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<b>CONSOLIDATED INCOME STATEMENT</b>
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(in €thousands)	Note	2009	2008
<b>Revenues .....</b>	4	<b>1,954,500</b>	<b>1,565,035</b>
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)
<b>Earnings before interest, tax, depreciation and amortization (EBITDA)</b>		<b>661,375</b>	<b>524,738</b>
Share-based payment expense.....	27	(7,281)	(5,388)
Depreciation, amortization and provisions for impairment of non-current assets.....	9	(294,741)	(316,374)
<b>Profit from ordinary activities.....</b>		<b>359,353</b>	<b>202,976</b>
Other operating income.....	10	5,984	0
Other operating expenses.....	10	(32,475)	(30,684)
<b>Operating profit .....</b>		<b>332,862</b>	<b>172,292</b>
Income from cash and cash equivalents.....	11	5,613	13,718
Finance costs, gross.....	11	(56,346)	(33,628)
<b>Finance costs, net.....</b>	11	<b>(50,733)</b>	<b>(19,910)</b>
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.....		<b>174,858</b>	<b>100,465</b>
Profit/(loss), net of taxes, from discontinued operations.....	13	1,010	(66)
<b>PROFIT FOR THE PERIOD</b>		<b>175,868</b>	<b>100,399</b>
<i>Attributable to:</i>			
▪ Owners of the Company		<b>175,663</b>	<b>100,255</b>
▪ Minority interests		<b>205</b>	<b>144</b>
<i>Earnings per share (in €):</i>			
▪ Basic earnings per share	14	<b>3.23</b>	<b>1.85</b>
▪ Diluted earnings per share	14	<b>3.17</b>	<b>1.84</b>
<i>Earnings per share from continuing operations (in €):</i>			
▪ Basic earnings per share from continuing operations.	14	<b>3.21</b>	<b>1.85</b>
▪ Diluted earnings per share from continuing operations.	14	<b>3.16</b>	<b>1.84</b>

<b>CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME</b>
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(in €thousands)	Note	2009	2008
<b>PROFIT FOR THE PERIOD.....</b>		<b>175,868</b>	<b>100,399</b>
<ul style="list-style-type: none"> <li>▪ Fair value gains/(losses) on interest rate and currency hedging instruments, net of tax</li> </ul>		(3,810)	(10,038)
<b>Total income and expenses recognized directly in equity.....</b>		<b>(3,810)</b>	<b>(10,038)</b>
Total comprehensive income for the period.....		<b>172,058</b>	<b>90,361</b>

Note: Minority interests have not been analyzed as they represent a non-material amount.

<b>CONSOLIDATED BALANCE SHEET – ASSETS</b>
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(in €thousands)	Note	At December 31, 2009	At December 31, 2008
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
<b>TOTAL NON-CURRENT ASSETS.....</b>		<b>1,602,971</b>	<b>1,544,991</b>
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
<b>TOTAL CURRENT ASSETS .....</b>		<b>820,768</b>	<b>695,228</b>
<b>ASSETS HELD FOR SALE .....</b>	<b>25</b>	<b>31,509</b>	<b>16,790</b>
<b>TOTAL ASSETS .....</b>		<b>2,455,248</b>	<b>2,257,009</b>

<b>CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES</b>
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(in € thousands)	Note	At December 31, 2009	At December 31, 2008
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
<b>TOTAL EQUITY .....</b>		<b>764,410</b>	<b>597,548</b>
<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
<b>TOTAL NON-CURRENT LIABILITIES .....</b>		<b>1,140,473</b>	<b>1,227,803</b>
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
<b>TOTAL CURRENT LIABILITIES .....</b>		<b>550,365</b>	<b>431,658</b>
<b>TOTAL EQUITY AND LIABILITIES .....</b>		<b>2,455,248</b>	<b>2,257,009</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in € thousands)	Share capital	Additional paid-in capital	Own shares held	Reserves	Retained earnings	Total equity
<b>Total equity at January 1, 2008</b>	<b>12,000</b>	<b>84,624</b>	<b>(1,987)</b>	<b>25,132</b>	<b>396,924</b>	<b>516,693</b>
<b><u>Movements in 2008</u></b>						
▪ 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)
<b><i>Total income and expenses recognized in equity</i></b>				<b>(10,038)</b>	<b>100,399</b>	<b>90,361</b>
▪ 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
<b>Total equity at December 31, 2008</b>	<b>12,062</b>	<b>89,121</b>	<b>(4,589)</b>	<b>20,494</b>	<b>480,460</b>	<b>597,548</b>

<b>Total equity at January 1, 2009</b>	<b>12,062</b>	<b>89,121</b>	<b>(4,589)</b>	<b>20,494</b>	<b>480,460</b>	<b>597,548</b>
<b><u>Movements in 2009</u></b>						
▪ 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)
<b><i>Total income and expenses recognized in equity</i></b>				<b>(3,810)</b>	<b>175,868</b>	<b>172,058</b>
▪ 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)
<b>Total equity at December 31, 2009</b>	<b>12,096</b>	<b>93,362</b>	<b>(2,750)</b>	<b>23,908</b>	<b>637,794</b>	<b>764,410</b>

Note: Minority interests have not been analyzed as they represent a non-material amount.

<b>CONSOLIDATED STATEMENT OF CASH FLOWS</b>
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(in € thousands)	Note	2009	2008
<b>Profit for the period</b> (including minority interests)		<b>175,868</b>	<b>100,399</b>
+ / - 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	
<b>Cash flows from operations after finance costs, net, and income tax (excluding restructuring costs)</b>		<b>483,389</b>	<b>445,435</b>
+ Finance costs, net	11	50,733	19,910
+ / - Income tax expense (including deferred taxes)	12	108,995	52,305
<b>Cash flows from operations before finance costs, net, and income tax (excluding restructuring costs) (A)</b>		<b>643,117</b>	<b>517,650</b>
- <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
<b>= Net cash generated from operating activities before restructuring costs (D) = (A + B + C)</b>		<b>734,250</b>	<b>474,221</b>
- Restructuring costs (E)		(26,293)	0
<b>= Net cash generated from operating activities after restructuring costs (F) = (D) + (E)</b>		<b>707,957</b>	<b>474,221</b>
- 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
<b>= Net cash used in investing activities (G)</b>		<b>(397,862)</b>	<b>(1,159,242)</b>
+ 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		(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)
<b>= Net cash generated from (used in) financing activities (H)</b>		<b>(17,136)</b>	<b>799,371</b>
+ / - Effect of exchange-rate movements on cash and cash equivalents (I)		(2)	2
<b>= Net change in cash and cash equivalents (F + G + H + I)</b>		<b>292,957</b>	<b>114,352</b>
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

**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.

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.
- *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.

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.

### ***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.

### ***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.

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.

### ***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.

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.

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.

**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.

<b>NOTE 6: HUMAN RESOURCES DATA</b>
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### Payroll costs

Payroll costs break down as follows:

(in €thousands)	2009	2008
▪ Wages and salaries	79,371	57,288
▪ Payroll taxes	29,209	22,525
<b>Total</b>	<b>108,580</b>	<b>79,813</b>

### Number of employees at year-end

The Iliad Group's headcount can be analyzed as follows by category:

	At Dec. 31, 2009	At Dec. 31, 2008
▪ Management	514	624
▪ Other	3,538	3,574
<b>Total</b>	<b>4,052</b>	<b>4,198</b>

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.

The following main economic assumptions were used to measure the Group's post-employment benefit obligation at December 31, 2009 and 2008:

	2008	2009
▪ Discount rate	5.70%	5%
▪ Inflation rate	2%	2%
▪ Salary growth rate	3%	3%

<b>NOTE 7: DEVELOPMENT COSTS</b>
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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).

(in €thousands)	2009	2008
<ul style="list-style-type: none"> <li>▪ Amortization of capitalized development costs</li> <li>▪ Development costs recognized directly in the income statement</li> </ul>	<p>1,660</p> <p>260</p>	<p>1,477</p> <p>438</p>
<b>Total</b>	<b>1,920</b>	<b>1,915</b>

<b>NOTE 8: OTHER INCOME AND EXPENSES FROM OPERATIONS</b>
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"Other income from operations" breaks down as follows:

(in €thousands)	2009	2008
. Proceeds from sales of non-current assets	8,728	14,317
. Other	9,569	13,160
<b>Total other income from operations</b>	<b>18,297</b>	<b>27,477</b>

“Other expenses from operations” can be analyzed as follows:

(in €thousands)	2009	2008
. 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)
<b>Total other expenses from operations</b>	<b>(56,366)</b>	<b>(43,884)</b>

#### 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.

<b>NOTE 9: DEPRECIATION, AMORTIZATION AND PROVISIONS</b>
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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**

(in €thousands)	2009	2008
<ul style="list-style-type: none"> <li>▪ Depreciation and amortization expense:               <ul style="list-style-type: none"> <li>. Intangible assets</li> <li>. Property, plant and equipment</li> </ul> </li> <li>▪ Provisions for impairment in value of property, plant and equipment</li> <li>▪ Amortization of investment grants recognized as intangible assets</li> </ul>	15,567 278,631 1,001 (458)	17,315 299,872 (796) (17)
<b>Total</b>	<b>294,741</b>	<b>316,374</b>

**Additions to other provisions**

(in €thousands)	2009	2008
<ul style="list-style-type: none"> <li>▪ Provisions for contingencies and charges</li> <li>▪ Provisions for impairment in value of inventories and trade receivables</li> </ul>	(1,650) 30,940	4,406 20,795
<b>Total</b>	<b>29,290</b>	<b>25,201</b>

**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.

<b>NOTE 10: OTHER OPERATING INCOME AND EXPENSES</b>
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This item breaks down as follows:

(in €thousands)	2009	2008
▪ Other operating income	5,984	0
▪ Other operating expenses	(32,475)	(30,684)
<b>Other operating expense, net</b>	<b>(26,491)</b>	<b>(30,684)</b>

### 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.

<b>NOTE 11: FINANCIAL INCOME AND EXPENSES</b>
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Financial income and expenses can be analyzed as follows:

(in €thousands)	2009	2008
▪ Income from cash and cash equivalents	5,613	13,718
▪ Finance costs, gross	(56,346)	(33,628)
<b>Finance costs, net</b>	<b>(50,733)</b>	<b>(19,910)</b>
▪ Other financial income and expenses		
. Translation adjustments	148	581
. Other	1,576	(193)
<b>Net financial expense</b>	<b>(49,009)</b>	<b>(19,522)</b>

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.

<b>NOTE 12: CORPORATE INCOME TAX</b>
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*Analysis of the corporate income tax charge*

The corporate income tax charge breaks down as follows:

(in €thousands)	2009	2008
Current taxes		
▪ on income	(15,773)	(43,722)
Deferred taxes		
▪ on income	107,979	96,027
▪ on value added (CVAE)	16,789	0
<b>Total tax charge</b>	<b>108,995</b>	<b>52,305</b>

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.
- 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.

	<b>2009</b>	<b>2008</b>
<b>Profit for the period</b>	<b>175,868</b>	<b>100,399</b>
<ul style="list-style-type: none"> <li>▪ Corporate income tax</li> <li>▪ Profit/(loss), net of taxes, from discontinued operations</li> </ul>	108,995 (1,010)	52,305 66
<b>Consolidated profit from continuing operations before tax</b>	<b>283,853</b>	<b>152,770</b>
<b><i>Theoretical tax rate</i></b>	<b>34.43%</b>	<b>34.43%</b>
<ul style="list-style-type: none"> <li>▪ CVAE impact</li> <li>▪ Net impact of permanent differences</li> <li>▪ Impact of unrecognized tax loss carryforwards</li> <li>▪ Impact of different tax rates</li> <li>▪ Other impacts</li> </ul>	+3.88% -0.37% +0.06% +0.01% +0.39%	0% +0.47% 0% - 1.09% +0.43%
<b><i>Effective tax rate</i></b>	<b>38.40%</b>	<b>34.24%</b>

## 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:

(in €thousands)	At Dec. 31, 2009	At Dec. 31, 2008
▪ Temporary differences	0	0
▪ Tax loss carryforwards	3,792	3,756
▪ Consolidation entries	29	7
<b>Total</b>	<b>3,821</b>	<b>3,763</b>

**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.

**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 €6,000 on the sale of Intercall.

<b>NOTE 14: BASIC AND DILUTED EARNINGS PER SHARE</b>
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**Basic earnings per share**

<b>Number of shares used for the calculation</b>	<b>2009</b>	<b>2008</b>
▪ 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**

<b>Number of shares used for the calculation</b>	<b>2009</b>	<b>2008</b>
▪ 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
<b>Maximum weighted average number of shares after dilution</b>	<b>58,395,034</b>	<b>54,512,094</b>

<b>NOTE 15: NOTES TO THE STATEMENT OF CASH FLOWS</b>
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## 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:

2009	Note	Balance at Jan. 1, 2009	Net debits	Net credits	Changes in Group structure (1)	Other	Balance at Dec. 31, 2009
▪ 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
<b>TOTAL</b>		<b>(79,877)</b>	<b>29,318</b>	<b>(21,708)</b>	<b>(251)</b>	<b>(15,575)</b>	<b>(88,093)</b>
<b>Change in operating working capital requirement in 2009</b>			<b>7,610</b>				

(1) 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).

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.

2008	Note	Balance at Jan. 1, 2008	Net debits	Net credits	Changes in Group structure	Other	Balance at Dec. 31, 2008
▪ 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
<b>TOTAL</b>		<b>(38,994)</b>	<b>10,325</b>	<b>(31,264)</b>	<b>(16,935)</b>	<b>(3,009)</b>	<b>(79,877)</b>
<b>Change in operating working capital requirement in 2008</b>			<b>(20,939)</b>				

## Other receivables

This item can be analyzed as follows:

	Note	Dec. 31, 2009	Dec. 31, 2008
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)
<b>Recognized in statement of cash flows</b>		<b>78,659</b>	<b>81,159</b>

## Other payables

This item can be analyzed as follows:

	Note	Dec. 31, 2009	Dec. 31, 2008
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)
<b>Recognized in statement of cash flows</b>		<b>77,998</b>	<b>84,502</b>

## Acquisitions of non-current assets

Acquisitions of non-current assets can be analyzed as follows:

	Note	2009	2008
▪ 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		<b>90,347</b>	<b>64,277</b>
. impact of changes in Group structure (1)		<b>11,109</b>	<b>28,108</b>
. at year-end		<b>(93,498)</b>	<b>(90,347)</b>
<b>Recognized in statement of cash flows</b>		<b>428,325</b>	<b>395,790</b>

(1) 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).

## 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
<b>Sub-total</b>		<b>633,901</b>	<b>335,733</b>
Bank borrowing facilities	29	(2,101)	(261)
Remeasurement of currency hedges	34	(1,402)	1,969
<b>Total</b>		<b>630,398</b>	<b>337,441</b>

## 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.

(in €thousands)	2009	2008
▪ 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.

## Analysis of the consolidated income statement by operating segment

2009	Broadband	Traditional Telephony	Inter- segment	Total
<b>Revenues</b>				
External revenues	1,938,280	16,220		<b>1,954,500</b>
Inter-segment revenues	5,159	23,964	(29,123)	<b>0</b>
Total revenues	1,943,439	40,184	(29,123)	<b>1,954,500</b>
<b>Earnings</b>				
EBITDA	661,142	233	0	<b>661,375</b>
Share-based payment expense	6,061	1,220	0	<b>7,281</b>
Depreciation, amortization and provisions for impairment of non-current assets	294,603	138	0	<b>294,741</b>
Profit/(loss) from ordinary activities	360,478	(1,125)	0	<b>359,353</b>

2008	Broadband	Traditional Telephony	Inter- segment	Total
<b>Revenues</b>				
External revenues	1,533,274	31,761		<b>1,565,035</b>
Inter-segment revenues	7,519	24,890	(32,409)	<b>0</b>
Total revenues	1,540,793	56,651	(32,409)	<b>1,565,035</b>
<b>Earnings</b>				
EBITDA	521,522	3,216	0	<b>524,738</b>
Share-based payment expense	4,572	816	0	<b>5,388</b>
Depreciation, amortization and provisions for impairment of non-current assets	316,200	174	0	<b>316,374</b>
Profit from ordinary activities	200,750	2,226	0	<b>202,976</b>

## Capital expenditure by operating segment

2009	Broadband	Traditional Telephony	Inter- segment	Total
Intangible assets	1,960	13	0	<b>1,973</b>
Property, plant and equipment	426,242	110	0	<b>426,352</b>
<b>2008</b>				
Intangible assets	4,282	10	0	<b>4,292</b>
Property, plant and equipment	391,350	148	0	<b>391,498</b>

## Employee numbers by operating segment

2009	Broadband	Traditional Telephony	Inter- segment	Total
Number of employees at year-end	3,991	61	0	<b>4,052</b>
<b>2008</b>				
Number of employees at year-end	4,143	55	0	<b>4,198</b>

## Analysis of consolidated assets by operating segment

<b>At December 31, 2009</b>	<b>Broadband</b>	<b>Traditional Telephony</b>	<b>Total</b>
<b>Non-current assets</b> (excl. taxes)	<b>1,386,248</b>	<b>8,078</b>	<b>1,394,326</b>
<b>Current assets</b> (excl. cash and cash equivalents and current income tax assets)	<b>200,071</b>	<b>17,197</b>	<b>217,268</b>
Inventories	719	0	<b>719</b>
Trade and other receivables	167,827	17,197	<b>185,024</b>
Other short-term financial assets	16	0	<b>16</b>
Assets held for sale	31,509	0	<b>31,509</b>
<b>Cash and cash equivalents</b>			<b>633,901</b>

<b>At December 31, 2008</b>	<b>Broadband</b>	<b>Traditional Telephony</b>	<b>Total</b>
<b>Non-current assets</b> (excl. deferred taxes)	<b>1,252,139</b>	<b>1,705</b>	<b>1,253,844</b>
<b>Current assets</b> (excl. cash and cash equivalents)	<b>219,185</b>	<b>56,376</b>	<b>275,561</b>
Inventories	1,665	0	<b>1,665</b>
Trade and other receivables	200,730	56,376	<b>257,106</b>
Other short-term financial assets	0	0	<b>0</b>
Assets held for sale	16,790	0	<b>16,790</b>
<b>Cash and cash equivalents</b>			<b>335,733</b>

### **Analysis of consolidated equity and liabilities by operating segment (excluding OCEANE convertible bonds)**

<b>At December 31, 2009</b>	<b>Broadband</b>	<b>Traditional Telephony</b>	<b>Total</b>
<b>Non-current liabilities</b> (excl. deferred taxes)	<b>807,286</b>	<b>676</b>	<b>807,962</b>
Long-term provisions	1,003	394	<b>1,397</b>
Long-term financial liabilities	804,352	44	<b>804,396</b>
Other non-current liabilities	1,931	238	<b>2,169</b>
<b>Current liabilities</b> (excl. taxes payable)	<b>523,066</b>	<b>19,866</b>	<b>542,932</b>
Short-term provisions	8,810	70	<b>8,880</b>
Trade and other payables	344,104	18,562	<b>362,666</b>
Short-term financial liabilities	170,152	1,234	<b>171,386</b>

<b>At December 31, 2008</b>	<b>Broadband</b>	<b>Traditional Telephony</b>	<b>Total</b>
<b>Non-current liabilities</b> (excl. deferred taxes)	<b>898,589</b>	<b>1,175</b>	<b>899,764</b>
Long-term provisions	746	401	<b>1,147</b>
Long-term financial liabilities	889,588	44	<b>889,632</b>
Other non-current liabilities	8,255	730	<b>8,985</b>
<b>Current liabilities</b> (excl. taxes payable)	<b>407,373</b>	<b>16,870</b>	<b>424,243</b>
Short-term provisions	33,624	37	<b>33,661</b>
Trade and other payables	361,705	16,702	<b>378,407</b>
Short-term financial liabilities	12,044	131	<b>12,175</b>

<b>NOTE 17: GOODWILL</b>
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The main movements in goodwill in 2009 and 2008 were as follows:

(in €thousands)	2009	2008
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 (1):		
▪ Free	48,566	0
<b>Carrying amount at Dec. 31</b>	<b>214,048</b>	<b>164,835</b>

(1) 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).

### 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.

<b>NOTE 18: INTANGIBLE ASSETS</b>
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Intangible assets break down as follows:

(in €thousands)	At December 31, 2009			At December 31, 2008		
	Gross	Amortization	Net	Gross	Amortization	Net
<b>Acquisitions:</b>						
▪ Development costs	139	139	0	154	51	103
▪ Wimax license (1)	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
<b>Internally-generated intangible assets:</b>						
▪ Development costs	3,380	1,485	1,895	3,042	1,313	1,729
▪ Other				0	0	0
<b>Total</b>	<b>89,060</b>	<b>8,769</b>	<b>80,291</b>	<b>105,888</b>	<b>17,891</b>	<b>87,997</b>

(1) 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.

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)
<b>Net at Dec. 31</b>	<b>80,291</b>	<b>87,997</b>

**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.

**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.

<b>NOTE 20: PROPERTY, PLANT AND EQUIPMENT</b>
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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 (1)	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 (2)	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
<b>Total</b>	<b>2,025,905</b>	<b>938,435</b>	<b>1,087,470</b>	<b>1,665,179</b>	<b>668,638</b>	<b>996,541</b>
(1) of which finance leases	39,029	27	39,002	24,127	0	24,127
(2) 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 (1)	(64,992)	218,170
Reclassifications	(5,951)	0
Depreciation	(279,632)	(299,076)
<b>Net at Dec. 31</b>	<b>1,087,470</b>	<b>996,541</b>
(*) Acquisitions excluding assets acquired under finance leases	418,394	389,460

(1) 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).

### 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.

### 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:

(in €thousands)	At December 31, 2009	At December 31, 2008
▪ Land and buildings	56,631	32,915
▪ Network usage rights	9,934	9,985
▪ Network equipment	191,863	127,037
<b>Total</b>	<b>258,428</b>	<b>169,937</b>

<b>NOTE 21: OTHER FINANCIAL ASSETS</b>
--

Other financial assets break down as follows:

(in €thousands)	At December 31, 2009 Net	At December 31, 2008 Net
<b>Other long-term financial assets</b>		
▪ Loans	3,104	10
▪ Other investment securities	3,517	18
▪ Guarantees and deposits	5,896	4,443
<b>Total other long-term financial assets</b>	<b>12,517</b>	<b>4,471</b>
<b>Other short-term financial assets</b>		
▪ Loans	16	0
▪ Other	0	0
<b>Total other short-term financial assets</b>	<b>16</b>	<b>0</b>
<b>Total other financial assets</b>	<b>12,533</b>	<b>4,471</b>

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:

(in €thousands)	At December 31, 2009 Net	At December 31, 2008 Net
▪ 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
<b>Total other financial assets</b>	<b>12,533</b>	<b>4,471</b>

Changes in net other financial assets can be analyzed as follows:

(in € thousands)	2009	2008
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	375	(27)
<b>Net at Dec. 31</b>	<b>12,533</b>	<b>4,471</b>

### Comments on 2008 and 2009 data

Acquisitions and redemptions and repayments in 2008 and 2009 related to movements in guarantees and deposits paid.

<b>NOTE 22: INVENTORIES</b>
-----------------------------

Inventories break down as follows:

(in €thousands)	At December 31, 2009	At December 31, 2008
Raw materials	573	443
Work-in-progress	0	0
Finished products	687	1,810
<b>Inventories – gross</b>	<b>1,260</b>	<b>2,253</b>
Provisions:		
. raw materials	(521)	(410)
. finished products	(20)	(178)
<b>Total provisions</b>	<b>(541)</b>	<b>(588)</b>
<b>Inventories – net</b>	<b>719</b>	<b>1,665</b>

#### 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.

<b>NOTE 23: TRADE AND OTHER RECEIVABLES</b>
---

Trade and other receivables break down as follows:

(in €thousands)	At December 31, 2009	At December 31, 2008
<b>Trade and other receivables</b>		
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	16,129	14,537
<b>Total – gross</b>	<b>244,589</b>	<b>285,648</b>
Provisions for trade receivables	(58,340)	(27,317)
Provisions for other receivables	(1,225)	(1,225)
<b>Net trade and other receivables</b>	<b>185,024</b>	<b>257,106</b>
Net trade receivables	103,666	133,541
Net other receivables	81,358	123,565

<b>NOTE 24: CASH AND CASH EQUIVALENTS</b>
---

Cash and cash equivalents can be analyzed as follows:

(in €thousands)	At December 31, 2009		At December 31, 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Certificates of deposit <b>Net value</b>	<b>0</b>	<b>0</b>	<b>50,649</b>	<b>50,649</b>
Mutual funds (UCITs) <b>Net value</b>	<b>624,365</b>	<b>624,365</b>	<b>272,535</b>	<b>272,535</b>
<b>Cash</b>	<b>9,536</b>	<b>9,536</b>	<b>12,549</b>	<b>12,549</b>
<b>Total, net</b>	<b>633,901</b>	<b>633,901</b>	<b>335,733</b>	<b>335,733</b>

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).

<b>NOTE 25: ASSETS HELD FOR SALE</b>
--------------------------------------

Assets held for sale break down as follows:

(in €thousands)	At December 31, 2009	At December 31, 2008
Buildings held for sale	31,509	16,790
<b>Total</b>	<b>31,509</b>	<b>16,790</b>

### 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.

<b>NOTE 26: EQUITY</b>
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**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:

<b>Shareholder</b>	<b>Number of shares</b>	<b>%</b>
Executive Management	38,217,183	70.02
Public	16,366,257	29.98
<b>Total</b>	<b>54,583,440</b>	<b>100.00</b>

**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.

<b>NOTE 27: STOCK OPTION PLANS</b>
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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**

Date of Shareholders' Meeting	Date of plan launch	Exercise price (in €)	Number of options outstanding at Jan. 1, 2009	Number of options granted in 2009	Number of options cancelled in 2009	Number of options exercised in 2009	Number of options outstanding and exercisable at Dec. 31, 2009	Number of options not exercisable at Dec. 31, 2009
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**

Date of Shareholders' Meeting	Date of plan launch	Exercise price (in €)	Number of options outstanding at Jan. 1, 2008	Number of options granted in 2008	Number of options cancelled in 2008	Number of options exercised in 2008	Number of options outstanding and exercisable at Dec. 31, 2008	Number of options not exercisable at Dec. 31, 2008
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

### Exercise date of the options

The exercise terms and conditions applicable to the outstanding stock options are as follows:

Date of plan launch	Exercise terms and conditions
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:

	12/19/2005	12/19/2005	06/14/2007	08/30/2007	11/05/2008
Quantity	270,758	270,757	162,455	703,960	596,600
Exercise price	€18.44	€18.44	€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.

<b>NOTE 28: PROVISIONS</b>
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Provisions break down as follows:

(in € thousands)	At December 31, 2009	At December 31, 2008
<b>Long-term provisions</b>		
Provisions for charges	1,397	1,147
<b>Total long-term provisions</b>	<b>1,397</b>	<b>1,147</b>
<b>Short-term provisions</b>		
Provisions for contingencies	5,191	9,161
Provisions for charges (*)	3,689	24,500
<b>Total short-term provisions</b>	<b>8,880</b>	<b>33,661</b>
<b>Total provisions</b>	<b>10,277</b>	<b>34,808</b>

(\*) See Note 10

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:

(in € thousands)	At December 31, 2009	At December 31, 2008
Provisions for charges	5,086	25,647
Provisions for contingencies	5,191	9,161
<b>Total provisions for contingencies and charges</b>	<b>10,277</b>	<b>34,808</b>

Movements in provisions for contingencies and charges were as follows in 2009:

(in €thousands)	At Dec. 31, 2008	Increases in 2009	Decreases in 2009 (utilizations)	Decreases in 2009 (surplus provisions)	Changes in Group structure	Other movements (1)	At Dec. 31, 2009
Provisions for claims and litigation and general contingencies	9,161	1,156	(7,525)	(3,601)	0	6,000	5,191
Provisions for charges	25,647	5,383	(25,938)	(6)	0	0	5,086
<b>Total</b>	<b>34,808</b>	<b>6,539</b>	<b>(33,463)</b>	<b>(3,607)</b>	<b>0</b>	<b>6,000</b>	<b>10,277</b>

(1) Reclassifications to payables

Movements in provisions for contingencies and charges were as follows in 2008:

(in €thousands)	At Dec. 31, 2007	Increases in 2008	Decreases in 2008 (utilizations)	Decreases in 2008 (surplus provisions)	Changes in Group structure	Other movements (1)	At Dec. 31, 2008
Provisions for claims and litigation and general contingencies	1,152	4,483	(133)	(356)	4,015	0	9,161
Provisions for charges	1,416	24,779	(9)	0	466	(1,005)	25,647
<b>Total</b>	<b>2,568</b>	<b>29,262</b>	<b>(142)</b>	<b>(356)</b>	<b>4,481</b>	<b>(1,005)</b>	<b>34,808</b>

(1) Provisions recorded for pension and other post-employment benefit obligations were reclassified as long-term employee-related payables.

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:

(in €thousands)	2009	2008
Profit from ordinary activities	9,175	(4,273)
Operating profit	21,350	(24,500)
Financial income and expense, net	6	9
<b>Total</b>	<b>30,531</b>	<b>(28,764)</b>

<b>NOTE 29: FINANCIAL LIABILITIES</b>
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Financial liabilities can be analyzed as follows:

(in €thousands)	At December 31, 2009	At December 31, 2008
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	5,268	5,560
<b>Total long-term financial liabilities</b>	<b>1,120,118</b>	<b>1,198,324</b>
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	2,949	4,717
<b>Total short-term financial liabilities</b>	<b>178,660</b>	<b>19,449</b>
<b>Total</b>	<b>1,298,778</b>	<b>1,217,773</b>

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:

(in €thousands)	2009	2008
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
<b>Total borrowings at Dec. 31</b>	<b>1,298,778</b>	<b>1,217,773</b>

(*) 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.

### 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:

(in €thousands)	At December 31, 2009	At December 31, 2008
Fixed-rate borrowings	783,810	754,879
Variable-rate borrowings	514,968	462,894
<b>Total borrowings</b>	<b>1,298,778</b>	<b>1,217,773</b>

### Breakdown of borrowings by nature and maturity

The following table presents borrowings by nature and maturity at December 31, 2009:

(in €thousands)	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years	Total
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
<b>Total</b>	<b>178,660</b>	<b>1,098,545</b>	<b>21,573</b>	<b>1,298,778</b>

The following table presents borrowings by nature and maturity at December 31, 2008:

(in €thousands)	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years	Total
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
<b>Total</b>	<b>19,449</b>	<b>1,181,263</b>	<b>17,061</b>	<b>1,217,773</b>

### 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.

(in €thousands)	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years	Total
Future minimum lease payments	9,694	26,599	16,305	<b>52,598</b>
Present value	9,694	23,930	12,038	<b>45,662</b>

Present value is determined by applying a 4.80% discount rate.

<b>NOTE 30: TRADE AND OTHER PAYABLES</b>
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These items break down as follows:

(in €thousands)	At December 31, 2009	At December 31, 2008
<b>Trade and other payables recorded under other non-current liabilities</b>		
Trade payables	0	468
Accrued taxes and employee-related payables	1,569	602
Other payables	600	7,915
<b>Sub-total</b>	<b>2,169</b>	<b>8,985</b>
<b>Trade and other payables recorded under current liabilities</b>		
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
<b>Sub-total</b>	<b>362,666</b>	<b>378,407</b>
<b>Total</b>	<b>364,835</b>	<b>387,392</b>

Total trade payables can be analyzed as follows:

(in €thousands)	At December 31, 2009	At December 31, 2008
Suppliers of goods and services	193,138	211,740
Suppliers of non-current assets	101,338	100,416
<b>Total</b>	<b>294,476</b>	<b>312,156</b>

<b>NOTE 31: LEASE COMMITMENTS</b>
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Lease expenses recognized in the income statement break down as follows:

(in €thousands)	2009	2008
▪ Minimum lease payments	14,517	8,184
▪ Contingent lease payments	0	0
▪ Sub-leases	3,616	4,163
<b>Total</b>	<b>18,133</b>	<b>12,347</b>

The table below analyzes the Group's lease commitments at December 31, 2009 by type of asset and maturity.

(in €thousands) Type of leased asset	Due within 1 year	Due in 1 to 2 years	Due in 2 to 3 years	Due in 3 to 4 years	Due in 4 to 5 years	Due beyond 5 years	Total
Real estate	13,231	6,179	3,037	9	9	156	<b>22,621</b>
Vehicles	1,516	1,038	194	0	0	0	<b>2,748</b>
Equipment	1,350	528	440	372	317	1,489	<b>4,496</b>
<b>Total</b>	<b>16,097</b>	<b>7,745</b>	<b>3,671</b>	<b>381</b>	<b>326</b>	<b>1,645</b>	<b>29,865</b>

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.

<b>NOTE 32: RELATED-PARTY TRANSACTIONS</b>
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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:

(in €thousands)	2009	2008
▪ 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
<b>Total</b>	<b>5,526</b>	<b>4,513</b>

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.

<b>NOTE 33: FINANCIAL INSTRUMENTS</b>
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### 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
<b>At December 31, 2009</b>							
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 (1)
Other non-current liabilities					(2,169)	(2,169)	(2,169)
Other current liabilities					(362,666)	(362,666)	(362,666)
<b>Total carrying amount</b>	<b>633,918</b>	<b>3,500</b>	<b>(26,780)</b>	<b>194,040</b>	<b>(1,636,833)</b>	<b>(832,155)</b>	<b>N/A</b>

(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
<b>At December 31, 2008</b>							
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 (1)
Other non-current liabilities					(8,985)	(8,985)	(8,985)
Other current liabilities					(378,407)	(378,407)	(378,407)
<b>Total carrying amount</b>	<b>335,751</b>	<b>0</b>	<b>(21,323)</b>	<b>261,559</b>	<b>(1,583,842)</b>	<b>(1,007,855)</b>	<b>N/A</b>

(1) 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.

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.
- 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.

<b>NOTE 34: FINANCIAL RISK MANAGEMENT</b>
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**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

<b>At Dec. 31, 2009 (in € thousands)</b>	<b>Assets (a)</b>	<b>Liabilities (b)</b>	<b>Foreign currency commitment s (c)</b>	<b>Net position before hedging (d) = (a) – (b) +/- (c)</b>	<b>Hedging instruments (e)</b>	<b>Net position after hedging (f) = (d) – (e)</b>
US dollar	7,577	39,799	0	32,222	0	32,222
<b>Total</b>	<b>7,577</b>	<b>39,799</b>	<b>0</b>	<b>32,222</b>	<b>0</b>	<b>32,222</b>

### 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

### 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 €6,780,000.

Obligations under finance leases and equipment leasing arrangements amounted to €2.6 million at December 31, 2009 compared with €6.5 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.

(in €thousands)	Within 1 year	Between 1 and 5 years	Beyond 5 years
Financial liabilities	178,660	1,098,545	21,573
Financial assets	16	3,104	5,896
Net position before hedging	<b>178,644</b>	<b>1,095,441</b>	<b>15,677</b>
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)	<b>178,644</b>	<b>334,206</b>	<b>0</b>
Change in interest rate	<b>1%</b>	<b>1%</b>	<b>1%</b>
Average remaining life (in months)	<b>12</b>	<b>12</b>	<b>12</b>
Sensitivity (in €thousands)	<b>1,786</b>	<b>3,342</b>	<b>0</b>

### 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.

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:

	Applicable financial ratios	Consequence of breach	Actual ratios at December 31, 2009
€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 €62 million and provisions for doubtful receivables amounted to €8 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).

<b>NOTE 35: OFF BALANCE SHEET COMMITMENTS AND CONTINGENCIES</b>
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### Commitments given

The following table itemizes the commitments given by Iliad to third parties:

<b>Beneficiary</b>	<b>Amount (in € thousands)</b>	<b>Purpose</b>
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<sup>1</sup>; 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.

<sup>1</sup> POP (point of presence): physical site from which the operator can use an interconnection link to connect to the interconnect point of another operator

## **Commitments received**

At December 31, 2009, the Group had access to:

- A €50 million credit facility set up to finance the acquisition of Liberty Surf Group, of which €95.1 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 € 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.

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.

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 €40 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.

<b>NOTE 37: LIST OF CONSOLIDATED COMPANIES AT DECEMBER 31, 2009</b>
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	<b>Registration number</b>	<b>Head office</b>	<b>Percentage control at Dec. 31, 2009</b>	<b>Percentage control at Dec. 31, 2008</b>	<b>Percentage ownership at Dec. 31, 2009</b>	<b>Percentage ownership at Dec. 31, 2008</b>	<b>Consolidation method in 2009</b>
<b>ILIAD</b> 8 rue de la Ville l'Evêque 75008 Paris	342 376 332	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>ASSUNET</b> 8 rue de la Ville l'Evêque 75008 Paris	421 259 797	Paris	89.96%	89.96%	89.96%	89.96%	Full
<b>CENTRAPEL</b> 8 rue de la Ville l'Evêque 75008 Paris	434 130 860	Paris	99.98%	99.98%	99.98%	99.98%	Full
<b>CITEFIBRE</b> 8 rue de la Ville l'Evêque 75008 Paris	479 015 240	Paris	99.89%	99.78%	99.89%	99.78%	Full
<b>DEDIBOX</b> 8 rue de la Ville l'Evêque 75008 Paris	484 961 206	Paris	0%	90.00%	0%	90.00%	N.C.
<b>FREE</b> 8 rue de la Ville l'Evêque 75008 Paris	421 938 861	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>FREEBOX</b> 8 rue de la Ville l'Evêque 75008 Paris	433 910 616	Paris	96.86%	96.59%	96.86%	96.59%	Full
<b>FREE INFRASTRUCTURE</b> 8 rue de la Ville l'Evêque 75008 Paris	488 095 803	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>FREE MOBILE</b> 8 rue de la Ville l'Evêque 75008 Paris	499 247 138	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>IFW</b> 8 rue de la Ville l'Evêque 75008 Paris	400 089 942	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>IH</b> 8 rue de la Ville l'Evêque 75008 Paris	441 532 173	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>IMMOBILIERE ILIAD</b> 8 rue de la Ville l'Evêque 75008 Paris	501 194 419	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>IRE</b> 8 rue de la Ville l'Evêque 75008 Paris	489 741 645	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>KEDRA</b> 8 rue de la Ville l'Evêque 75008 Paris	439 597 857	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>ONLINE</b> 8 rue de la Ville l'Evêque 75008 Paris	433 115 904	Paris	95.18%	100.00%	95.18%	100.00%	Full
<b>ONE TEL</b> 8 rue de la Ville l'Evêque 75008 Paris	419 392 931	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>PROTELCO</b> 8 rue de la Ville l'Evêque 75008 Paris	509 760 948	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>TOTAL CALL</b> Technoparc – Route de Nouceur Sidi Maar Casablanca - Morocco	/	Morocco	100.00%	100.00%	100.00%	100.00%	Full
<b>TOUTCOM</b> 8 rue de la Ville l'Evêque 75008 Paris	387 601 636	Paris	0%	98.00%	0%	98.00%	N.C.

<b>NOTE 38: LIST OF CONSOLIDATED COMPANIES AT DECEMBER 31, 2008</b>
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	<b>Registration number</b>	<b>Head office</b>	<b>Percentage control at Dec. 31, 2008</b>	<b>Percentage control at Dec. 31, 2007</b>	<b>Percentage ownership at Dec. 31, 2008</b>	<b>Percentage ownership at Dec. 31, 2007</b>	<b>Consolidation method in 2008</b>
<b>ILIAD</b> 8 rue de la Ville l'Evêque 75008 Paris	342 376 332	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>ASSUNET</b> 8 rue de la Ville l'Evêque 75008 Paris	421 259 797	Paris	89.96%	89.96%	89.96%	89.96%	Full
<b>CENTRAPEL</b> 8 rue de la Ville l'Evêque 75008 Paris	434 130 860	Paris	99.98%	99.98%	99.98%	99.98%	Full
<b>CITEFIBRE</b> 8 rue de la Ville l'Evêque 75008 Paris	479 015 240	Paris	99.78%	99.78%	99.78%	99.78%	Full
<b>DEDIBOX</b> 8 rue de la Ville l'Evêque 75008 Paris	484 961 206	Paris	90.00%	90.00%	90.00%	90.00%	Full
<b>FREE</b> 8 rue de la Ville l'Evêque 75008 Paris	421 938 861	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>FREEBOX</b> 8 rue de la Ville l'Evêque 75008 Paris	433 910 616	Paris	96.59%	96.08%	96.59%	96.08%	Full
<b>FREE INFRASTRUCTURE</b> 8 rue de la Ville l'Evêque 75008 Paris	488 095 803	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>FREE MOBILE</b> 8 rue de la Ville l'Evêque 75008 Paris	499 247 138	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>IFW</b> 8 rue de la Ville l'Evêque 75008 Paris	400 089 942	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>IH</b> 8 rue de la Ville l'Evêque 75008 Paris	441 532 173	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>IMMOBILIERE ILIAD</b> 8 rue de la Ville l'Evêque 75008 Paris	501 194 419	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>IRE</b> 8 rue de la Ville l'Evêque 75008 Paris	489 741 645	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>KEDRA</b> 8 rue de la Ville l'Evêque 75008 Paris	439 597 857	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>ONLINE</b> 8 rue de la Ville l'Evêque 75008 Paris	433 115 904	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>ONE TEL</b> 8 rue de la Ville l'Evêque 75008 Paris	419 392 931	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>PROTELCO</b> 8 rue de la Ville l'Evêque 75008 Paris	509 760 948	Paris	100.00%	/	100.00%	/	Full
<b>TOTAL CALL</b> Technoparc – Route de Nouceur Sidi Maar Casablanca - Morocco	/	Morocco	100.00%	100.00%	100.00%	100.00%	Full
<b>TOUTCOM</b> 8 rue de la Ville l'Evêque 75008 Paris	387 601 636	Paris	98.00%	98.00%	98.00%	98.00%	Full

<b>NOTE 39: CHANGES IN SCOPE OF CONSOLIDATION AND PERCENTAGE CONTROL IN 2009</b>
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**Consolidated companies:**

	Percentage control at Dec. 31, 2008	Consolidation method at Dec. 31, 2008	Acquisition/ incorporation date	Percentage control at Dec. 31, 2009	Consolidation method at Dec. 31, 2009
<b>FREEBOX</b>	96.59%	Full	April 23, 2009	96.86%	Full
<b>CITEFIBRE</b>	99.78%	Full	March 19, 2009	99.89%	Full