceding the meeting in question, will be provided with a certificate evidencing their share ownership.

b) The right to attend Shareholders' Meetings is subject to the following conditions:

- holders of registered shares must ensure that their shares are recorded in the share register held by the Company or its authorized intermediary.
- holders of bearer shares must ensure that their shares are recorded in the bearer share account held by their authorized intermediary, as evidenced by a certificate provided by said intermediary (in physical or electronic form).

These formalities must be completed by 12:00 a.m. (CET) on the third working day preceding the meeting concerned.

c) Any shareholder who cannot attend a meeting in person may choose one of the following three options:

- to be represented by another shareholder or his or her spouse; or
- to cast a postal vote using a form which may be obtained by following instructions provided in the notice of meeting; or
- to send a proxy to the Company without indicating a representative. In this case, the Chairman of the meeting will vote in favor of resolutions presented or approved by the Board of Directors and against all other proposed resolutions. In order to vote otherwise, the shareholder must appoint a representative who agrees to vote as instructed by the shareholder.

21.2.5.4 Meeting officers (Bureau) (Article 27 of the bylaws)

Shareholders' Meetings are chaired by the Chairman of the Board of Directors or, in his absence, by a director appointed by the Board for that purpose. Where the meeting is called by the Statutory Auditors or a court-appointed representative, it is chaired by the party calling the meeting. Where necessary, the chair is elected by the shareholders at the meeting concerned.

The role of teller (*scrutateur*) is filled by the two shareholders present who hold the largest number of votes, either in their own right or as proxies, and agree to serve in this capacity.

Those two meeting officers appoint a secretary, who need not be a shareholder.

The meeting officers are responsible for verifying, certifying and signing the attendance register, overseeing deliberations, resolving matters that arise during the meeting, monitoring the voting process, ensuring that it is properly applied, and overseeing the drafting of the minutes.

21 ADDITIONAL INFORMATION

21.2 BYLAWS

21.2.5.5 Quorum and voting in Shareholders' Meetings (Article 28 of the bylaws)

Subject to the double voting rights described in Section 18.2 of this registration document, in Ordinary and Extraordinary Shareholders' Meetings, each shareholder has a number of votes equal to the number of shares owned or represented.

French Law 2005-842 of July 26, 2005 concerning the modernization of the economy reduced the quorum required for Shareholders' Meetings of French joint-stock corporations to be validly constituted.

The quorum is calculated based on the total number of shares making up the Company's share capital, less any shares stripped of voting rights, in accordance with the applicable laws and the Company's bylaws.

An Ordinary Shareholders' Meeting cannot validly deliberate on first call unless the shareholders present, represented or casting postal votes hold at least one-fifth of the voting rights. No quorum is required on second call. The Shareholders' Meeting adopts decisions by a majority of the votes cast by shareholders present, represented or casting a postal vote.

An Extraordinary Shareholders' Meeting is not validly constituted unless the shareholders present, represented or casting postal votes hold at least one-quarter of the voting rights on first call and one-fifth on second call. If a quorum is not reached on second call, the second Shareholders' Meeting may be postponed to a later date which must not be more than two months after the initially scheduled date of the Meeting. The Extraordinary Shareholders' Meeting adopts decisions by a two-thirds majority of the votes cast by the shareholders present, represented or casting postal votes. In the event of a capital increase paid up by capitalizing reserves, profits or premiums, the quorum and majority voting rules for Ordinary Shareholders' Meetings apply.

Shareholders who participate in a meeting by videoconference or other means of telecommunications technology that allows shareholders to be identified and complies with the terms and conditions prescribed by the applicable regulations are deemed present for the purpose of calculating the quorum and voting majority.

21.2.6 Articles of the bylaws that may have an impact on a change in control

Not applicable.

21.2.7 Disclosure thresholds (Article 12 of the bylaws)

Any individual or legal entity, acting alone or in concert, that comes to hold or control, directly or indirectly, a number of shares representing 1% or more of the Company's capital or voting rights must disclose to the Company, within five trading days of the date the threshold was crossed, the total number of shares and voting rights held, as well as the number of securities convertible, redeemable, exchangeable or otherwise exercisable for shares. The disclosure must be made by registered mail, return receipt requested, or by any equivalent method outside France in the case of non-resident shareholders and must state the date the threshold was crossed.

The same disclosure formalities must be carried out whenever the portion of capital or voting rights held increases or decreases by any multiple of 1%.

In the event of failure to comply with these disclosure requirements, the shares in excess of the relevant threshold will be stripped of voting rights for all Shareholders' Meetings held within the two-year period from the date when the omission is remedied, at the request of one or more shareholders holding at least 1% of the Company's capital or voting rights, as evidenced in the minutes of the Shareholders' Meeting.

21.2.8 Specific provisions governing changes in the Company's share capital

Any changes in the Company's share capital are subject to the provisions of the applicable laws governing French joint-stock corporations as there are no specific related provisions in the Company's bylaws.

21.2.9 Form of shares and identification of shareholders (Article 9 of the bylaws)

Except as provided by law, fully paid shares can take the form of registered or bearer shares, at the option of the shareholder. However, they must be held in registered form until they are fully paid.

The Company is entitled to request at any time, under the terms and conditions provided for by the applicable laws and regulations, that the securities clearing house provide it with the name, address, nationality, date of birth (or, in the case of corporate shareholders, the year of incorporation), of holders of bearer shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares carrying rights to vote at Shareholders' Meetings, as well as the number of shares held by each party and any restrictions applicable to the securities.

After reviewing the information provided by the clearing house, if the Company believes that individuals or legal entities featured on the list may be holding securities on behalf of third parties, it is entitled to request the clearing house, or the listed parties themselves, under the same terms and conditions, whether they are holding the securities on their own account or on behalf of a third party, and if so, to provide the Company with information identifying those third parties. If the identity of the owner(s) of the relevant shares is not disclosed, any vote or proxy issued by the registered intermediary will not be taken into consideration.

21.2.10 Fiscal year

The Company's fiscal year begins on January 1 and ends on December 31 of each calendar year.

21.4 THE MARKET FOR ILIAD SHARES

Iliad's shares have been traded on Eurolist by Euronext™ (segment A) since January 30, 2004.

21.4.1 General information

Number of shares listed at March 31, 2010	54,598,676
Closing price at March 31, 2010	€76.35
52-week high	€89.54
52-week low	€66.17
Market capitalization at March 31, 2010	€4.168.6 million
Average 6-month daily trading volume	92,460
ISIN code	FR0004035913
Stock exchange indices	SBF 120, SBF 80 and SBF 250

21.4.2 Changes in the Iliad share price since January 1, 2009

	Price per share (in €) ⁵⁶	
	High	Low
2009		
January	68.00	59.00
February	71.90	61.00
March	70.20	59.19
April	79.88	69.50
May	81.89	73.00
June	79.95	68.60
July	75.54	66.17
August	76.48	66.78
September	80.70	67.85
October	79.52	72.27
November	84.71	72.45
December	84.65	78.00
2010		
January	89.54	78.35
February	81.49	73.15
March	80.84	73.50

⁵⁶ Price per share corresponding to the highest and lowest closing price on a trading day

21 ADDITIONAL INFORMATION

21.4 THE MARKET FOR ILIAD SHARES

21.4.3 Transfer Agent

Securities services (management of the Company's share register) and financial services (dividend payments) are provided for Iliad by Société Générale (SBAN/BCT/CLE, 32 Rue du Champ de Tir, BP 81236, 44312 Nantes Cedex 3, France).

21.5 LIQUIDITY CONTRACT

On June 12, 2007, Iliad entered into a liquidity contract with Exane – BNP Paribas, in accordance with the applicable law and regulations, notably European Commission Regulation no. 2273/2003 dated December 22, 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buy-back programs and stabilization of financial instruments, as well as Articles L.225-209 *et seq.* of the French Commercial Code, the General Regulations of the AMF and the decision issued by the AMF on March 22, 2005. This contract also complies with the French Association of Investment Firms' code of ethics approved by the AMF in a decision issued on March 22, 2005 and published in the French legal announcements journal (*Bulletin des Annonces Légales Obligatoires*) on April 1, 2005.

The following transactions were carried out in connection with the liquidity contract in 2009:

	Purchases			Sales		
	Number of shares	Unweighted average price (in €)	Amount (in €)	Number of shares	Unweighted average price (in €)	Amount (in €)
2009						
January	55,242	63.03	3,481,757.20	60,466	63.19	3,821,045.42
February	54,707	65.44	3,580,092.77	45,185	65.98	2,981,520.85
March	39,884	64.61	2,576,906.66	52,545	65.53	3,443,199.38
April	34,388	73.68	2,533,862.05	46,604	74.39	3,467,094.17
May	41,809	77.46	3,238,394.57	37,907	77.36	2,932,443.28
June	48,693	73.49	3,578,534.00	35,986	73.72	2,652,830.84
July	55,077	70.48	3,881,556.06	57,159	71.09	4,063,343.59
August	44,280	70.88	3,138,611.33	39,799	70.77	2,816,401.10
September	47,482	74.90	3,556,349.00	64,183	75.34	4,835,490.70
October	62,829	75.89	4,767,977.53	53,364	76.14	4,062,999.04
November	32,985	78.14	2,577,447.73	48,690	77.87	3,791,324.19
December	52,008	80.98	4,211,601.63	47,315	80.94	3,829,637.37
Total	<u>569,384</u>	<u>72.22</u>	<u>41,123,090.51</u>	<u>589,203</u>	<u>72.47</u>	<u>42,697,329.92</u>

22. MATERIAL CONTRACTS

22. MATERIAL CONTRACTS

On June 29, 2006 the Company issued 3,265,190 OCEANE convertible/exchangeable bonds. Following the exercise of the related greenshoe option the number of bonds issued was increased to 3,754,968 representing a total nominal value of €330,624,932.40, or €88.05 per bond. For further details see Section 21.1.4.2 of this registration document, entitled “OCEANE bonds convertible into new shares and/or exchangeable for existing shares of the Company”.

In addition, acquisitions of premises to house optical nodes (ONs) in Paris and the near-lying suburbs are mainly carried out under finance leases entered into with Genefim, a subsidiary of Société Générale, representing a maximum amount of €65 million.

Through turnkey contracts, Free Infrastructure engages specialist service providers to carry out studies and work relating to the design and construction of a portion of its optical fiber network.

As part of the rollout of its third-generation mobile communications network, on April 9, 2010 Free Mobile entered into a contract with Nokia Siemens Networks for the supply of radio systems and network backbone equipment for the Free Mobile network.

In order to support the bid lodged by Free Mobile on October 28, 2009, the French State required the company to provide one or more first-call guarantees for a total amount of €250 million, issued by one or more front-ranking banks, in order to guarantee any payments due by Free Mobile in the event of default. The guarantee issued came into force on October 29, 2009 with a maximum validity of one year. Following the award of the license to Free Mobile and payment by the Company on January 13, 2010 of the €240 million related fee, the first-call guarantees granted by Calyon were released on January 30, 2010.

Apart from the contracts listed above, Iliad has not entered into any material contracts other than those executed in the normal course of business.

**23. THIRD PARTY INFORMATION, STATEMENTS BY EXPERTS AND
DECLARATIONS OF ANY INTERESTS**

**23. THIRD PARTY INFORMATION, STATEMENTS BY EXPERTS AND
DECLARATIONS OF ANY INTERESTS**

Not applicable.

24. DOCUMENTS ON DISPLAY

24. DOCUMENTS ON DISPLAY

The Company's bylaws, this registration document and other corporate documents made available to shareholders as required by law can be consulted at the Company's registered office.

Copies of this registration document can be obtained free of charge from the Company's registered office (8, rue de la Ville l'Evêque, 75008 Paris, France – Tel: +33 1 73 50 20 00) and may also be downloaded from the Company's website (www.iliad.fr) as well as from the website of the AMF (www.amf-france.org).

25. INFORMATION ON SHAREHOLDINGS

25. INFORMATION ON SHAREHOLDINGS

The Company only has shareholdings in Group companies. These shareholdings are described in Section 7 “Organizational Structure” and their financial impact is described in the notes to the consolidated financial statements included in Section 20 of this registration document (“Financial information concerning the Company’s assets and liabilities, financial position and profits and losses”).

See Note 2.3.4 of Section 20.2 of this registration document for a list of the Company’s subsidiaries and affiliates.

GLOSSARY

The glossary below is provided as a supplement and as an aid to understanding this registration document. Some of the definitions below therefore give only a summary of the technical processes described, without providing details as to the functioning of such processes.

Add/Drop Multiplexer (ADM): equipment on a telecommunications network used for inserting or extracting data packets.

ADM (Add/Drop Multiplexer): see Add/Drop Multiplexer.

ADSL (Asymmetrical Digital Subscriber Line): ADSL is an xDSL technology used for high-speed data transmission, in particular when using a subscriber's conventional telephone line consisting of a pair of copper wires. By using two modems, one installed on the subscriber's premises and the other in a DSLAM located in the main distribution frame, ADSL technology is able to increase network bandwidth considerably and obtain transmission speeds up to 160 times faster than with a conventional analog modem. The principle behind ADSL is that part of the bandwidth is reserved for transporting voice traffic (low frequencies) while another part is used for transporting data (high frequencies) either in the direction of the network backbone (upload) or in the direction of the subscriber (download). The technology is asymmetrical in the sense that the upload bit rate (data sent by the user) is lower than the download rate (data received by the user). For the correct representation of voice traffic (using the low frequency spectrum), splitters located at each end of the line eliminate those parts of the signal which are not needed.

The bandwidth of the line is divided as follows:

0 – 5 kHz	analog telephone line
30 kHz – 130 kHz	narrowband channel towards the network (upload)
30 kHz – 1.1 MHz	broadband channel towards the subscriber (download)

FDM (Frequency Division Multiplexing) is used to separate the various data traffic flows. An echo cancellation system is used for spectrum recovery on the upload and download channels.

AFNIC (*Association française pour le nommage Internet en coopération* – www.afnic.fr/_en): AFNIC is a non-profit organization whose principal function is to establish and implement a naming registry for the .fr (France) and .re (Reunion Island) domains. It has drawn up naming charters which set out its rules for registering domain names in these geographic areas. Members of AFNIC include service providers who have been accredited as registrars of domain names in the French domain name areas.

ATM (Asynchronous Transfer Mode): this network technology is used for the simultaneous transmission of data, voice and video. ATM is based on the transmission of signals in short, fixed-length packets. The transmission of these packets is said to be asynchronous because they are transported over different routes and do not necessarily arrive at their destination in the same chronological order as they were sent.

Backbone: network consisting of a number of very high bandwidth links to which other, smaller networks are connected (including metropolitan networks).

Bandwidth: the transmission capacity of a transmission line. Bandwidth determines the quantity of data (in bits per second) which can be transmitted simultaneously.

Bit: contraction of “binary digit”. A bit is the smallest unit of data processed by a computer. In a binary system, each bit has a value 0 or 1. Data recorded in digital form is coded in bits. One character (letter or figure) is generally coded as 8 bits (1 byte).

Bit rate: amount of data passing through a communication channel over a given period of time. The bit rate is measured in bits per second or in multiples thereof (kbits per second = kilobits per second, Mbits per second = megabits per second, Gbits per second = gigabits per second, Tbits per second = terabits per second). The upload bit rate corresponds to the transmission of data from the subscriber to the network and the download bit rate corresponds to data transmitted from the network to the subscriber.

GLOSSARY

Broadband: the concept of broadband is a relative concept, depending on the capabilities of transmission technology at any given time. At present, broadband is generally accepted as corresponding to a bit rate of at least 512 kbits per second. See also “bit rate”.

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 cancellation fees) divided by the total number of ADSL subscribers invoiced for the period.

Byte: a set of eight bits. Bytes and their multiples (kilobyte (kB), megabyte (MB), gigabyte (GB), terabyte (TB), etc.) are used to measure the size of electronic files. When such measurements are given in multiples of bytes, it is generally accepted that a kilobyte is equal to 2^{10} , or 1,024, bytes (and not 1,000 bytes), and that a megabyte is equal to 2^{20} bytes (and not 1,000,000 bytes).

Call termination: this operation consists of the routing of calls to subscribers on a particular network. In principle, call termination requires either that the call be made from the network on which the called party is a subscriber or from an interconnected network.

CNIL (*Commission nationale de l'informatique et des libertés* – <http://www.cnil.fr/english/>): the CNIL (National Commission for Information Technology and Freedom) is an independent administrative authority established by Law No. 78-17 of January 6, 1978, known as the “information technology and freedom” (*informatique et libertés*) law. Its principal role is the protection of privacy and of personal or public freedom, and it is responsible for ensuring compliance with the information technology and freedom law.

Co-location facilities or space: a room located in France Telecom sites containing equipment belonging to third party operators and used for local loop unbundling. The room is built by France Telecom which then rebills the cost of construction to the operators located in the room. The third party operators then rent whatever space they need (one or more racks each occupying a floor area of 600 mm x 600 mm) for their unbundling activities.

Cookie: information recorded by a server in a text file located on the subscriber’s computer and which can be read by this same server (and by this server alone) at a later time.

Copper pair: type of cable used for the transmission of electrical signals, consisting of one or more pairs of metal conductors. The two wires forming the pair are braided in order to minimize potential interference between two conductors. By extension, the copper pair also refers to the local loop link between a subscriber and the local concentrator. See also “local loop”.

CSA (*Conseil supérieur de l'audiovisuel* – <http://www.csa.fr/multi/index.php?l=uk>): the CSA is an independent administrative authority established by the Law of January 17, 1989. Its principal role is to guarantee the freedom of audiovisual communications in France in accordance with the provisions of the Law of September 30, 1986, as amended.

Dark optical fiber: raw optical fiber without the equipment which allows it to be used.

Dedicated facilities or space: a room located in France Telecom sites containing equipment belonging to third party operators used for local loop unbundling. Third party operators rent the space (one or more racks each occupying a floor area of 600 mm x 600 mm) necessary for their unbundling activities. See also “co-location facilities”.

Dial-up (also called narrowband): historically this corresponds to the bit rate of a conventional telephone line using the voice frequency spectrum. By way of example, an Internet connection using a conventional telephone line is established at a maximum download rate of 56 kilobits per second (kbps). See also “bit rate”.

Digital: coding in binary form (0 or 1) of information to be processed by a computer.

Digital local exchange (DLE/LX): switch on the France Telecom telephone network to which subscribers are connected by means of local concentrators. The France Telecom network is organized in a hierarchical fashion, with the digital local exchange being the lowest level in the hierarchy of exchanges installed on the network.

Digital main switching unit (DMSU): France Telecom’s interconnect point, occupying the highest level in the hierarchy of switches in a trunk exchange area. See also “trunk exchange area”.

DNS (Domain Name System): a DNS is a database which registers Internet resources (computer, router, etc.) in the form of a domain name and allocates them a unique IP address. The Internet protocol converts the domain name into the corresponding IP address. Without the DNS, users would have to remember websites or email addresses in the complicated form of the domain's IP address. See also "domain name".

Domain name: a domain name is the unique identifier of an IP address. The DNS (see "DNS – Domain Name System") matches the domain name to the IP address. A domain name consists of a string of characters (from "a" to "z" or "0" to "9", plus "-") corresponding to the name of a trademark, association, company, individual, etc., plus a suffix known as the TLD (see "TLD – Top Level Domain"), such as .fr, .de, .net, or .com.

Domain name registration: domain name registration consists of hosting domain names on a computer with an IP address on behalf of the domain name owners, who are in turn entered in the register relating to their top level domain or TLD. See also "TLD".

DSL (Digital Subscriber Line): See xDSL.

DSLAM (Digital Subscriber Line Access Multiplexer): equipment installed in the telephone exchange closest to the subscriber which is part of the equipment used to transform a conventional telephone line into an xDSL line. DSLAMs connect several xDSL lines and are connected to the modem on the subscriber's premises via the local loop.

DWDM (Dense Wavelength Division Multiplexing): technology permitting the transmission of a large number of frequencies on the same fiber strand, thereby significantly increasing the bandwidth capacity of the optical fiber.

EBITDA (Earnings Before Interest, Tax, Depreciation and Amortization): EBITDA corresponds to profit from ordinary activities before depreciation, amortization and provisions for impairment of non-current assets and share-based payment expense.

Eligibility: a telephone line is said to be "eligible" for ADSL when the technical characteristics of the line in terms of signal loss are such that xDSL-type technologies can be used. The length and diameter of the copper pairs (local loop) are the main parameters determining eligibility. Using current technologies, in order to obtain a 512 kbit Internet connection, the subscriber's access point must be located within four kilometers of the DSLAM.

Firewall: hardware or software device which controls access to all the computers on a network from a single point of entry. The main function of the firewall is to filter the data packets transmitted between the protected network and outside networks. In addition, a firewall can be used to perform advanced security functions such as virus detection, IP address masking on the protected network and the establishment of encryption tunnels subject to authentication.

FTTH (fiber-to-the-home): technology used to directly connect subscribers' homes to an optical fiber network. FTTH technology offers significantly faster transmission rates than ADSL, as well as new services, and enables the Group to operate totally independently from France Telecom's local loop.

Full unbundling: full unbundling consists of allowing a third party operator to control the entire local loop (both low and high frequencies).

IEEE 802.11a and 802.11b standards: radio-telecommunications standards established by the IEEE (Institute of Electrical and Electronic Engineers) describing the characteristics of wireless networks using the 5 GHz and 2.4 GHz frequency bands, respectively. (See also "RLAN – Radio Local Area Network" and "WLAN – Wireless Local Area Network").

Interconnection: the term interconnection refers to the reciprocal services provided by two operators of networks open to the public, permitting all of their users to communicate freely with one another, no matter the type of network or services they use. The term also refers to the provision to a public telephone service provider of access to a public network operator's network. The objective of interconnection is to allow a given operator's subscribers to make telephone calls to the subscribers of all other interconnected operators. Interconnection between the incumbent operator (France Telecom) and third party operators is governed by the provisions of the French Post and Telecommunications Code and is regulated by ARCEP.

GLOSSARY

Internet Service Provider (ISP): organization or company providing its subscribers with access to the Internet.

IP (Internet Protocol): telecommunications protocol used on the networks supporting the Internet which divides the data to be transmitted into packets, addresses the various packets, transports them independently of one another and, finally, recreates the packets in their initial form once they reach their destination. This protocol uses a technique known as packet switching. On the Internet, it is associated with a data transmission control protocol (TCP) – hence the term TCP/IP protocol.

IP address: the IP address allows a router using TCP/IP to identify the unique network interface of a machine connected to the Internet. In order to be accessible or to send data packets over the Internet, a machine must have a public IP address, i.e., an address that is known on the Internet. ICANN has overall responsibility for managing IP addressing on a worldwide basis, but delegates responsibility for certain areas to regional and local organizations. An IP address is a sequence of 32 binary digits (see also “bit”) grouped into four bytes in the form A.B.C.D where A, B, C and D are numbers between 0 and 255 (this structure corresponds to version 4 of the IP protocol, or IPv4). The problem of limited addressing resources highlighted by the growth of the Internet has led to the development of a new version of the IP protocol (IPv6), based on 128 binary elements, which will gradually be brought into use.

IRU (Indefeasible Right of Use): special type of agreement, specific to the telecommunications sector, for the provision of optical fibers (or transmission capacity) over a long period.

L.33-1 license: this license, referring to Article L.33-1 of the former French Post and Telecommunications Code, is the authorization held by an operator of a telecommunications network open to the public.

L.34-1 license: this license, referring to Article L.34-1 of the former French Post and Telecommunications Code, is the authorization held by an undertaking providing a public telephone service.

Linux: Linux is a multi-task and multi-user Unix (Uniplexed Information and Computer Service) based operating system. It is a so-called “open source” software system, i.e., it is freely available in source code form and modifiable under the terms of a General Public License (GNU).

Local concentrator: active telecommunications equipment connected to both the digital local exchange and the copper pairs constituting the local loop. This is the primary active equipment in the France Telecom network. The function of the local concentrator is to group several subscriber lines into one cable.

Local loop: physical circuit of the telephone network which connects the termination point of the network on the subscriber’s premises (i.e., the subscriber’s telephone socket) and the local loop operator’s main distribution frame (i.e., generally France Telecom’s local telephone exchange) which contains a digital switch. The local loop is composed of a pair of braided copper wires.

Main distribution frame (MDF): establishes a temporary connection between a copper pair (local loop) and any active equipment on the operator’s network. It is a vital point of flexibility in the operation of a telecommunications network.

Modem (modulator-demodulator): device that transforms analog signals into digital signals and vice versa. A modem is required in order to connect to the Internet (where the data exchanged is digital).

MPEG-2: video signal compression standard, used mainly for DVDs.

MPEG-4: digital compression standard for new generation audiovisual content. This format is able to broadcast High Definition streaming data and provides enhanced audiovisual quality at low bandwidths.

Multicast: routing system minimizing the number of data flows from a server to various subscribers by multiplying the data flows only when they are as close as possible to the destination terminals (the subscribers’ copper pairs).

Multiplexing: technique permitting several communication flows to pass through the same channel/transmission bearer. Multiplexing can work in different ways: frequency multiplexing uses different frequencies for the various communications, while time division multiplexing allocates a period of time (known as a slot) to each communication.

Net adds: represents the difference between total ADSL subscribers at the end of two different periods.

Optical fiber: transmission medium which routes digital data in the form of modulated light signals. It consists of an extremely thin glass cylinder (the core strand) surrounded by a concentric layer of glass (the sheath). The potential bandwidth that can be passed through an optical fiber in conjunction with the corresponding active equipment is enormous.

Optical node (ON): site hosting optical local loop equipment bringing together all of the optical local loop interconnection links serving end-subscribers for a given geographic area.

Partial unbundling: partial unbundling involves providing an operator with access to France Telecom's local loop and allowing the operator to use the high (non-voice) frequencies of the frequency spectrum on the copper pair. France Telecom continues to use the local loop in order to provide conventional telephone services to the public (using the low frequencies of the local loop). Customers continue to pay the telephone line rental to France Telecom.

Peering: type of interconnection agreement between two IP backbone networks (known as peer networks) for the exchange of Internet traffic destined for their respective networks free of charge. These reciprocal exchanges take place at exchange nodes called peering points.

Ping: ping is an acronym for Packet Internet Groper, and is a component of the Internet connection protocol which verifies the connections established on the Internet between one or more remote hosts and measures the time data packets require to be transmitted to one computer connected to the Internet and back again. The lower the ping value (i.e., the closer to zero) the faster the network connection.

POP (Point of Presence): physical site from which the operator can use an interconnection link to connect to the interconnect point of another operator (whether another POP or, in the case of France Telecom, a digital main switching unit or a digital local exchange). The POP is located on the operator's network backbone. See also "digital main switching point".

Portability: possibility for subscribers to keep their telephone numbers when changing operators and/or geographical location.

Preselection: carrier selection mechanism allowing a subscriber to automatically route all eligible calls (local, national, international, and calls to mobile phones) so that they are carried by the operator of the subscriber's choice, without having to dial a special prefix.

Primary digital block: basic unit of measurement of the capacity of interconnection links to the France Telecom network (telephone traffic and dial-up Internet traffic). It corresponds to a grouping of several communications on the same physical support structure (31 simultaneous communications, i.e., a capacity of 2 Mbits per second).

Public switched telephone network (PSTN): conventional telephone network which uses switching (a non-permanent link established by line seizure and then dialing). Each call established on the PSTN ties up network resources.

Reference Interconnect Offer: document describing the technical and pricing terms of France Telecom's interconnect offer (or the interconnect offer of any other operator designated as having significant market power pursuant to Article L.36-7 of the French Post and Telecommunications Code). It informs third party operators of what interconnection services are available and sets out the prices and the technical terms of these services.

Reverse look-up directory: service allowing users to retrieve the name and address of the owner of a telephone line by searching the corresponding telephone number.

RLAN (Radio Local Area Network): wireless network. RLANs generally conform to IEEE 802.11 standards.

SDH (Synchronous Digital Hierarchy): multiplexing technique providing for the secure transmission of different types of data. This technique is used for the transmission of data on conventional telephone networks.

SMS (Short Message Services): short alphanumerical text messages.

Source code: list of instructions in a computer program in a language capable of being understood by human beings.

GLOSSARY

Spamming: the bulk mailing of unsolicited electronic messages. These types of messages are generally sent to email lists obtained unconventionally or illegally (for example, through the use of a search engine on public websites or through the sale of email address files without the permission of the owners of such addresses).

Subscriber connection node: a site hosting France Telecom's network equipment bringing together all of the interconnection links for its copper local loop for a given geographic area. Subscriber connection nodes provide access to the various services available via the copper local loop. Third party operators may access these services through unbundling arrangements in order to directly serve end-subscribers.

Switch: equipment which routes calls to destinations by establishing a temporary link between two circuits on a telecommunications network (or occasionally by routing information in packet form). Switches are organized in a hierarchical fashion, i.e., the higher the position they occupy in the hierarchy, the more subscribers they serve.

TLD (Top Level Domain): the top level domain name classification, corresponding to a geographic area or a sector of activity, such as .com, .org or .fr.

Total ADSL 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 ADSL service excluding those for whom a subscription cancellation notice has been registered.

Triple Play: a technical service capable of managing bandwidth-intensive voice, data and audiovisual content simultaneously and over long distances.

Trunk exchange (TX): telephone network switch linking together the digital local exchanges. The France Telecom network is organized in a hierarchical fashion, with the trunk exchange being the highest level in the hierarchy of national exchanges. Through the digital local exchanges, the trunk exchange serves all subscribers in a given geographic area (called a trunk exchange area). See also "trunk exchange area".

Trunk exchange area: the geographic area covered by a trunk exchange. France Telecom's switched network in mainland France is divided into 18 trunk exchange areas, defined by France Telecom in its Reference Interconnect Offer and generally corresponding to the administrative regional divisions of France. See also "Trunk exchange (TX)".

Unbundled subscribers: ADSL subscribers who have signed up for Free's ADSL service through a telephone exchange unbundled by Free.

Unbundling: operation involving the separation of a range of telecommunications services into several distinct units. Unbundling of the local loop (or unbundled access to France Telecom's local network) consists of separating the access services provided over the local loop, mainly by separating the high frequencies from the low frequencies of the access network which constitutes the local loop, allowing new operators to use the local network of the incumbent operator and provide services directly to their subscribers.

Universal service: the main element of the public telecommunications service as defined by law, with the intended purpose of providing high quality telephone services to the general public at an affordable price.

Urban area: in the architecture of the France Telecom network, Ile-de-France is divided into two trunk exchange areas. The urban area corresponds to the former *département* of Seine (Paris, Hauts-de-Seine, Seine-Saint-Denis, and Val de Marne) and the peripheral area covers the Seine-et-Marne, Essonne, Yvelines and Val d'Oise *départements*.

VoDSL (Voice over DSL): transmission of voice traffic (in packets) using ADSL technology, i.e., using the high frequencies of the local loop, as compared to conventional telephony which uses the low frequencies of the local loop.

WLAN (Wireless Local Area Network): a wireless network based on radio telecommunications. An RLAN (see "RLAN – Radio Local Area Network") is a specific type of WLAN.

xDSL (x Digital Subscriber Line): the family of technologies used to transmit digital data over the copper pair (local loop) at high speeds (such as ADSL, SDSL, VDSL, etc.) See also ADSL.

Cross-reference table

<u>Information required in the annual financial report</u>	<u>Section of the registration document</u>	<u>Page number of the registration document</u>
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• Information required by Article L.225-100-3 of the French Commercial Code relating to important information in the event of a public offer	4.1.2 Appendix B	5 B-13
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APPENDICES

Appendix A: Statutory Auditors' special report on related party agreements and commitments

Appendix B: Report prepared by the Chairman of the Board of Directors on the conditions governing the preparation and organization of the work of the Board of Directors and on the risk management and internal control procedures put in place by Iliad SA, in accordance with Article L.225-37 of the French Commercial Code

Appendix C: Statutory Auditors' report, prepared in accordance with Article L.225-235 of the French Commercial Code, on the report prepared by the Chairman of the Board of Directors of Iliad

Appendix D: Draft resolutions

**STATUTORY AUDITORS' SPECIAL REPORT
ON RELATED PARTY AGREEMENTS AND COMMITMENTS**

Year ended December 31, 2009

Iliad

8, rue de la Ville l'Évêque
75008 Paris

Boissière Expertise Audit

57, rue Boissière
75116 Paris

PricewaterhouseCoopers Audit

63, rue de Villiers
92208 Neuilly-sur-Seine cedex

**STATUTORY AUDITORS' SPECIAL REPORT
ON RELATED PARTY AGREEMENTS AND COMMITMENTS**

Year ended December 31, 2009

This is a free translation into English of the Statutory Auditors' special report on related party agreements and commitments issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Iliad SA
8, rue de la Ville l'Evêque
75008 Paris

To the Shareholders,

In our capacity as Statutory Auditors of your Company, we hereby report to you on related party agreements and commitments.

Agreements and commitments authorized during 2009

In accordance with Article L.225-40 of the French Commercial Code (*Code de commerce*), we were informed of the following agreements and commitments authorized by your Board of Directors during 2009.

Our responsibility does not include identifying any undisclosed agreements or commitments. We are required to report to shareholders, based on the information provided, about the main terms and conditions of agreements and commitments that have been disclosed to us, without commenting on their relevance or substance. Under the provisions of Article R.225-31 of the French Commercial Code, it is the responsibility of shareholders to determine whether the agreements and commitments are appropriate and should be approved.

We performed the procedures we considered necessary in accordance with professional standards applicable in France to such engagements. These standards require us to perform procedures to verify that the information given to us agrees with the underlying documents.

1 – With Rani Assaf, Senior Vice-President

On March 17, 2009, the Board of Directors authorized the Company to purchase €240,000 worth of Freebox shares held by Rani Assaf. The share purchase agreement was signed on April 1, 2009.

2 – With Alain Weill, Director

On March 17, 2009, the Board of Directors authorized the signature of an amendment to an agreement regarding the high-definition broadcast by Free of BFM TV, whose programs are edited and distributed by BFM, represented by Alain Weill. This amendment was authorized by the Company to take account of Free's capacity as an intermediate company.

3 – With Freebox

Director concerned: Xavier Niel

On April 23, 2009, the Board of Directors authorized the Company to guarantee, for a period of one year (renewable once), the financial commitments made by Iliad's subsidiary Freebox to Unihi, for a total of USD 25,000,000.

4 – With Free Mobile

Director concerned: Cyril Poidatz

In support of its bid to be allocated a frequency authorization to develop and operate a third-generation mobile communications network open to public use, and upon the request of the French State, Free Mobile provided first-call guarantees from banks for a total of €250 million. The banks requested Iliad to grant collateral to guarantee the payment of amounts possibly outstanding from Free Mobile.

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As such, on October 6, 2009, the Board of Directors authorized the Company to guarantee the payment of all amounts possibly outstanding from Free Mobile, for a period of one year and up to a total of €250 million, in the event that the French State implements the first-call guarantees.

5 – With Free

Director concerned: Cyril Poidatz

On April 23, 2009 the Board of Directors authorized the Company to guarantee the financial commitments made by Free to Cisco concerning the purchase of transmission equipment, for a period of one year (renewable once), and representing a total of €25,000,000.

6 – With Free Infrastructure

Director concerned: Cyril Poidatz

6.1 In order to ensure the assumption of leases entered into between Free and Citroën Financement/Credipar (tenant-manager of CLP), by Group subsidiaries Free Infrastructure and Protelco, on March 17, 2009, the Board of Directors authorized the Company to guarantee the financial commitments made by its subsidiaries, within the limit of €5,000,000 (five million euros) and until such time as all commitments made by the companies for which guarantees have been provided have been repaid in full.

6.2 On March 17, 2009, the Board of Directors authorized the Company to guarantee the financial commitments of Free Infrastructure in connection with the occupancy agreement entered into with the city of Paris, for a total of €3,000,000 (three million euros).

6.3 On December 10, 2009, the Board of Directors authorized the Company to grant a security to Tyco AG, in guarantee of commitments made by Free Infrastructure, for a total of €500,000, for a renewable period of one year.

7 – With IRE

Director concerned: Cyril Poidatz

On October 6, 2009, the Board of Directors authorized the signature of a guarantee granted by the Company relating to commitments made by IRE in connection with an amendment to a property lease signed with Genefim for a principal amount of €70 million plus interest and incidental expenses. At December 31, 2009, the guarantee had not yet been signed.

8 – With Protelco

Director concerned: Cyril Poidatz

In order to ensure the assumption of leases entered into between Free and Citroën Financement/Credipar (tenant-manager of CLP), by Group subsidiaries Free Infrastructure and Protelco, on March 17, 2009, the Board of Directors authorized the Company to guarantee the financial commitments made by its subsidiaries, within the limit of €5,000,000 (five million euros) and until such time as all commitments made by the companies for which guarantees have been provided have been repaid in full.

9 – With Kedra

Director concerned: Cyril Poidatz

On December 10, 2009, the Board of Directors authorized the signature of several agreements for the assignment of receivables to be entered into between the Company and Kedra. These agreements were signed on January 14, 2010.

**STATUTORY AUDITORS' SPECIAL REPORT
ON RELATED PARTY AGREEMENTS AND COMMITMENTS**

10 – Between all of the Company's subsidiaries¹

Directors concerned: Xavier Niel, Cyril Poidatz, Rani Assaf and Thomas Reynaud

On December 10, 2009, the Board of Directors authorized the implementation of an administrative, financial and business assistance agreement between the Group's companies, including the Company, all of which are listed in the footnote.

Agreements and commitments authorized in prior years which remained in force during the year

In accordance with the French Commercial Code, we were informed of the following agreements and commitments authorized in prior years, which remained in force during the year.

1 – With Free

1.1 On March 12, 2007, the Board of Directors authorized the Company to guarantee commitments made by Free to Cisco Systems concerning an equipment lease, for a period of 36 months and representing an aggregate amount of €601,444.

1.2 On December 10, 2008, the Board of Directors approved the signature of a cash facility agreement with Free which remained in force in 2009.

Subsequently, the debit balance of the current account with Free under this agreement amounted to €3,180,338.33 at December 31, 2009 and the interest billed by the Company during the year totaled €4,409,746.

1.3 The agreement between Iliad and Free concerning the Company's promotion of the French directory services website "www.annu.com" remained in force during the year. As consideration for the right granted to the Company by Free to manage the multiple-criteria telephone directory search services on "www.free.fr" and "www.home.free.fr", Free billed your Company €150,000 in fees for 2009.

2 – With Freebox

2.1 On April 5, 2007, the Board of Directors authorized the Company to renew the USD 6 million guarantee relating to financial commitments made by its subsidiary Freebox to Seagate Technologie Inc and certain of its subsidiaries.

On May 2, 2007, the Board of Directors authorized the Company to increase this guarantee to USD 7 million and include financial commitments made by its subsidiary Dedibox, merged on July 30, 2009, with Online, an Iliad subsidiary.

2.2 On December 21, 2007, the Board of Directors authorized the Company to sign an open-ended framework agreement with Freebox concerning forward financial instruments. The purpose of this agreement, which forms part of the Group's foreign exchange risk management strategy, is to (i) reduce uncertainties relating to the cost of components purchased by Freebox and invoiced in US dollars, and (ii) benefit where possible from the impact of the fall in value of the US dollar. It was necessary to enter into this agreement as Iliad's financial institutions stated that they wished to have a single contact point for setting up this type of transaction. The agreement had no financial impact on Iliad's financial statements.

2.3 On December 10, 2008, the Board of Directors approved the signature of a cash facility agreement with Freebox, which remained in force during 2009.

Subsequently, the credit balance of the current account with Freebox under this agreement amounted to €11,946,465.85 at December 31, 2009 and the interest billed by the Company during the year totaled €93,428.

The interest billed to the Company by Freebox amounted to €6,832.

¹ Iliad, Free, Centrapel, Online, One.Tel, Citefibre, Kedra, IH, Freebox, Assunet, Free Infrastructure, IFW, IRE, Immobilière Iliad, Protelco, Free Mobile

**STATUTORY AUDITORS' SPECIAL REPORT
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3 – With IFW

On December 10, 2008, the Board of Directors approved the signature of a cash facility agreement with IFW, which remained in force in 2009.

Subsequently, the debit balance of the current account with IFW amounted to €7,108,047.27 at December 31, 2009 and the interest billed by the Company in 2009 amounted to €212,162. The interest billed by IFW to the Company amounted to €358.

4 – With Immobilière Iliad

On December 10, 2008, the Board of Directors approved the signature of a cash facility agreement with Immobilière Iliad, which remained in force in during the year ended December 31, 2009.

Subsequently, the debit balance of the current account with Immobilière Iliad amounted to €51,043,523.47 at December 31, 2009 and the interest billed by the Company during the year totaled €1,422,062.

5 – With Free Mobile

On December 10, 2008, the Board of Directors approved the signature of a cash facility agreement with Free Mobile, which remained in force in during the year ended December 31, 2009.

Subsequently, the credit balance of the current account with Free Mobile amounted to €14,081,202.11 at December 31, 2009 and the interest billed by the Company during the year totaled €2,443.

Free Mobile billed Iliad interest totaling €110,897.

6 – With One.Tel

On December 10, 2008, the Board of Directors approved the signature of a cash facility agreement with One.Tel, which remained in force in during the year ended December 31, 2009.

Subsequently, the credit balance of the current account with One.Tel amounted to €20,981,516.75 at December 31, 2009 and the interest billed to the Company during the year totaled €548,164.62.

7 – With Online

On December 10, 2008, the Board of Directors approved the signature of a cash facility agreement with Online, which remained in force in during the year ended December 31, 2009.

Subsequently, the debit balance of the current account with Online amounted to €2,725,485.44 at December 31, 2009 and the interest billed to the Company in 2009 amounted to €25,311. The interest billed by the Company amounted to €63,098.

Dedibox merged with Online on July 30, 2009, with retroactive effect to January 1, 2009, for accounting and tax purposes and the amounts referred to above concern Online and Dedibox.

8 – With IH

On December 10, 2008, the Board of Directors approved the signature of a cash facility agreement with IH, which remained in force in during the year ended December 31, 2009.

Subsequently, the debit balance of the current account with IH amounted to €13,653.80 at December 31, 2009 and the interest billed by your Company for 2009 totaled € 8,811.

9 – With IRE

9.1 The guarantee granted by the Company relating to commitments made by IRE in connection with a property lease signed with Genefim for a principal amount of €50 million plus interest and incidental expenses, which was

STATUTORY AUDITORS' SPECIAL REPORT ON RELATED PARTY AGREEMENTS AND COMMITMENTS

authorized by the Board of Directors on December 18, 2006, expired on June 30, 2008. On June 5, 2008, the Board of Directors approved the signature of a guarantee granted by the Company relating to commitments made by IRE in connection with a property lease signed with Genefim for an additional amount of €15 million plus interest and incidental expenses, for a total guarantee of €65 million. This guarantee will expire on June 30, 2010.

9.2 On December 10, 2008, the Board of Directors approved the signature of a cash facility agreement with IRE, which remained in force in during the year ended December 31, 2009.

Subsequently, the debit balance of the current account with IRE amounted to €12,266,417.08 at December 31, 2009 and the interest billed by your Company for 2009 totaled €556,206.

10 – With Kedra

On December 10, 2008, the Board of Directors approved the signature of a cash facility agreement with Kedra, which remained in force in during the year ended December 31, 2009.

The balance of the current account with Kedra was nil at December 31, 2009 and no interest was billed by your Company for 2009.

11 – With Total Call

On February 9, 2005, the Board of Directors approved the signature of a cash facility agreement with Total Call, which remained in force in during the year ended December 31, 2009.

Subsequently, the debit balance of the current account with Total Call amounted to €344,340.06 at December 31, 2009 and the interest billed by your Company for 2009 totaled €12,385.

12 – With Free Infrastructure

12.1 On August 27, 2008, the Board of Directors authorized Maxime Lombardini to sign a €3 million joint and personal guarantee on behalf of the Company in relation to a master agreement between Free Infrastructure and Gtie Telecoms.

The joint guarantee will expire on August 13, 2011.

12.2 On August 30, 2007, the Board of Directors authorized the Company to grant a €1 million joint and several guarantee to Axione in relation to commitments made by Iliad's subsidiary Free Infrastructure. This guarantee will expire on December 24, 2010.

12.3 On December 10, 2008, the Board of Directors approved the signature of a cash facility agreement with Free Infrastructure, which remained in force in during the year ended December 31, 2009.

Subsequently, the debit balance of the current account with Free Infrastructure under this agreement amounted to €168,450,218.78 at December 31, 2009 and the interest billed by the Company during the year totaled €5,604,066.

Free Infrastructure billed Iliad interest totaling €382.08.

13 – With Centrapel

13.1 On July 25, 2007 the Board of Directors authorized the Company to grant Centrapel a debt waiver with a return to profitability clause, the initial amount of which was €1,490,843.

At December 31, 2009, no amount remains outstanding under the return to profitability clause. The Company recorded a profit of €443,891 for 2009, relating to the current account balance repaid by Centrapel under the return to profitability clause.

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13.2 On December 10, 2008, the Board of Directors approved the signature of a cash facility agreement with Centrapel which remained in force in during the year ended December 31, 2009.

Subsequently, the debit balance of the current account with Centrapel amounted to €958,186.47 at December 31, 2009 and the interest billed by your Company for 2009 totaled €71,721. Interest billed by Centrapel under this agreement amounted to €662.

14 – With Assunet

On December 10, 2008, the Board of Directors approved the signature of a cash facility agreement with Assunet, which remained in force in during the year ended December 31, 2009.

Subsequently, the debit balance of the current account with Assunet amounted to €722,713.32 at December 31, 2009 and the interest billed to your Company for 2009 totaled €21,430.07.

15 – With Toutcom

The agreement to provide Toutcom with premises free of charge for use as a registered office address, as approved by the Board of Directors on October 26, 2005, remained in force until March 20, 2009, the liquidation completion date.

16 – With Citefibre

On December 10, 2008, the Board of Directors approved the signature of a cash facility agreement with Citefibre which remained in force in during the year ended December 31, 2009.

Subsequently, the debit balance of the current account with Citefibre amounted to €6,872,152.92 at December 31, 2009 and the interest billed by your Company totaled €257,906.

17 – With Protelco

On November 5, 2008 the Board of Directors authorized the agreement to provide Protelco, a wholly-owned subsidiary, with premises. This agreement remained in force during the year.

18 – With Xavier Niel

On February 9, 2005, the Board of Directors approved the signature of a current account agreement with Xavier Niel.

Xavier Niel's current account had a credit balance of €3,565 at December 31, 2009 and no interest was paid in relation to this account during the year.

19 – With Sndm

The agreement to provide Sndm with premises free of charge for use as a registered office address, as approved by the Board of Directors on October 26, 2005, remained in force during the year.

Paris and Neuilly-sur-Seine, March 23, 2010

The Statutory Auditors

Jean-Luc Cohen
Boissière Expertise Audit

Xavier Cauchois
PricewaterhouseCoopers Audit



Société anonyme. Share capital: €12,095,706.82
Registered office: 8, rue de la Ville l'Evêque – 75008 Paris, France
Registered at the Paris Trade and Companies Registry under number 342 376 332

Report prepared by the Chairman of the Board of Directors on the conditions governing the preparation and organization of the work of the Board of Directors and on the risk management and internal control procedures put in place by Iliad SA in accordance with Article L.225-37 of the French Commercial Code

To the Shareholders,

In addition to the management report prepared by the Board of Directors, the Chairman of the Board of Directors hereby reports to you on the conditions for preparing and organizing the work of the Board, and on the risk management and internal control procedures put in place by Iliad SA (the “Company”) during 2009 within the Iliad Group (the “Group”) as submitted for approval by the Board.

The Group’s policy is to ensure that the operational procedures of its administrative and management bodies comply with best corporate governance practices as well as with the relevant recommendations and regulations applicable to listed companies.

At its December 10, 2008 meeting, the Board confirmed that the Company would use the version of the AFEP-MEDEF Corporate Governance Code issued in December 2008 (the “Corporate Governance Code”), which is available on the MEDEF’s website, as its basis of reference, in particular for the preparation of this report. The Board considers that the Company’s corporate governance practices are in line with said Code and that it already applies the Code’s main provisions. Any aspects of the Code that are not applied by the Company are disclosed in this report.

In a press release dated December 19, 2008, the Company confirmed that it would use the Corporate Governance Code as its basis of reference for the preparation of this report on risk management and internal control procedures.

1. Corporate Governance

1.1. GOVERNANCE STRUCTURE: SEPARATION OF THE DUTIES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

On December 12, 2003, the Board of Directors decided to separate the duties of Chairman and Chief Executive Officer with a view to ensuring transparency of corporate governance within the Company.

The Company’s executive management is carried out under the responsibility of an individual appointed by the Board of Directors who holds the title of Chief Executive Officer.

The Chief Executive Officer has the broadest powers to act on behalf of the Company in all circumstances within the scope of the corporate purpose, and except for those matters which by law may only be dealt with in Shareholders’ Meetings or by the Board of Directors.

The Chief Executive Officer represents the Company vis-à-vis third parties. Actions by the Chief Executive Officer are binding on the Company with respect to third parties, even when they fall outside the scope of the corporate purpose, unless the Company can prove that the third party was aware that such an action exceeded said scope, or in view of the circumstances could not have been unaware thereof. Publication of the bylaws does not, in itself, constitute such proof.

The Chairman of the Board of Directors organizes and oversees the Board’s work and reports thereon to the Annual Shareholders’ Meeting. He ensures that the Company’s management bodies operate effectively and that the directors are able to properly perform their duties. He is entitled to request any and all documents or information that may help the Board with preparing its meetings.

1.2. THE BOARD OF DIRECTORS

1.2.1. *Organizational structure of the Board of Directors*

Powers and remit

The Board of Directors determines the Company's overall business, economic, financial and technological strategies and oversees the implementation thereof by management.

The Board reviews in advance any transaction falling outside the scope of the Company's stated business strategy or which could significantly affect or change the Company's financial structure or results.

Consequently, the Board is regularly informed of – and may at any time request information on – the Company's operations and results as well as its cash and debt position, and more generally, any commitments given by the Company.

Members of the Board of Directors

Subject to the exceptions provided by law, the Board of Directors comprises a minimum of three and a maximum of eighteen members elected by the shareholders.

Each director must own at least one hundred (100) shares in the Company, corresponding to the threshold that has been deemed appropriate and which will not cause a conflict of interest.

The Board's members are selected for their expertise and experience in the Company's areas of business, as well as for their integrity.

The Board's members are appointed by the shareholders on the recommendation of the Board of Directors.

At the date this report was prepared the Board comprised the following 11 members:

- Cyril Poidatz, Chairman of the Board of Directors
- Maxime Lombardini, Director and Chief Executive Officer
- Xavier Niel, Director and Senior Vice-President
- Antoine Levavasseur, Director and Senior Vice-President
- Olivier Rosenfeld, Director
- Alain Weill, Director
- Pierre Pringuet, Director
- Marie-Christine Levet, Director
- Thomas Reynaud, Director
- Orla Noonan, Director
- Virginie Calmels, Director

In accordance with the recommendations of the Corporate Governance Code, the Shareholders' Meeting of June 23, 2009, on the recommendation of the Board of Directors, decided to shorten the term of office for all directors from six (6) years to four (4) years.

Consequently, the directors' terms of office are as follows:

- Maxime Lombardini was initially elected at the Shareholders' Meeting of May 29, 2007 for a six-year term expiring at the close of the Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2012. Following the introduction of a reduced term of office for directors, Maxime Lombardini's term of office will expire at the close of the 2011 Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2010.

- Antoine Levasseur's term of office, which expired early due to the introduction of a reduced term of office for directors, was renewed at the Shareholders' Meeting of June 23, 2006, for a period of four (4) years to expire at the close of the 2013 Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2012.
- Marie-Christine Levet's term of office will expire at the close of the 2012 Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2011.
- Thomas Reynaud's term of office will expire at the close of the 2012 Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2011.
- Pierre Pringuet's term of office will expire at the close of the 2013 Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2012.
- Cyril Poidatz's term of office will expire at the close of the 2013 Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2012.
- Xavier Niel's term of office will expire at the close of the 2013 Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2012.
- Olivier Rosenfeld's term of office will expire at the close of the 2013 Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2012.
- Alain Weill's term of office will expire at the close of the 2013 Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2012.

The following two directors were also appointed by the Shareholders' Meeting of June 23, 2009:

- Orla Noonan, whose term of office will expire at the close of the 2013 Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2012.
- Virginie Calmels, whose term of office will expire at the close of the 2013 Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2012.

Consequently, there is no formal procedure in place for staggering the election of directors. However, when recommending the election of new directors or the renewal of existing directors' terms of office, the Board takes into account the need to provide for a smooth replacement of directors.

Lastly, in accordance with the Corporate Governance Code, neither the Chairman of the Board nor the Chief Executive Officer hold an employment contract with the Company.

Independent directors

The Company's Board of Directors includes a number of independent directors who meet the independence criteria defined in the Board's internal rules.

The provisions of the Board's internal rules comply with the Corporate Governance Code, which states in particular that directors are considered to be independent when they have no relations with the Company, the Group or management that could prevent them from independently exercising their judgment.

Accordingly, each year the Board carries out a review of the independence of its members. This entails examining on a case-by-case basis whether the director:

- is an employee of the Company, holds a management position within the Company, or is an employee or director of the parent company or of one of its consolidated subsidiaries, either currently or during the previous five years;
- is a corporate officer of a company in which the Company holds, either directly or indirectly, a directorship, or in which a directorship is held by an employee of the Company designated as such or by a current or former (going back five years) corporate officer of the Company;

- is a customer, supplier, investment banker or a commercial banker which is material for the Company or the Group or for which the Company or the Group represents a material proportion of the entity's activity;
- has close family ties to a corporate officer;
- is or has been an auditor of the Company during the past five years;
- has been a director of the Company for more than twelve years;
- represents a significant shareholder of the Company, taking into account that:
 - (i) a shareholder who owns over 10% of the Company's capital or voting rights is considered significant; and
 - (ii) below this threshold, the Board of Directors systematically reviews whether the director is independent, taking into account the composition of the Company's share capital and any potential conflicts of interest.

The Board of Directors reviews the independence of its members by reference to the criteria set out in the Board's internal rules, as well as the director's specific circumstances. The findings of the review are published in this report.

At its March 18, 2010 meeting, the Board of Directors carried out its annual appraisal of the independence of the following members: Alain Weill, Pierre Pringuet, Marie-Christine Levet, Antoinette Willard, Orla Noonan and Virginie Calmels.

Internal rules of the Board of Directors and Directors' Code of Conduct

On December 12, 2003, the Board of Directors adopted a set of internal rules which it amended on February 9, 2005, October 25, 2006 and April 23, 2009. These rules, which round out the applicable laws and Company's bylaws, set out the Board's organizational and operational procedures.

In accordance with the principles of the Corporate Governance Code, the Board's internal rules specify the roles and responsibilities of the Board of Directors, which constitutes the corporate body that determines the Company's overall business strategy.

A Code of Conduct is appended to the internal rules, describing the duties and obligations of directors and setting out ethical rules that directors must respect.

These ethical rules – which are based on those detailed in the Corporate Governance Code – notably require each director to (i) be a shareholder, (ii) serve the interests of the Company, (iii) be assiduous, (iv) inform the Board of any conflict of interest, (v) respect a duty of confidentiality, (vi) refrain from trading in the Company's shares during the 15 days preceding the publication of its quarterly, interim and annual earnings, and (vii) declare any trades that they carry out in relation to the Company's shares to the AMF and the Company.

The Board of Directors' internal rules will be published on the Company's website.

1.2.2. Operational procedures and work of the Board of Directors

The Chairman of the Board of Directors organizes and oversees the Board's work and reports thereon to the Annual Shareholders' Meeting. He ensures that the Company's management bodies operate effectively and that the directors are able to properly perform their duties.

Meetings of the Board of Directors

The Board of Directors meets as often as is required in the Company's interests, on notice from the Chairman. If the Board has not met for over two months, directors representing at least one-third of the Board's members may call a meeting, specifying the agenda.

Notice of meeting may be given by any written means, including by letter, fax, telex or electronic transmission. The meeting must be called at least two days prior to it being held, except in an emergency, in which case it must be called no later than the day preceding the meeting, by any means. In all circumstances, a meeting may be called verbally without notice if all the Board members so agree.

All of the Board meetings held in 2009 were called by the Chairman.

Frequency and length of Board Meetings and average attendance rate

The Board of Directors draws up a schedule for future Board meetings, which is approved by the directors.

At each Board meeting, the Chairman informs the directors of the significant events that have arisen in relation to the Group since the previous meeting.

Board meetings also provide the directors with an opportunity to review and discuss the Company's operations and outlook and make any required amendments to its overall strategy.

Additional and/or special meetings are called if there are any issues that need to be urgently addressed.

In 2009, Iliad's Board of Directors met eleven (11) times, with an average attendance rate of around 93.88%.

Activities of the Board of Directors in 2009

In 2009, the Board of Directors:

- made decisions regarding all major strategic, economic and financial matters affecting the Company and the Group and ensured that these decisions were implemented;
- approved the annual and interim financial statements and prepared the Annual Shareholders' Meeting;
- defined Iliad's financial communications policy;
- assessed the independence of directors;
- drew up and approved the Audit Committee's operating rules and appointed its members;
- allocated directors' fees;
- approved the report of the Chairman of the Board on the conditions governing the preparation and organization of the work of the Board of Directors and internal control procedures.

At each of its meetings the Board also devoted an agenda item to discussing the Group's business performance.

Information provided to directors

Prior to every meeting, Board members receive a pack containing information about items on the agenda, in order to help them prepare for the meeting and make fully informed decisions.

The Chairman also regularly provides the Board's members with any significant information concerning the Company. Each director has a duty to request from the Chairman any information that they consider would be useful for performing their role. Where such information is requested it must be provided within a reasonable timeframe.

Board members are bound by a strict duty of confidentiality with respect to non-public information acquired in connection with their role as a director.

Venue and participants

Board meetings take place at the Company's registered office, located at 8, rue de la Ville l'Evêque, 75008 Paris, France.

In accordance with Article L.823-17 of the French Commercial Code (*Code de commerce*), the Statutory Auditors were given notice of and attended the Board meetings devoted to the review and/or approval of the interim and annual financial statements.

Representation

Any director may authorize another director, by any written means, to represent him or her at a Board meeting. No director may have more than one proxy for a given meeting. These provisions apply both to individuals and permanent representatives of corporate directors.

Minutes of meetings

The minutes of Board meetings are drawn up by the Board Secretary after each meeting. The directors receive a draft version on which they may comment, and the Chairman subsequently submits the minutes for their approval at the following Board meeting.

Evaluation of the Board of Directors

In accordance with the Corporate Governance Code, at its April 23, 2009 meeting, the Board of Directors decided to introduce an evaluation system by which each year a specific agenda item is devoted to evaluating and discussing the organization and performance of the Board of Directors' work.

As part of this system, the Board's performance is evaluated by means of a detailed questionnaire sent to each Board member as well as through individual meetings held between the directors and the Chairman of the Board where required. The Board will take any improvement measures that it deems appropriate based on the results of the evaluation process.

On March 18, 2010, the Board carried out an in-depth analysis of its membership structure, organization and operating procedures. The analysis took the form of a self-assessment procedure organized by the Chairman of the Board, by sending out a detailed questionnaire and, where appropriate, setting up individual meetings with directors.

The results of this self-assessment showed that the Board was satisfied with its operating procedures and particularly appreciated the presentations given to it by senior management – as well as the ensuing discussions – concerning numerous aspects of the Group's strategy and outlook. Progress has once again been made in the operating procedures of the Board's committees, in particular those of the Audit Committee, whose preparatory work helped support the Board's decisions. Consequently, it can be said that in 2009 the Board was regularly provided with reliable data on the Group's business.

The directors also said they would like the Board's discussions to continue to be enriched by this constructive process and they asked to receive pre-meeting information documents earlier than is currently the case.

1.2.3. Committees of the Board of Directors

The Board of Directors may be assisted by specialist committees in performing its duties.

Subject to the membership rules described below, the Board of Directors is authorized to set up an Audit Committee and a Compensation Committee.

The Audit Committee

The Audit Committee comprises a minimum of three (3) and a maximum of five (5) members appointed by the Board of Directors and selected from among the Board's members. The majority of Audit Committee members must be independent directors as defined above.

At its August 26, 2009 meeting, the Board of Directors (i) set up an Audit Committee within the Company to comply with the provisions of French Law 2008-649 dated July 3, 2008, governmental order 2008-1278 dated December 8, 2008, and the decree issued on December 30, 2008, and (ii) appointed Marie-Christine Level (independent director) and Olivier Rosenfeld, in their capacity as directors, as members of the Audit Committee.

In addition to these appointments, at its October 28, 2009 meeting, the Board of Directors also appointed Orla Noonan (independent director) as a member of the Audit Committee.

The Audit Committee's work is performed under the exclusive and shared responsibility of the members of the Board of Directors. At its February 9, 2010 meeting, the Board approved the Audit Committee's organizational and operational procedures. The internal rules, the provisions of which superpose the provisions of the Board of Director's internal rules dated April 23, 2009, were approved and adopted by the members of the Board.

The Audit Committee is currently responsible for:

- examining Iliad's scope of consolidation and analyzing the draft financial statements of the Company and the Group – as well as the related reports – prior to their submission to the Board for approval;
- analyzing and ensuring the relevance of the accounting principles, methods and rules used to prepare the financial statements and the various accounting treatments applied, as well as any changes thereto;
- examining and monitoring the procedures applied to produce and process the accounting and financial information used to prepare the financial statements;
- analyzing and assessing the efficiency and effectiveness of the internal control and risk management procedures set up by the Company;
- reviewing and commenting on the draft report of the Chairman of the Board of Directors on the Company's internal control and risk management procedures;
- overseeing tender processes for selecting Statutory Auditors and renewing their terms of office;
- keeping informed of the amount of fees paid to the Statutory Auditors' network by companies controlled by Iliad, for services that are not directly audit-related;
- ensuring the independence of the Statutory Auditors (by verifying fees paid and ensuring that the statutory audit engagement is carried out completely separately from any non-audit related assignments).

The Audit Committee meets at least four (4) times per year. Meetings take place during the Company's major financial reporting periods.

Compensation Committee

The Compensation Committee comprises a minimum of three (3) and a maximum of five (5) members appointed by the Board of Directors and selected from among the Board's members. The majority of Compensation Committee members must be independent directors as defined above. Members of the Compensation Committee may be allocated specific compensation by the Board for their work carried out in this capacity.

The Compensation Committee is responsible for:

- making recommendations to the Board of Directors on the compensation and benefits to be allocated to corporate officers;
- establishing and conducting an annual review of the rules governing the variable portion of corporate officers' compensation, ensuring that it is consistent with their performance assessments and the Company's medium-term strategy;
- defining general policies for allocating stock options, with or without discounts;
- reviewing stock option plans for corporate officers and employees of the Company and/or the Group;
- providing recommendations on compensation and incentive systems for senior managers of the Company.

The Compensation Committee's duties are directly performed by the Board of Directors.

The Board of Directors may set up other specialist committees whenever it deems it appropriate.

1.2.4 Organization of senior management structures

Organizational framework and restrictions on the powers of the Chief Executive Officer

Since June 14, 2007, the Company's management has been placed under the responsibility of the Chief Executive Officer, Maxime Lombardini.

The Board of Directors has not placed any specific restrictions on the powers of the Chief Executive Officer, who is vested with the broadest powers to act on behalf of the Company in all circumstances.

On the recommendation of the Chief Executive Officer, the Board of Directors may appoint one or more individuals holding the title of Senior Vice-President to assist the Chief Executive Officer.

The maximum number of Senior Vice-Presidents is five.

The Board of Directors, in agreement with the Chief Executive Officer, determines the scope and duration of authority granted to Senior Vice-Presidents.

Senior Vice-Presidents have the same powers as the Chief Executive Officer vis-à-vis third parties.

The Company's Senior Vice-Presidents are:

- Xavier Niel
- Antoine Levavasseur
- Rani Assaf

At its March 18, 2010 meeting, the Board of Directors appointed Thomas Reynaud as Senior Vice-President.

Operational structure of the Company's senior management team

Since June 2004, the Company's senior management team has been structured around a Management Committee headed by the Chairman of the Board of Directors. The Management Committee is the Group's decision-making body. It meets once a week, and is responsible for tracking weekly reporting schedules, deciding on the Group's strategy and operations in conjunction with the Board, discussing and collectively deciding on key management issues, and setting annual objectives. The meetings are attended by the Chairman of the Board of Directors, the Chief Executive Officer, the Senior Vice-Presidents, the Chief Financial Officer and Head of Business Development and the head of the Group's Research & Development Department. The senior managers of the Group's main subsidiaries also attend certain meetings. The issues covered also serve as a basis for management presentations given during Board of Directors' meetings.

The Management Committee coordinates relations between the parent company and its subsidiaries, and as such can ensure – under the supervision of senior management – that the Group's operations run smoothly.

1.3. COMPENSATION PAID TO DIRECTORS AND SENIOR MANAGERS

Principles and rules approved by the Board of Directors for setting compensation and benefits allocated to corporate officers

The Board of Directors is responsible for setting the compensation of corporate officers and has confirmed its intention to ensure transparency in this regard by complying with the Corporate Governance Code.

The Board's objective is to allocate a competitive overall compensation package to corporate officers with scope for increases in compensation each year, on an ongoing and regular basis.

The Board of Directors sets at its discretion the compensation payable to the Chairman, the Chief Executive Officer and the Senior Vice-Presidents.

Only independent directors who do not hold an employment contract with a Group company are paid directors' fees. The overall amount of these fees is approved by the Company's shareholders and their individual allocation is decided by the Board.

Compensation paid to directors and senior managers

Directors' fees

The Shareholders' Meeting of June 23, 2009 set at €90,000 the annual fees to be allocated among the Company's independent directors. In accordance with this decision, at its June 30, 2009 meeting the Board of Directors resolved to allocate this amount equally among the independent directors who were members of the Board during 2009, in accordance with their attendance rate at Board meetings.

Compensation payable to the Chairman, Chief Executive Officer and Senior Vice-Presidents

The Board of Directors sets the compensation to be paid to the Chairman, Chief Executive Officer and Senior Vice-Presidents. Compensation payable to the following directors was reviewed by the Board of Directors at its June 30, 2009 meeting:

- Cyril Poidatz (Chairman of the Board of Directors)
- Maxime Lombardini (Chief Executive Officer)
- Antoine Levavasseur (Senior Vice-President)
- Rani Assaf (Senior Vice-President)

Variable compensation

No variable compensation system has been set up for the Group's senior managers.

Pension scheme

There is no specific pension scheme in place for the Company's senior managers.

Leaving bonuses

The Company has not given any commitments that provide for the payment of indemnities and/or benefits relating to or resulting from the termination of senior managers' duties within the Company.

No-compete commitments

No indemnities are payable to senior managers under no-compete clauses.

Share grant and stock option plans

Stock option plans have been set up as a long-term incentive for senior managers with the aim of encouraging them to create value in the interests of shareholders. In general, all key personnel – including senior managers – are eligible for stock options and individual grants depend on the performance and level of responsibility of each person concerned.

No senior managers were granted stock options in 2009.

Service agreements

Apart from the contracts described in Section 16.2 above, no corporate officer is bound to the Company or to any of its subsidiaries by a service contract that provides for the award of any types of benefits. Details of the contracts entered into between the Company and one of its directors – which were duly authorized by the Board of Directors as related-party agreements – are provided in the Statutory Auditors' special report in Section 19 of this registration document.

2. Internal control procedures

(i) Presentation and organization of the Group

Since June 2003, the Group's senior management team and corporate functions have been located in one building at 8, rue de la Ville l'Evêque, 75008 Paris, which has simplified the tasks of relaying information, and monitoring and harmonizing internal control procedures.

In addition, all of the Group's departments – encompassing finance and accounting, legal affairs, human resources, technology and marketing – are cross-functional and are identical for each Group entity. This structure enables the Group to be managed consistently and makes it easier to perform controls.

(ii) The objectives of internal control

Internal control is a process implemented by management designed to provide reasonable assurance that the Company's objectives are achieved relating to the following areas:

- efficiency and effectiveness of operations;
- safeguarding assets, particularly intellectual property, human and financial resources and the Company's image;
- preventing the risk of fraud;
- reliability and fairness of financial and accounting information; and
- compliance with applicable laws and regulations.

An internal control system can only provide reasonable assurance – and not an absolute guarantee – that the Company will achieve its objectives.

The Iliad Group's internal control system is structured around (i) internal rules, which set out regulations to be respected by employees within each Group company, and (ii) procedures and controls inherent to the individual systems of each department.

The Group does not currently have a specific Internal Audit department, but the Finance Department, as well as the accounting and management accounting control teams and the other departments described above are at the heart of the overall internal control system.

Each Group company reviews its accounting and financial data on a monthly basis.

(iii) Control processes for major risks

The Group has set up an internal control system that enables it to manage the risks relating to its business strategy, development and decision-making processes on a daily basis.

The main risks that could impact the Company are identified, assessed and reviewed by senior management. These risks are analyzed in detail in Section 4 of this registration document.

Risks relating to the Group's operations and business strategy

In 2000, the Group created a research and development team with a view to safeguarding its capacity to remain technologically innovative. This team reports directly to senior management.

In addition, in view of the Group's rapid growth and in order to anticipate recruiting needs – notably within the call center teams – a reporting procedure has been established to measure the volume of calls received and dealt with, and to monitor queuing time. These reporting schedules are relayed regularly to management.

Management is also regularly provided with technical information concerning the Group's platform and network, as well as recruitment needs (in terms of number of staff and skills), and the financing required in order to develop the Group's technical infrastructure.

Risks relating to the Internet and telecommunications sectors

As the Group is subject to the specific laws and regulations applicable to the telecommunications sector, the Company's compliance department carries out regular controls to ensure that these laws and regulations are respected. Risks relating to the Group's business sectors are principally monitored by an internal team dedicated to tracking regulations within the Internet and telecommunications sectors as well as the financial and legal impact of these regulations on the Group's operations.

Legal risks linked to Internet access

In order to limit the risks relating to the potential liability of Internet access and web hosting service providers, the subscription procedure set up by the Group does not permit any anonymous users on its network. This procedure does not allow a new user to connect online, as new users must wait until they have received a confirmation letter with a username and password before they can connect to the Group's network for the first time.

This procedure, which enables the Group to validate the name and address of each new subscriber, was set up when the network was initially launched and means that the Group has no anonymous users on its network. Consequently, the Group can respond to and assist with any requests concerning the identity of any dubious users in the event of a legal claim.

For each new service, the Group takes the precaution of reminding its subscribers and users that they are responsible for the content that they make available to other parties.

Legal risks are monitored by a specific department. In addition, the Company has taken out specific insurance policies to cover the risks arising from its operations.

Security

The Group has set up procedures to guarantee the security and physical integrity of its network.

Control procedures relating to financial communication

The Company is required to keep its shareholders, the financial community and the general public informed about its financial position.

All financial information, including press releases, management reports, and financial statements, is drawn up by the Finance Department and is reviewed by senior management, including the Chairman of the Board of Directors, the Chief Executive Officer, the Senior Vice-Presidents, the Audit Committee and the Legal Affairs Department. In addition, this information is regularly submitted to the Company's directors for approval.

In order to restrict the risks relating to erroneous or contradictory information, an internal procedure is used whereby the Group's press officer centralizes all strategic, commercial, financial and technical data that is released outside the Group. The information is supplied directly by management to the press officer. Furthermore, in accordance with the aforementioned procedure, the press officer attends any and all interviews in order to ensure that the information relayed is consistent.

3. Financial information

The following procedures have been set up to implement controls over the Group's financial management and ensure that the accounting data provided is correct.

(i) Budget process

Each year, the Finance Department – assisted by management accounting control – draws up a forecast business model for the Group, which is regularly updated. This model is based on the Group's strategic decisions, and approved by management.

(ii) Monthly reporting process

A monthly reporting schedule is drawn up by the Group's financial units. During 2009, management accounting control tracked the Group's purchases and investments, notably for (i) components used in the Freebox modem, (ii) optical fiber and (iii) the program to extend local loop unbundling. The reports of the management accounting controller are transmitted to the Finance Department and incorporated into the overall reporting schedule, which contains key data for monitoring the Group's operations and results. This process forms one of the cornerstones of the internal control and financial information system and it is the key tool used by management for tracking, controlling and monitoring the Group's business activity.

The Board of Directors is informed of the latest available indicators during its meetings.

(iii) Accounts-closing process

The Group's Finance Department performs a quarterly close for each Group company.

The Group's organization structure, based on a single Finance Department for all of the Group's companies and the use of a common accounting manual, enables consistent use of accounting policies and methods.

In addition, the Group's Finance Department tasks an external certified public accountant with reviewing the statutory accounts of each entity on at least a quarterly basis.

Quarterly consolidated financial data are presented to the Board of Directors.

(iv) Specific procedures relating to the preparation and processing of accounting and financial information

The internal control procedures in force within the Group relating to the major operating functions are as follows:

Sales: the revenue of each Group company is controlled by the Finance Department in conjunction with the Group's operating teams, by carrying out tests on sales movements, valuations and invoicing of calls and subscriptions, as well as on payment collection and debt recovery processes.

Capital expenditure: controls on investments and the management costs for the telecommunication network's assets are performed through a procedure based on predetermined authorized thresholds and budgets.

Purchases: purchases other than capital expenditure are also controlled based on authorized thresholds, as well as by segregating tasks, with control of Internet operating costs being separated from control of fixed telephony costs each month based on a reconciliation of calls made and bills issued.

Cash flows: control over cash management is performed through bank reconciliations, secure means of payment, specific signature authorizations, including for off-balance sheet commitments, and daily, weekly, monthly and quarterly reporting. Cash flow hedging operations require special authorization and monitoring.

Payroll: employees' salaries are controlled through a procedure that is based on segregating line managers' controls.

4. Other information required pursuant to Article L.225-37 of the French Commercial Code

(i) Specific procedures for participating in Shareholders' Meetings

Attendance at the Company's Shareholders' Meetings is governed by the applicable laws and Article 26 of the Company's bylaws. All shareholders are entitled to attend and vote at Shareholders' Meetings, either in person or by proxy, irrespective of the number of shares they hold, subject to the conditions set out in Article 26 of the Company's bylaws.

(ii) Disclosures required pursuant to Article L.225-100-3 of the French Commercial Code

The disclosures required in accordance with Article L.225-100-3 of the French Commercial Code are provided in Section 10 – "Capital resources", Section 18 – "Major shareholders", and Section 21 – "Additional information".

Chairman of the Board of Directors

ILIAD

**STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH ARTICLE L.225-235 OF
THE FRENCH COMMERCIAL CODE, ON THE REPORT PREPARED BY THE CHAIRMAN OF
THE BOARD OF DIRECTORS OF ILIAD**

(Year ended December 31, 2009)

PricewaterhouseCoopers Audit

63, rue de Villiers
92208 Neuilly-sur-Seine cedex
France

Boissière Expertise Audit

57, rue Boissière
75016 Paris
France

Statutory Auditors' report, prepared in accordance with Article L.225-235 of the French Commercial Code, on the report prepared by the Chairman of the Board of Directors of Iliad

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Iliad SA

8, rue de la Ville l'Evêque
75008 Paris

To the Shareholders,

In our capacity as Statutory Auditors of Iliad SA, and in accordance with Article L.225-235 of the French Commercial Code (*Code de commerce*), we hereby report to you on the report prepared by the Chairman of the Board of Directors in accordance with Article L.225-37 of the French Commercial Code for the year ended December 31, 2009.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report describing the internal control and risk management procedures implemented by the Company and providing the other information required by Article L.225-37 of the French Commercial Code (*Code de commerce*), in particular relating to corporate governance.

It is our responsibility:

- to report to you our observations on the information set out in the Chairman's report on the internal control and risk management procedures relating to the preparation and processing of financial and accounting information; and
- to attest that the report sets out the other information required by Article L.225-37 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

Information concerning the internal control and risk management procedures relating to the preparation and processing of financial and accounting information

French professional standards require that we perform procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report. These procedures mainly consisted of:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based, and of the existing documentation;
- obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;
- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Board of Directors' report, prepared in accordance with Article L.225-37 of the French Commercial Code.

Other information

We attest that the Chairman's report sets out the other information required by Article L.225-37 of the French Commercial Code.

Neuilly-sur-Seine and Paris, March 23, 2009

The Statutory Auditors

PricewaterhouseCoopers Audit

Boissière Expertise Audit

Xavier Cauchois

Jean-Luc Cohen

DRAFT RESOLUTIONS

Ordinary resolutions

FIRST RESOLUTION

REVIEW AND APPROVAL OF THE PARENT COMPANY FINANCIAL STATEMENTS

Having reviewed the Board of Directors' report and the Statutory Auditors' report on the financial statements for the year ended December 31, 2009, the shareholders approve the financial statements for the year then ended as presented to them, as well as the transactions represented in those financial statements and summarized in those reports.

SECOND RESOLUTION

APPROPRIATION OF THE PROFIT FOR THE YEAR ENDED DECEMBER 31, 2009 (AS SHOWN IN THE FINANCIAL STATEMENTS) AND SETTING OF THE DIVIDEND

Having reviewed the Board of Directors' report, the shareholders record that the financial statements for the year ended December 31, 2009 show profit of €17,264,329 and resolve to appropriate it as follows:

Profit for the year	€ 17,264,329
Less losses carried forward	€ 0
To the legal reserve	€ 4,148
Balance	€ 17,260,181
Increased by retained earnings of	€ 0
Giving a distributable profit of	€ 17,260,181
Increased by a transfer from the "other reserves" account	€ 2,987,065
Giving a maximum amount payable to shareholders of	€ 20,247,246
i.e., €0.37 per share	
Balance	€ 0
Bringing the total of the "other reserves" account to	€111,788,383

A maximum of 54,722,286 shares are eligible for dividends in respect of the year ended December 31, 2009, corresponding to the sum of the 54,583,440 shares making up the share capital at December 31, 2009 and the 138,846 shares to be issued between January 1, 2010 and the ex-dividend date, following the exercise of stock options granted by the Board of Directors on January 20, 2004 and on December 20, 2005.

In accordance with Article 243 *bis* of the French Tax Code (*Code général des impôts*), it is hereby specified that, for the fiscal years 2006, 2007 and 2008, these dividends are eligible for the 40% tax relief available for French tax resident individuals, as provided for by Article 158.3-2° of said code, under the conditions and within the limits provided for by law and under the shareholders' responsibility, unless the beneficiaries have elected for the 18% flat-rate withholding tax (*prélèvement libératoire*) provided for in Article 117 *quater* of the French Tax Code.

Accordingly, the shareholders approve a dividend of €0.37 (before social security contributions) for each of the shares making up the share capital, which are eligible for such dividend. This dividend will be paid in cash on July 9, 2010. The shareholders hereby specify that the total amount of dividends distributed must take into account all shares outstanding as of the ex-dividend date and that in the event that, on such date (i) the Company holds some of its own shares, or that (ii) all of the shares to be issued following the exercise of stock options granted by the Board of Directors on January 20, 2004 and on December 20, 2005, have not in fact been issued, the sum corresponding to dividends unpaid in respect of such shares will be credited to the "other reserves" account.

In accordance with the law, the shareholders remind the meeting that the dividend per share has been as follows for the last three fiscal years:

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Number of shares making up the capital ¹	54,151,550	54,396,248	54,438,847
Total net dividends (in €)	14,620,918	16,862,837	18,509,208
Net dividend per share (in €)	0.27	0.31	0.34

In accordance with Article 223 *quater* of the French Tax Code, the shareholders note that no expenses and charges referred to in Article 39-4 of said code were incurred during the year ended December 31, 2009.

DRAFT RESOLUTIONS

THIRD RESOLUTION

APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

Having reviewed the Board of Directors' report, the management report and the Statutory Auditors' report on the consolidated financial statements for the year ended December 31, 2009, the shareholders approve the consolidated financial statements for the year then ended, as presented to them, and which show profit of €175.9 million, as well as the transactions represented in those financial statements and summarized in those reports.

FOURTH RESOLUTION

APPROVAL OF THE REPORT ON THE AGREEMENTS REFERRED TO IN ARTICLE L.225-38 OF THE FRENCH COMMERCIAL CODE

Having reviewed the Statutory Auditors' special report on the agreements referred to in Article L.225-38 of the French Commercial Code (*Code de commerce*), the shareholders note that several agreements falling within the scope of said Article were entered into during the year ended December 31, 2009 and that several agreements entered into and authorized in prior years remained in force during the year. The shareholders approve each of the agreements described in the above-mentioned report under the conditions referred to in Article L.225-140 of the French Commercial Code.

FIFTH RESOLUTION

DIRECTORS' FEES

Having reviewed the Board of Directors' report, the shareholders set the total amount of directors' fees to be allocated to independent directors for the year in progress at €100,000, it being understood that directors will each receive a fixed amount of €20,000. In the event of any outstanding balance, each director will receive a variable amount, to be decided by the Board of Directors, in relation to the regularity of their attendance at Board meetings.

SIXTH RESOLUTION

AUTHORIZATION TO BE GIVEN TO THE BOARD OF DIRECTORS TO IMPLEMENT A SHARE BUYBACK PROGRAM

Having reviewed the Board of Directors' report and the Statutory Auditors' special report, and in accordance with Articles L.225-209 *et seq.* of the French Commercial Code, the shareholders authorize the Board of Directors, with authority to delegate under the terms provided by law, to purchase or have purchased the Company's shares, up to a limit of 10% of the share capital calculated on the basis of the share capital existing at the time of the purchase. As this percentage must be calculated on the date that the purchases take place, it will apply to the capital adjusted, where applicable, to take into account transactions with respect to the capital carried out after this Annual Shareholders' Meeting, it being specified that this limit corresponds to the number of shares purchased, less any shares resold during the authorization period applicable to this share buyback program.

The shareholders resolve that this authorization may be implemented to purchase shares for the following purposes (in order of priority):

1. market making for the Company's shares under a liquidity contract that complies with the code of ethics recognized by the French Securities Regulator (AMF) as an approved market practice;
2. to allocate shares to employees and corporate officers of the Company and Group subsidiaries, in accordance with the applicable legislation, including by carrying out share grants as permitted by Articles L.225-197-1 *et seq.* of the French Commercial Code, or by granting stock options in accordance with Articles L.225-177 *et seq.* of said Code, or as part of a profit-sharing scheme or a Group savings plan in accordance with the applicable legislation, in particular Articles L.3332-1 *et seq.* of the French Labor Code (*Code du travail*);

¹ Number of shares outstanding as of the ex-dividend date

DRAFT RESOLUTIONS

3. to purchase shares to be held and subsequently used in connection with external growth transactions (as consideration, in exchange for shares in another company, or any other use);
4. to allocate shares on the exercise of stock options granted to the Company's employees and corporate officers in accordance with the law;
5. to cancel all or some of the shares purchased in the context of a share capital reduction, subject to the adoption of the fourteenth resolution submitted for the approval of the shareholders at this Meeting;
6. to attribute shares on redemption, conversion, exercise or exchange of share equivalents.

The share buyback program may also be implemented for the purpose of enabling the Company to carry out transactions for any other purpose that is or may subsequently be authorized by the laws and regulations in force at the transaction date. The Company would inform its shareholders of any such cases by means of a press release.

The maximum purchase price is set at €200 per share.

In the event of a change in the par value of the shares, a capital increase through capitalization of premiums, profits or reserves, the issue of bonus shares, a reverse stock split, distribution of reserves or any other assets, capital redemption, or any other transaction concerning the share capital, the shareholders authorize the Board of Directors to adjust the above-mentioned purchase price to take account of the impact of these transactions on the value of the share.

The maximum amount that may be allocated to share buybacks within the context of this program is €1,078,874,000.

Shares acquired by the Company pursuant to this authorization may in no event result in it directly or indirectly holding more than 10% of the shares making up the Company's share capital as of the date of acquisition.

The shares may be purchased, held in treasury, sold or transferred on one or more occasions, at any time – including while a public tender offer is in progress – by any method on the market or over the counter, including through block trades or through the use of derivatives (except the purchase of call options) and warrants, subject to compliance with the regulations in force at the transaction date and at such time as the Board of Directors or the person acting on the authority of the Board of Directors deems appropriate.

This authorization is given for a period of eighteen (18) months as from the date of this Meeting.

The shareholders grant full powers to the Board of Directors, with authority to delegate such powers under the terms provided by law, to approve and implement this authorization and, if necessary, to set the terms and conditions thereof, to perform the share buyback program and, in particular, to place any and all buy and sell orders, enter into any and all agreements, carry out any and all formalities, disclosures and filings with the AMF and any other organization and generally do whatever is necessary.

Each year the Board of Directors will inform the Ordinary Shareholders' Meeting of any transactions carried out in accordance with this authorization and notably, for each purpose, the number of shares used, any reallocations of the shares to other purposes and the portion of share capital that the shares represent. It will also inform the AMF of any purchase, sale, transfer and/or cancellation of shares, in accordance with the law.

The Board of Directors records that, as of the date hereof and where applicable, this authorization cancels the unused part of the authorization given for the same purpose by the Ordinary and Extraordinary Shareholders' Meeting of June 23, 2009 in the twenty-first resolution.

DRAFT RESOLUTIONS

Extraordinary resolutions

SEVENTH RESOLUTION

AUTHORIZATION TO BE GIVEN TO THE BOARD OF DIRECTORS TO ISSUE SHARES AND/OR SECURITIES GIVING ACCESS TO SHARES IN THE COMPANY OR A COMPANY THAT CONTROLS OR IS CONTROLLED BY THE COMPANY, WITH PRE-EMPTIVE SUBSCRIPTION RIGHTS

Having reviewed the Board of Directors' report and the Statutory Auditors' special report and in accordance with Articles L.225-129 *et seq.* of the French Commercial Code, in particular Articles L.225-129-2, L.225-132, L.228-91, L.228-92 and L.228-93, and having recorded that the share capital is fully paid up, the shareholders:

1. authorize the Board of Directors to decide on and carry out share capital increases, in France or in other countries, with pre-emptive subscription rights, through the issue, on one or several occasions and to the extent and at such time as it deems appropriate, of:
 - (a) shares in the Company (excluding preferred shares);
 - (b) securities giving access, by any means, immediately or in the future, to new or existing shares in the Company;
 - (c) securities giving access, by any means, immediately or in the future, to new or existing shares (i) in a company that directly or indirectly owns more than half of the Company's share capital or (ii) in a company of which the Company directly or indirectly owns more than half of the share capital (a *Subsidiary*), subject to the approval of such issues by the extraordinary shareholders' meetings of such companies. The securities giving access to shares in (x) the Company, (y) a Subsidiary or (z) a company that directly or indirectly owns more than half of the Company's share capital, may consist of or be associated with the issue of debt securities, or may permit the issue or allocation thereof. Debt securities issued pursuant to this authorization may be subordinated or unsubordinated and may be for a fixed or non-fixed term. Loan terms, other than for perpetual subordinated bonds, may not exceed 20 years. Loan interest may be at fixed or variable rates or, within the limits of the law, be capitalized, and be subject to guarantees and securities, redemption with or without a premium, or amortization. The shares may also be subject to a share buyback program, or a purchase or exchange offer by the Company;
 - (d) securities giving access to shares in the Company following the issue (i) by a Subsidiary or (ii) by a company that directly or indirectly owns more than half of the Company's share capital, of securities giving access to shares in the Company, subject to the approval of such issues by the extraordinary shareholders' meetings of such companies;
2. authorize the Board of Directors to issue securities other than the shares referred to in paragraph 1 above, in euros or in any other legal currency or any other monetary unit determined by reference to a basket of currencies;
3. set the duration of this authorization at a maximum period of twenty-six (26) months as from the date of this Annual Shareholders' Meeting;
4. record that the issue of securities giving access to shares in the Company pursuant to this authorization automatically entails the waiver by existing shareholders of their pre-emptive rights to subscribe for shares to which these securities confer a right, in favor of holders of these securities;
5. resolve to set the maximum total nominal amount of issues that may be decided by the Board of Directors pursuant to this authorization as follows:
 - (a) the total nominal amount of share capital increases that may be carried out, directly or indirectly, immediately or in the future, pursuant to this authorization may not exceed €5,000,000, reduced by the amount of any capital increase that may be carried out pursuant to the authorization granted by the shareholders under the eighth resolution below;
 - (b) where applicable, the nominal amount of the additional shares to be issued to preserve the rights of holders of securities giving access to shares in the Company will be added to the above amount, in accordance with the applicable legal, regulatory and contractual provisions;

- (c) the nominal amount of any debt securities issued pursuant to this authorization may not exceed €800,000,000, it being specified that this amount (i) does not include any redemption premiums above par that may be provided for, (ii) is the same for all debt securities whose issue is provided for under the eighth and ninth resolutions submitted for the approval of this Meeting and (iii) is independent and distinct from the amount of debt securities whose issue may be decided or authorized by the Board of Directors in accordance with Article L.228-40 of the French Commercial Code;
6. within the context of this authorization:
- (a) record that the shareholders have, in proportion to the amount of shares that they hold, a pre-emptive subscription right to subscribe for the shares and securities issued pursuant to this resolution and that the Board of Directors may establish a right for shareholders to subscribe for excess shares or securities issued, which can be exercised in proportion to their subscription rights, within the limit of their requests;
- (b) record that, if the subscriptions to which the shareholders are entitled by way of right and, where applicable, any subscriptions to excess shares, do not account for the entire issue of shares, the Board of Directors may make use of one or more of the following facilities, under the conditions provided for by law and in the order that it deems appropriate:
- restrict the capital increase to the amount of subscriptions received, on condition that they cover at least three-quarters of the issue initially decided;
 - freely allocate all or some of the securities whose issue has been decided but that are not yet subscribed; or
 - make a public offering of all or part of the securities, in France or in other countries;
7. resolve that any issue of securities giving access to shares in the Company may, where applicable, involve a grant of free shares in favor of holders of existing shares and that, in such event, the Board of Directors may decide that rights to fractions of shares will not be transferrable and that the corresponding shares will be sold;
8. resolve that the Board of Directors will decide on the features, amount and terms and conditions of any and all issues, as well as of the securities issued. It will notably decide the category of securities issued and, in light of information provided in the Board of Directors' report, will determine their subscription price (with or without a premium), how they will be paid up, the dividend entitlement date (which may be retrospective), the terms and conditions under which the securities issued on the basis of this resolution will give access to shares in the Company or a company referred to in paragraph 1 (c) of this resolution and, for debt securities, their subordination level. The Board of Directors may decide to deduct the costs of the issues from the amount of the related share premiums and deduct from this amount the sums required to increase the legal reserve to one-tenth of the share capital after each capital increase;
9. resolve that the Board of Directors may, if necessary, suspend the exercise of rights attached to the securities giving access to shares in the Company, for a maximum period of three months, and will take all useful measures as regards adjustments to be made pursuant to the law and, where appropriate, to the contractual provisions, to protect the holders of rights attached to the securities giving access to shares in the Company;
10. resolve that, in accordance with Article L.225-129-2 of the French Commercial Code, the Board of Directors will have full powers to implement this resolution, in particular by entering into any and all agreements required to complete an issue satisfactorily, to carry out the abovementioned issues, on one or several occasions and to the extent and at the times that it deems appropriate, in France or, if relevant, in other countries or on the international market – as well as, where applicable, to postpone issues – to record the completion thereof and amend the bylaws accordingly, perform any and all formalities and filings and request any authorizations that may prove necessary for the performance and satisfactory completion of the issues;
11. authorize the Board of Directors to delegate to the Chief Executive Officer or, with the approval of the Chief Executive Officer, to one or more Senior Vice-Presidents, the power to carry out or postpone the issues referred to in this resolution;

DRAFT RESOLUTIONS

12. record that, as of the date hereof, this authorization cancels, where applicable, the as yet unused part of the authorization given by the Ordinary and Extraordinary Shareholders' Meeting of May 29, 2008 in the tenth resolution;
13. record that in the event that the Board of Directors were to use this authorization it will report to the next Ordinary Shareholders' Meeting, in accordance with the law and regulations and in particular with Article L.225-129-5 of the French Commercial Code, on the use made thereof.

EIGHTH RESOLUTION

AUTHORIZATION TO BE GIVEN TO THE BOARD OF DIRECTORS TO ISSUE SHARES AND/OR SECURITIES GIVING ACCESS TO SHARES IN THE COMPANY OR A COMPANY THAT CONTROLS OR IS CONTROLLED BY THE COMPANY, WITHOUT PRE-EMPTIVE SUBSCRIPTION RIGHTS AND BY MEANS OF A PUBLIC OFFERING

Having reviewed the Board of Directors' report and the Statutory Auditors' special report and in accordance with the law and regulations governing commercial companies, in particular Articles L.225-129-2, L.225-135, L.225-136, L.228-91 *et seq.* of the French Commercial Code, and having recorded that the share capital is fully paid up, the shareholders:

1. authorize the Board of Directors to decide on and carry out share capital increases, in France or in other countries, without pre-emptive subscription rights and by means of a public offering, through the issue, on one or several occasions and to the extent and at such time as it deems appropriate, of:
 - a) shares in the Company (excluding preferred shares);
 - b) securities giving access, by any means, immediately or in the future, to new or existing shares in the Company;
 - c) securities giving access, by any means, immediately or in the future, to new or existing shares (i) in a company that directly or indirectly owns more than half of the Company's share capital or (ii) in a company of which the Company directly or indirectly owns more than half of the share capital (a **Subsidiary**), subject to the approval of such issues by the extraordinary shareholders' meetings of such companies. The securities giving access to shares in (x) the Company, (y) a Subsidiary or (z) a company that directly or indirectly owns more than half of the Company's share capital, may consist of or be associated with the issue of debt securities, or may permit the issue or allocation thereof. Debt securities issued pursuant to this authorization may be subordinated or unsubordinated and may be for a fixed term or a non-fixed term. Loan terms, other than for perpetual subordinated bonds, may not exceed 20 years. Loan interest may be at fixed or variable rates or, within the limits provided for by law, be capitalized, and be subject to guarantees and securities, redemption with or without a premium, or amortization. The shares may also be subject to a share buyback program, or a purchase or exchange offer by the Company;
 - d) securities giving access to shares in the Company following the issue (i) by a Subsidiary or (ii) by a company that directly or indirectly owns more than half of the Company's share capital, of securities giving access to shares in the Company, subject to the approval of such issues by the extraordinary shareholders' meetings of such companies;
2. resolve to cancel the shareholders' pre-emptive subscription rights to shares and securities giving access to shares in the Company or granting rights to the allocation of debt securities that may be issued pursuant to this authorization;
3. authorize the Board of Directors to issue securities other than the shares referred to in paragraph 1 above in euros, or in any other legal currency or any other monetary unit determined by reference to a basket of currencies;
4. set the duration of this authorization at a maximum period of twenty-six (26) months as from the date of this Annual Shareholders' Meeting;

DRAFT RESOLUTIONS

5. record that the issue of securities giving access to shares in the Company pursuant to this authorization automatically entails the waiver by existing shareholders of their pre-emptive rights to subscribe for shares to which these securities confer a right, in favor of holders of these securities;
6. authorize the Board of Directors to assess whether or not the issues carried out pursuant to this authorization will include a priority subscription period for shareholders under the conditions provided for in Article L.225-135 paragraph 2 of the French Commercial Code;
7. resolve to set the maximum total nominal amount of issues that may be decided by the Board of Directors pursuant to this authorization as follows:
 - a) the total nominal amount of share capital increases that may be carried out, directly or indirectly, immediately or in the future pursuant to this authorization may not exceed €5,000,000, reduced by the amount of any capital increase that may be carried out pursuant to the authorization granted by the shareholders under the tenth resolution below;
 - b) where applicable, the nominal amount of the additional shares to be issued to preserve the rights of holders of securities giving access to shares in the Company will be added to the above amount, in accordance with the law and contractual provisions;
 - c) the nominal amount of any debt securities issued pursuant to this authorization may not exceed €800,000,000, it being specified that this amount (i) does not include any redemption premiums above par, that may be provided for, (ii) is the same for all debt securities whose issue is provided for under the seventh and tenth resolutions submitted for the approval of this Annual Shareholders' Meeting and (iii) is independent and distinct from the amount of debt securities whose issue may be decided or authorized by the Board of Directors in accordance with Article L.228-40 of the French Commercial Code;
8. resolve that the Board of Directors will decide on the features, amount and terms and conditions of any and all issues, as well as of the securities issued. It will notably decide the category of securities issued and, in light of information provided in the Board of Directors' report, will determine their subscription price (with or without a premium), how they will be paid up, the dividend entitlement date (which may be retrospective), the terms and conditions under which the securities issued on the basis of this resolution will give access to shares in the Company or a company referred to in paragraph 1 (c) of this resolution and, for debt securities, their subordination level. The Board of Directors may decide to deduct the costs of the issues from the amount of the related share premiums and deduct from this amount the sums required to increase the legal reserve to one-tenth of the share capital after each capital increase;
9. resolve that, in accordance with the provisions of Article L.225-136 of the French Commercial Code, the issue price of securities that may be issued pursuant to this authorization will be determined as follows:
 - a) within the limit of 10% of the share capital per year, the issue price of securities will be set by the Board of Directors in accordance with the terms and conditions set out in the ninth resolution;
 - b) above the limit of 10% of the share capital per year, the issue price of securities will be set by the Board of Directors in accordance with the applicable law and regulations;
10. resolve that the Board of Directors will have full powers to implement this resolution, in particular by entering into any and all agreements required to complete an issue satisfactorily, to carry out the abovementioned issues, on one or several occasions and to the extent and at the times that it deems appropriate, in France or, if relevant, in other countries or on the international market – as well as, where applicable, to postpone issues – to record the completion thereof and to amend the bylaws accordingly, perform any and all formalities and filings and request any authorizations that may prove necessary for the performance and satisfactory completion of the issues;
11. authorize the Board of Directors to delegate to the Chief Executive Officer or, with the approval of the Chief Executive Officer, to one or more Senior Vice-Presidents, the power to carry out or postpone the issues referred to in this resolution;

DRAFT RESOLUTIONS

12. record that, as of the date hereof, this authorization cancels, where applicable, the as yet unused part of the authorization given by the Ordinary and Extraordinary Shareholders' Meeting of May 29, 2008 in the eleventh resolution; it is hereby specified that as this authorization does not have the same purpose as the twenty-fourth resolution adopted by the Extraordinary Shareholders' Meeting of June 23, 2009, it does not cancel the as yet unused part of the authorization given in the twenty-fourth resolution adopted by the Extraordinary Shareholders' Meeting of June 23, 2009, the validity and duration of which are not affected by this authorization;
13. record that in the event that the Board of Directors were to use this authorization it will report to the next Ordinary Shareholders' Meeting, in accordance with the law and regulations and in particular with Article L.225-129-5 of the French Commercial Code, on the use made thereof.

NINTH RESOLUTION

AUTHORIZATION TO BE GIVEN TO THE BOARD OF DIRECTORS TO SET – IN ACCORDANCE WITH THE TERMS AND CONDITIONS LAID DOWN BY THE ANNUAL SHAREHOLDERS' MEETING – THE ISSUE PRICE OF SHARES AND/OR SECURITIES GIVING ACCESS TO SHARES IN THE COMPANY OR A COMPANY THAT CONTROLS OR IS CONTROLLED BY THE COMPANY, IN THE EVENT OF THE ISSUE OF SUCH SHARES AND/OR SECURITIES WITHOUT PRE-EMPTIVE SUBSCRIPTION RIGHTS

Having reviewed the Board of Directors' report and the Statutory Auditors' special report and in accordance with law and regulations governing commercial companies and in particular Article L.225-136 of the French Commercial Code, the shareholders:

1. authorize the Board of Directors, for a period of twenty-six (26) months as from the date of this Meeting and for each of the issues decided pursuant to the eighth resolution above within the limit of 10% of the Company's capital (as of the date of this Meeting) per 12-month period, to depart from the terms and conditions for setting the price provided for in the eighth resolution and to set the issue price of the shares and as follows: the per share price must be at least equal to the BV per share, as shown in the most recent balance sheet to be closed off by the Company's Board of Directors;
2. authorize the Board of Directors, within the limits it will have set, to delegate to the Chief Executive Officer or, with the approval of the Chief Executive Officer, to one or more Senior Vice-Presidents, the authority granted to it within the scope of this resolution;
3. record that, as of the date hereof, this authorization cancels, where applicable, the as yet unused part of the authorization given by the Ordinary and Extraordinary Shareholders' Meeting of May 29, 2008 in the twelfth resolution;
4. record that in the event that the Board of Directors were to use this authorization, it would prepare an additional report, certified by the Statutory Auditors, describing the final terms and conditions of the transaction and the information used to assess the impact of the transaction for shareholders.

TENTH RESOLUTION

AUTHORIZATION TO BE GIVEN TO THE BOARD OF DIRECTORS TO INCREASE THE NUMBER OF SHARES AND/OR SECURITIES TO BE ISSUED IN THE EVENT OF A SHARE CAPITAL INCREASE WITH OR WITHOUT PRE-EMPTIVE SUBSCRIPTION RIGHTS

Having reviewed the Board of Directors' report and the Statutory Auditors' special report and in accordance with the law and regulations governing commercial companies and in particular Article L.225-135-1 of the French Commercial Code, the shareholders:

1. authorize the Board of Directors, for a period of twenty-six (26) months as from the date of this Meeting, with authority to delegate under the terms provided by law, to decide to increase the number of shares and/or securities to be issued in the event of a share capital increase, with or without pre-emptive subscription rights, decided by the Board of Directors on the basis of the seventh and eighth resolutions of this Meeting, at the same price as that decided for the initial issue, within the time period and the limits provided for by the regulations in force as at the date of the issue (currently, within thirty days of the end of the subscription period and within the limit of 15% of the initial offer), in particular with a view to granting a greenshoe option in accordance with market practices;

2. resolve that the total nominal amount of capital increases decided within the scope of this resolution will be deducted from the ceiling provided for in the resolution pursuant to which the issue is decided;
3. record that, as of the date hereof, this authorization cancels, where applicable, the as yet unused part of the authorization given by the Ordinary and Extraordinary Shareholders' Meeting of May 29, 2008 in the thirteenth resolution;
4. record that in the event that the Board of Directors were to use this authorization it will report to the next Ordinary Shareholders' Meeting, in accordance with the law and regulations and in particular with Article L.225-129-5 of the French Commercial Code, on the use made thereof.

ELEVENTH RESOLUTION

AUTHORIZATION TO BE GIVEN TO THE BOARD OF DIRECTORS TO ISSUE SHARES IN THE COMPANY AND/OR SECURITIES GIVING ACCESS TO SHARES IN THE COMPANY, IN THE EVENT OF A PUBLIC OFFERING WITH A SHARE EXCHANGE COMPONENT INITIATED BY THE COMPANY

Having reviewed the Board of Directors' report and the Statutory Auditors' special report and in accordance with the law and regulations governing commercial companies and in particular Articles L.225-129-2, L.225-148 and L.228-92 of the French Commercial Code, the shareholders:

1. authorize the Board of Directors, for a period of twenty-six (26) months as from the date of this Meeting to decide, on the basis and under the conditions of the eighth resolution submitted to this Meeting, to issue shares in the Company and/or securities giving access, by any means immediately or in the future, to shares in the Company, in consideration for securities tendered by the Company in a public offering with a share exchange component initiated by the Company, in France or in other countries, in accordance with local laws, for the securities of another listed company on one of the regulated markets referred to in the above-mentioned Article L.225-148, and decide, as necessary, to cancel shareholders' pre-emptive subscription rights to these shares and securities in favor of the holders of such securities;
2. record that, in accordance with the provisions of Article L.225-132 of the French Commercial Code, this authorization automatically entails the waiver by shareholders of their pre-emptive subscription rights to the shares to which the securities issued on the basis of this resolution confer a right;
3. resolve that the maximum nominal amount of capital increases, immediately or in the future, resulting from all issues carried out pursuant to this authorization may not exceed €1,500,000, it being specified that this amount is deducted from the ceiling provided for by the eighth resolution submitted to this Meeting and that it does not include the nominal value of Company shares that may be issued in respect of adjustments made in accordance with the law and, where applicable, with contractual provisions to protect the holders of rights attached to securities giving access to Company shares;
4. resolve that the Board of Directors will have full powers to implement the public offerings referred to in this resolution and, in particular, to:
 - set the exchange ratio and, where applicable, the amount of the cash adjustment to be paid;
 - record the number of securities tendered in the exchange;
 - determine the dates and terms and conditions of the issue, in particular the price and dividend entitlement date (which may be retrospective) of new shares or, where applicable, of securities giving access, immediately or in the future, to shares in the Company;
 - record the difference between the issue price of the new shares and their par value in a "contribution premium" account in the balance sheet liabilities, to which all shareholders shall have rights;
 - deduct, where applicable, from said "contribution premium" account, all of the costs and taxes generated by the transaction in question; and
 - in general, make all appropriate arrangements and enter into all agreements in order to complete the planned transactions satisfactorily, record the increase(s) in capital resulting from each issue and make any correlative amendment to the bylaws;

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5. authorize the Board of Directors, within the limits already set, to delegate to the Chief Executive Officer or, with the approval of the Chief Executive Officer, to one or more Senior Vice-Presidents, the authority granted to it within the scope of this resolution;
6. record that, as of the date hereof, this authorization cancels, where applicable, the as yet unused part of the authorization given by the Ordinary and Extraordinary Shareholders' Meeting of May 29, 2008 in the fourteenth resolution;
7. record that in the event that the Board of Directors were to use this delegation of authority it will report to the next Ordinary Shareholders' Meeting, in accordance with the law and regulations and in particular with Article L.225-129-5 of the French Commercial Code, on the use made thereof.

TWELFTH RESOLUTION

AUTHORIZATION TO BE GIVEN TO THE BOARD OF DIRECTORS TO ISSUE SHARES IN THE COMPANY AND/OR SECURITIES GIVING ACCESS TO SHARES IN THE COMPANY, IN CONSIDERATION OF IN-KIND CONTRIBUTIONS GRANTED TO THE COMPANY AND CONSISTING OF SHARES OR SECURITIES GIVING ACCESS TO SHARES

Having reviewed the Board of Directors' report and the Statutory Auditors' special report and in accordance with the law and regulations governing commercial companies and in particular Articles L.225-147 and L.228-92 of the French Commercial Code, the shareholders:

1. authorize the Board of Directors, for a period of twenty-six (26) months as from the date of this Meeting, to issue, based on the report of the contribution auditor(s) referred to in paragraphs 1 and 2 of the above-mentioned Article L.225-147, shares in the Company or securities giving access, by any means, immediately or in the future, to shares in the Company, in consideration of in-kind contributions granted to the Company and consisting of shares or securities giving access to shares, where the provisions of Article L.225-148 of the French Commercial Code do not apply;
2. resolve, where necessary, to cancel shareholders' pre-emptive subscription rights to the shares and securities thus issued in favor of the holders of the shares or securities granted as in-kind contributions;
3. resolve that the maximum nominal amount of capital increases, immediately or in the future, resulting from all issues carried out pursuant to this authorization may not exceed 10% of the Company's capital (as of the date of this Meeting), it being specified that the maximum nominal amount resulting from this capital increase is deducted from the ceiling provided for by the eighth resolution and that it does not include the nominal value of Company shares that may be issued in respect of adjustments made in accordance with the law and, where applicable, with contractual provisions to protect the holders of rights attached to the securities giving access to such Company shares;
4. record that, in accordance with Article L.225-132 of the French Commercial Code, this authorization entails the waiver by shareholders of their pre-emptive subscription rights to shares to which the securities issued on the basis of this authorization may confer a right;
5. resolve that the Board of Directors will have full powers to implement this resolution, in particular to decide on the list of shares or securities giving access to shares contributed to the Company, set the conditions for issue, decide, on the basis of the report of the contribution auditor(s) referred to in paragraphs 1 and 2 of Article L.225-147 of the French Commercial Code, on the valuation of the contributions and the granting of specific advantages, record the completion of the capital increases performed pursuant to this authorization, amend the bylaws accordingly, perform any and all formalities and filings and request any authorizations that may prove necessary for the performance and satisfactory completion of the contributions;
6. authorize the Board of Directors, within the limits it will have set, to delegate to the Chief Executive Officer or, with the approval of the Chief Executive Officer, to one or more Senior Vice-Presidents, the authority granted to it within the scope of this resolution;
7. record that as of the date hereof this authorization cancels, where applicable, the as yet unused part of the authorization given by the Ordinary and Extraordinary Shareholders' Meeting of May 29, 2008 in the fifteenth resolution;

8. record that in the event that the Board of Directors were to use this delegation of authority it will report to the next Ordinary Shareholders' Meeting, in accordance with the law and regulations and in particular with Article L.225-129-5 of the French Commercial Code, on the use made thereof.

THIRTEENTH RESOLUTION

AUTHORIZATION TO BE GIVEN TO THE BOARD OF DIRECTORS TO ISSUE SHARES OF THE COMPANY RESERVED FOR MEMBERS OF AN EMPLOYEE SAVINGS SCHEME WITHIN THE SCOPE OF THE PROVISIONS OF THE FRENCH COMMERCIAL CODE AND ARTICLES L.3332-18 *ET SEQ.* OF THE FRENCH LABOR CODE

Having reviewed the Board of Directors' report and the Statutory Auditors' special report and in accordance with the law and regulations governing commercial companies and in particular Articles L.225-129-2, L.225-129-6 and L.225-138-1 of the French Commercial Code and Articles L.3332-18 *et seq.* of the French Labor Code, the shareholders:

1. authorize the Board of Directors, with authority to delegate under the terms provided by law, to issue, at its discretion, on one or several occasions and to the extent and at the times that it deems appropriate, in France or in other countries, new shares reserved for employees of the Company and/or companies related to the Company within the meaning of Article L.225-180 of the French Commercial Code and Articles L.3344-1 and 3344-2 of the French Labor Code, who are members of an employee savings scheme. Employees may subscribe for these shares directly or through a corporate mutual fund;
2. cancel, in favor of the above-mentioned employees, shareholders' pre-emptive rights to subscribe for shares that may be issued pursuant to this authorization and waive any and all rights to free shares that may be granted on the basis of this resolution;
3. resolve that the beneficiaries of such capital increases will be members of savings schemes of the Company or companies related to it within the meaning of Article L.225-180 of the French Commercial Code and Article L.3332-18 of the French Labor Code, who fulfill any conditions that may have been laid down by the Board of Directors;
4. resolve that the maximum nominal amount of shares that may be issued pursuant to this authorization may not exceed €100,000, and that this ceiling does not include any adjustments that may be made in accordance with the law and, where applicable, with contractual provisions, to protect the rights of holders of securities giving access to the capital;
5. resolve that the price of shares and/or securities issued pursuant to this authorization will be determined in accordance with the conditions provided for by Article L.3332-18 of the French Labor Code, it being specified that the maximum discount may not exceed 20% of the average opening market price of the Company's shares over the 20 trading sessions immediately preceding the date of the decision setting the subscription period. However, at the time of implementation of this authorization, the Board of Directors may reduce the amount of the discount on a case by case basis due to tax, social security or accounting constraints applicable in certain countries in which the entities of the Group participating in the share capital transactions are located. The Board of Directors may also decide to grant free shares to persons subscribing to the new shares, in substitution for the discount and/or by way of a company contribution;
6. resolve that the Board of Directors will have full powers, with authority to delegate such powers under the terms provided by law, to implement this authorization, within the limits and under the conditions specified above and in particular to:
 - draw up the list of companies whose employees and former employees qualify for the issue, set the conditions, in particular length-of-service conditions, that beneficiaries must meet in order to subscribe, individually or through a corporate mutual fund, to shares that will be issued pursuant to this authorization;
 - set the amounts of the issues and determine the prices, dates, timescales and terms and conditions of each issue and the conditions under which the shares issued pursuant to this authorization will be subscribed, paid up and delivered as well as the dividend entitlement date (which may be retroactive) of the new shares;

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- decide, pursuant to Article L.3332-18 of the French Labor Code, to grant newly issued or existing shares by way of company contribution, and/or, where appropriate, in substitution for the discount, provided that when the equivalent pecuniary value (assessed at the subscription price) is taken into account, it does not have the effect of exceeding the limits provided for in Articles L.3332-18 and L.332-11 *et seq.* of the French Labor Code;
 - set the time period for the payment of subscriptions²;
 - formally record or have recorded the completion of the capital increase for the amount of the shares that are effectively subscribed;
 - at its own initiative, deduct the costs of the capital increase(s) from the amount of the share premiums related to such transactions and deduct from this amount the sums required to increase the legal reserve to one-tenth of the share capital after each capital increase; and
 - in general, take all measures and carry out all formalities required for the issue and the listing of the shares issued pursuant to this authorization;
7. resolve that this authorization is valid for a period of twenty-six (26) months as from the date of this Meeting.

FOURTEENTH RESOLUTION

AUTHORIZATION TO BE GIVEN TO THE BOARD OF DIRECTORS TO REDUCE THE SHARE CAPITAL BY CANCELING TREASURY SHARES

Having reviewed the Board of Directors' report and the Statutory Auditors' special report, the shareholders:

1. authorize the Board of Directors to reduce the share capital, on one or several occasions and to the extent and at such time as it deems appropriate, by canceling all or part of the Company's shares acquired within the scope of the share buyback program authorized under the sixth resolution of this Annual Shareholders' Meeting;
2. set the maximum number of shares that may be canceled by the Company pursuant to this authorization, over a twenty-four (24) month period, at ten per cent (10%) of the shares making up the Company's capital, it being specified that this limit applies to a portion of the Company's capital that will, where applicable, be adjusted to take into account transactions with respect to the capital carried out after this Annual Shareholders' Meeting;
3. record that, as of the date hereof, this authorization cancels, where applicable, the as yet unused part of the authorization given by the Ordinary and Extraordinary Shareholders' Meeting of June 23, 2009 in the twenty-eighth resolution;
4. set the duration of this authorization at eighteen (18) months as from the date of this Annual Shareholders' Meeting;
5. grant full powers to the Board of Directors, with authority to delegate such powers, to cancel treasury shares and reduce the share capital pursuant to this authorization, to amend the bylaws accordingly and to perform any and all formalities.

FIFTEENTH RESOLUTION

POWERS

The shareholders grant full powers to a bearer of an original, extract or copy of the minutes of this Meeting to carry out any and all filing, publication and other formalities that may be required.

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