iliad

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CONSOLIDATED INCOME STATEMENT

(in € thousands)	Note	2008	2007
Revenues ……………………………………………………………	4	**1,565,035**	**1,212,375**
Purchases used in production …………………………………………	5	(781,467)	(612,496)
Payroll costs ………………………………………………………	6	(79,813)	(47,479)
External charges ………………………………………………………		(109,502)	(68,385)
Taxes other than on income…………………………………………		(27,907)	(12,134)
Additions to provisions ……………….……..	9	(25,201)	(8,671)
Other income and expenses from operations, net…..……….……..	8	(16,407)	(19,592)
Earnings before interest, tax, depreciation and amortization (EBITDA)		***524,738***	***443,618***
Share-based payment expense……………………………………	27	(5,388)	(3,167)
Depreciation, amortization and provisions for impairment of non-current assets	9	(316,374)	(226,652)
Profit from ordinary activities………………………………..........		**202,976**	**213,799**
Other operating income and expense, net ………………………	10	(30,684)	(2,000)
Operating profit ……………………………………………………		**172,292**	**211,799**
Income from cash and cash equivalents…..…………..…………	11	13,718	10,157
Finance costs, gross…..…………………………………………	11	(33,628)	(15,228)
Finance costs, net…..……………………………………………....	11	**(19,910)**	**(5,071)**
Other financial income and expense, net…..…………………..…	11	388	1,591
Corporate income tax…..………………………………………	12	(52,305)	(72,016)
Profit for the period before profit from discontinued operations ...		**100,465**	**136,303**
Profit/(loss), net of taxes, from discontinued operations…………	13	**(66)**	**13,923**
PROFIT FOR THE PERIOD		**100,399**	**150,226**
Attributable to:			
▪ *Equity holders of the parent*		***100,255***	***150,105***
▪ *Minority interests*		***144***	***121***

	Note	2008	2007
. Basic earnings per share from continuing operations (in €)	14	1.85	2.52
. Diluted earnings per share from continuing operations (in €)	14	1.84	2.49
. Basic earnings per share from discontinued operations (in €)	14	0	0.26
. Diluted earnings per share from discontinued operations (in €)	14	0	0.24
. Basic earnings per share (in €)	14	1.85	2.78
. Diluted earnings per share (in €)	14	1.84	2.73

CONSOLIDATED BALANCE SHEET – ASSETS

(in € thousands)	Note	At December 31, 2008	At December 31, 2007
Goodwill……………………………………………...	17	164,835	31,206
Intangible assets………………………………………	18	87,997	56,546
Property, plant and equipment ………………………….	20	996,541	676,600
Other long-term financial assets ………………………..	21	4,471	1,983
Deferred income tax assets ……………………………..	12	291,147	4,870
TOTAL NON-CURRENT ASSETS ………………….		**1,544,991**	**771,205**
Inventories ……………………………………..…….	22	1,665	505
Current income tax assets ………………………………		100,724	0
Trade and other receivables …………………………….	23	257,106	140,579
Cash and cash equivalents ………………………………	24	335,733	234,780
TOTAL CURRENT ASSETS ……………………….		**695,228**	**375,864**
ASSETS HELD FOR SALE ………………………….	**25**	**16,790**	**8,110**
TOTAL ASSETS …………………………………….		**2,257,009**	**1,155,179**

CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES

(in € thousands)	Note	At December 31, 2008	At December 31, 2007
Share capital ……………………….……...……..…..	26	12,062	12,000
Additional paid-in capital …………………..……………		89,121	84,624
Retained earnings and other reserves ……………...……..	26	496,365	420,069
TOTAL EQUITY ………………………………		**597,548**	**516,693**
. Attributable to equity holders of the parent …………………		***597,133***	***516,563***
. Minority interests ……………………………………………		***415***	***130***
Long-term provisions ………………………………………..	28	1,147	1,416
Long-term financial liabilities ……………….…...……………	29	1,198,324	324,207
Deferred income tax liabilities ………………….……………..	12	19,347	27,631
Other non-current liabilities …………………….………………..	30	8,985	9,244
TOTAL NON-CURRENT LIABILITIES …………………		**1,227,803**	**362,498**
Short-term provisions ……………………………………..	28	33,661	1,152
Taxes payable ……………………………...……………...		141	8,569
Trade and other payables ………………………………….	30	378,407	235,111
Short-term financial liabilities …………………………….	29	19,449	31,156
TOTAL CURRENT LIABILITIES ……………………........		**431,658**	**275,988**
TOTAL EQUITY AND LIABILITIES …………………		**2,257,009**	**1,155,179**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in € thousands)	Share capital	Additional paid-in capital	Own shares held	Reserves	Retained earnings	Total equity
Total equity at January 1, 2007	**12,000**	**84,624**	**(958)**	**25,667**	**261,305**	**382,638**
<u>Movements in 2007</u>						
▪ Capital increase/decrease						
▪ Dividends paid by Iliad SA					(14,607)	(14,607)
▪ Dividends paid by subsidiaries						
▪ Profit for the period					150,226	150,226
▪ Purchases/sales of own shares			(1,029)			(1,029)
▪ Impact of stock options				3,167		3,167
▪ Equity component of convertible bonds						
▪ Impact of hedges				(3,711)		(3,711)
▪ Other				9		9
Total equity at December 31, 2007	**12,000**	**84,624**	**(1,987)**	**25,132**	**396,924**	**516,693**
Total equity at January 1, 2008	**12,000**	**84,624**	**(1,987)**	**25,132**	**396,924**	**516,693**
<u>Movements in 2008</u>						
▪ Capital increase/decrease	62	4,497				4,559
▪ Dividends paid by Iliad SA					(16,863)	(16,863)
▪ Dividends paid by subsidiaries						
▪ Profit for the period					100,399	100,399
▪ Purchases/sales of own shares			(2,602)			(2,602)
▪ Impact of stock options				5,388		5,388
▪ Equity component of convertible bonds						
▪ Impact of hedges				(10,038)		(10,038)
▪ Other				12		12
Total equity at December 31, 2008	**12,062**	**89,121**	**(4,589)**	**20,494**	**480,460**	**597,548**

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

CONSOLIDATED CASH FLOW STATEMENT

(in € thousands)	Note	2008	2007
Profit for the period (including minority interests)		**100,399**	**150,226**
+ / - Depreciation, amortization and provisions against non-current assets and net additions to provisions for contingencies and charges		345,165	226,607
- / + Unrealized gains and losses on changes in fair value	21	2,200	0
+ / - Income and expenses related to stock options and other share-based payments		5,388	3,167
- / + Other income and expenses, net		1,567	2,705
- / + Gains and losses on disposals of assets		(9,284)	(17,196)
- / + Dilution gains and losses		0	0
+ / - Share of profit of associates		0	0
- Dividends (investments in non-consolidated undertakings)		0	0
Cash flows from operations after finance costs, net, and income tax		445,435	365,509
+ Finance costs, net	11	19,910	5,071
+ / - Income tax expense (including deferred taxes)	12	52,305	72,167
Cash flows from operations before finance costs, net, and income tax (A)		**517,650**	**442,747**
- *Income tax paid* **(B)**		(64,368)	(86,959)
+ / - Change in operating working capital requirement (including employee benefit obligations) **(C)**	15	20,939	(38,662)
= NET CASH GENERATED FROM OPERATING ACTIVITIES (D) = (A + B + C)		**474,221**	**317,126**
- Acquisitions of property, plant and equipment and intangible assets	15	(395,790)	(372,628)
+ Disposals of property, plant and equipment and intangible assets		14,317	8,993
- 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		(772,015)	(1,340)
+ / - Effect of changes in Group structure – disposals		2,000	19,053
+ Dividends received from associates and non-consolidated undertakings		0	0
+ / - Change in outstanding loans and advances		(743)	2,265
+ Investment grants received		0	0
+ / - Other		(7,011)	(8,110)
= NET CASH USED IN INVESTING ACTIVITIES (E)		**(1,159,242)**	**(351,767)**
+ Proceeds from capital increases:			
. Paid by shareholders of the parent company		0	0
. Paid by minority shareholders of consolidated companies		0	0
+ Proceeds received on the exercise of stock options		4,560	0
- / + Own-share transactions		(2,602)	(1,029)
- Dividends paid during the period:			
. Dividends paid to parent company shareholders		(16,863)	(14,607)
. Dividends paid to minority shareholders of consolidated companies		0	0
+ Proceeds from new borrowings	29	832,536	2
- Repayment of borrowings (including finance leases)	29	(9,087)	(7,265)
- Net interest paid (including on finance leases)		(9,173)	4,307
= NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES (F)		**799,371**	**(18,592)**
+ / - Effect of exchange-rate movements on cash and cash equivalents **(G)**		2	(2)
= NET CHANGE IN CASH AND CASH EQUIVALENTS (D + E + F + G)		**114,352**	**(53,235)**
Cash and cash equivalents at beginning of year	15	223,089	276,324
Cash and cash equivalents at year-end	15	337,441	223,089

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'Evèque, 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, 2008 on March 17, 2009 and authorized their publication on March 19, 2009. These financial statements will only be definitive after approval by the Company's shareholders at the Annual Shareholders' Meeting scheduled to be held on June 23, 2009.

1-2. OTHER INFORMATION

At December 31, 2008, the Group's operations had not been affected by the global economic downturn. Similarly, the financial markets crisis did not have a significant impact on the 2008 financial statements. In early 2009 the Iliad Group did not identify any erosion in its business levels and was still confident in its earning capacity.

1-3. 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.

New standards, amendments to existing standards and interpretations applicable for the first time in the financial statements for the year ended December 31, 2008:

- *IFRIC 11, IFRS 2 – Group and Treasury Share Transactions* (effective from March 1, 2007). IFRIC 11 provides guidance on accounting for share-based arrangements involving equity instruments issued by the entity or its parent. The Iliad Group applies IFRIC 11.

- *Amendments to IAS 39, Financial Instruments: Recognition and Measurement* and *IFRS 7, Financial Instruments: Disclosures* (effective from July 1, 2008). These amendments – which permit the reclassification of certain financial assets – are not relevant to the Iliad Group's operations.

New standards, amendments to existing standards and interpretations effective from January 1, 2008 but not relevant to the Group's operations:

- *IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset: Minimum Funding Requirements and their Interaction* (effective from January 1, 2008). This interpretation applies to all post-employment defined benefits and other long-term employee defined benefits. It is not relevant to Iliad as the Group does not have any economic benefits arising from surpluses on defined benefit plans.

New standards, amendments to existing standards and interpretations effective for financial periods beginning after January 1, 2008 that have not been early adopted by the Group:

- *IFRS 8, Operating Segments* (effective from January 1, 2009). This new standard, which replaces IAS 14, 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. The Iliad Group will apply IFRS 8 from January 1, 2009 but it is not expected to have a material impact on the consolidated financial statements.

- *IFRIC 13, Customer Loyalty Programmes* (effective from July 1, 2008). This interpretation provided guidance on how to account for customer loyalty award credits. The Group will apply IFRIC 13 in 2009 and Management is currently assessing its impact.

- *Amendment to IAS 23, Borrowing Costs* (effective from 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 will be removed. The Iliad Group will apply the revised version of IAS 23 from January 1, 2009 but it is not expected to have a material impact on the consolidated financial statements.

- *Amendments to IAS 32 and IAS 1 – Puttable Financial Instruments and Obligations Arising on Liquidation* (effective from 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. Iliad's management team is currently assessing the impact of these amendments on the Group's operations but they are not expected to affect the consolidated financial statements as Iliad has not issued any such instruments.

- *Amendment to IFRS 2, Share-based Payment* (effective from 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. Iliad's management team is currently assessing the impact of the revised version of IFRS 2 on the Group's operations.

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, irrespective of the extent of any minority interest.

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 net other operating income and expense, 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 thousands of euros, unless otherwise specified.

Foreign currency translation

Assets and liabilities of the Group 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 expense (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 expense, net". The latter includes 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 recorded in relation to property, plant and equipment and intangible assets; and

- share-based payment expense.

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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 sale or provision of content 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 expense for financial transactions.

Earnings per share

The Iliad Group presents basic and diluted earnings per share.

Basic earnings per share are obtained by dividing attributable profit for the period by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are 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 materials 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 economic benefits will be generated. These conditions are deemed to be met when the six general criteria defined in IAS 38 are fulfilled.

- 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 net other operating income and expense, within operating profit in the income statement.

- Software, which is amortized on a straight-line basis over a period of one to three 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 20 to 30 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 ten-year period.
- Other service access fees, particularly those required for the development of broadband Internet operations, are depreciated over three and 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

The Group has not elected to capitalize borrowing costs.

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 the shorter of the lease term and their useful life.

- 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 investments 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 and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and 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 three months or less 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 a convertible bond 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*, 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 item being hedged. 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 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, 2008 and Note 38 for the year ended December 31, 2007.

2-1. CHANGES IN SCOPE OF CONSOLIDATION IN 2008

A table presenting changes in the scope of consolidation in 2008 is provided in Note 39.

2-1-1 Acquisition of Liberty Surf Group

On August 26, 2008 the Iliad Group purchased from Telecom Italia Spa the entire capital of Liberty Surf Group SAS, a holding company that owned the following two principal subsidiaries:

- Telecom Italia SAS, which was an internet service provider operating in France under the Alice brand.
- Intercall SA, which specialized in prepaid phone cards. This company did not fit with the Iliad Group's development strategy and was sold on November 28, 2008.

In December 2008, the Group reorganized its internet service provider business by grouping all of these operations within one legal structure. As a result, Telecom Italia SAS was merged into its parent company, Liberty Surf Group SAS which was in turn merged with Free SAS.

The key figures relating to the acquisition are summarized in the table below:

(in € thousands)	Liberty Surf Group
Acquisition price of shares (1)	462,465
% acquired (2)	100%
Net assets (3)	29,576
Adjusted net assets (4) (*)	329,868
Equity in adjusted net assets (5) = (2) x (4)	329,868
Goodwill (6) = (1) – (5)	**132,597**

(*) The Group is still in the process of analyzing the adjusted net asset figure.

The impact of the acquisition on the Group's cash position was as follows:

(in € thousands)	
▪ Cash outflow on purchase of Liberty Surf Group shares	(462,465)
▪ Additional cash outflow corresponding to the purchase price of Liberty Surf Group shares paid into an escrow account (see below)	(42,406)
▪ Cash outflow on repayment of loans and advances granted to the Liberty Surf Group by its former shareholders	(262,760)
▪ Cash held by the Liberty Surf Group at the acquisition date	(3,644)
Net cash outflow	**(771,275)**

Out of the total acquisition price, €42,406,000 was paid by Iliad into an escrow account. This sum will only be transferred to the vendor when certain conditions set out in the acquisition agreement have been met. The Iliad Group considers that the sum paid into the escrow account corresponds to a receivable and the acquisition price for the Liberty Surf Group shares purchased has been adjusted accordingly.

The Liberty Surf Group reported an operating loss of €331,549,000 for full-year 2008, including €93,339,000 since August 26, 2008, when it was acquired by Iliad.

Revenues generated by the Liberty Surf Group for the year amounted to €450,432,000 including €141,298,000 since August 26, 2008.

The acquisition was accounted for as follows (in € thousands):

Cash payment for acquisition of Liberty Surf Group shares				502,000
Transaction expenses				2,871
Expected repayment from the escrow account				(42,406)
Total acquisition price				**462,465**
Fair value of assets and liabilities acquired:	Carrying amount at acquisition date	Fair value	Note	
Intangible assets	42,758	44,474	18	
Property, plant and equipment	291,588	218,170	20	
Financial assets acquired	2,377	1,772	21	
Deferred income tax assets	0	385,195	12	
Inventories	535	535	15	
Net trade receivables	68,124	77,937	15	
Other receivables	30,638	29,448	15	
Prepaid and recoverable taxes	1,059	1,059		
Cash and cash equivalents acquired	13,591	4,953		
Assets held for sale	1,196	1,196		
Provisions	(2,019)	(4,481)	28	
Trade payables	(90,339)	(86,976)	18	
Due to suppliers of non-current assets	(28,108)	(28,108)	15	
Other payables	(32,145)	(37,879)	15	
Loans and advances from former shareholders	(262,766)	(262,766)	2	
Financial liabilities	(6,913)	(14,661)	29	
Total net assets acquired	**29,576**	**329,868**		
Equity in net assets acquired		329,868		
Preliminary goodwill				**132,597**

The initial accounting for the Liberty Surf Group acquisition was based on the assets and liabilities recognized in the company's balance sheet at August 26, 2008 as well as unrecognized deferred tax assets and the company's customer base which corresponds to an unrecognized intangible asset.

Non-current assets relating to Liberty Surf Group's network were remeasured at fair value based primarily on the selling price of assets available for sale.

The customer base was measured by reference to forecast future cash flows attributable to existing customers at the acquisition date.

Goodwill recognized in relation to the Liberty Surf Group acquisition chiefly reflects the synergies expected to arise on the integration of the company's operations into the Iliad Group's business, notably due to the Group's capacity to optimize production costs while providing innovative services which increase the level of average revenue per user. Goodwill also includes unrealized deferred tax assets recorded in Liberty Surf Group's opening balance sheet.

Liberty Surf Group's contribution to the Iliad Group's consolidated results for 2008, net of intragroup eliminations, can be analyzed as follows:

(in € thousands)	**2008**
Revenues	130,931
EBITDA	(14,330)
Depreciation and amortization	49,020
Profit from ordinary activities	(63,350)
Other operating income and expense, net	(30,684)
Operating profit	(94,034)

2-1-2 Other changes in scope of consolidation

Other changes in scope of consolidation in 2008 correspond to:

- The purchase of minority interests in Freebox.
- The incorporation of Protelco on December 31, 2008, which is wholly owned by Iliad and was fully consolidated in the 2008 financial statements. Protelco's corporate purpose it to set up and operate call centers and to provide all forms of assistance, support, maintenance and equipment services in the telecommunications segment.

2-2. CHANGES IN SCOPE OF CONSOLIDATION IN 2007

The changes in scope of consolidation in 2007 corresponded to:

- The purchase of minority interests in Assunet and Freebox.
- The incorporation of a wholly-owned subsidiary, Free Mobile, on July 24, 2007. The main corporate purpose of Free Mobile – which was fully consolidated in the 2007 financial statements – is to roll out and operate a mobile telephony network.
- The incorporation of a wholly-owned subsidiary, Immobilière Iliad, on December 3, 2007. The main corporate purpose of Immobilière Iliad – which was fully consolidated in the 2007 financial statements – is to purchase and lease real estate assets to be used by the Broadband segment.
- The sale of Iliad's entire interest in Kertel on February 7, 2007 for €20,661,000, including €6 million in vendor finance repayable between June 29, 2007 and December 31, 2007. The first two repayments of €2 million were received in 2007 and the final installment was received in early 2008.

2-3. ADDITIONAL INFORMATION

The consolidated data for the year ended December 31, 2008 set out below shows the impact of the principal acquisitions of the year as if they had occurred on January 1:

(in € thousands)	**Year ended December 31, 2008 adjusted for the impact of acquisitions as if they had occurred on January 1**
Revenues	1,854,144
Attributable profit/(loss) for the period	(94,118)

This consolidated data was drawn up based on the historical accounts of the Iliad Group and the Liberty Surf Group and prepared in accordance with the Iliad Group's accounting policies. It does not represent the performance that the consolidated group would have achieved if the acquisition had actually taken place on January 1, 2008 and is not representative of the Iliad Group's performance.

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 estimations should different assumptions or conditions apply.

The main accounting estimates and judgments used by the Group relate to the following:

- Useful lives and impairment of assets.
- Assessment of doubtful receivables and calculation of the corresponding provisions.
- Impairment tests.
- Share-based payment and other employee benefits.
- Provisions for contingencies and charges.

NOTE 4: REVENUES

An analysis of revenues by business segment is provided in Note 16.

As substantially all of the Group's operations are in France, presenting data by region would not be significant.

NOTE 5: PURCHASES USED IN PRODUCTION

Purchases used in production include:

- Interconnect costs invoiced by other operators.
- Costs relating to unbundling operations.
- Acquisitions of goods and services for resale or for use in designing goods or services invoiced by the Group.

NOTE 6: HUMAN RESOURCES DATA

Payroll costs

Payroll costs break down as follows:

(in € thousands)	2008	2007
▪ Wages and salaries	57,288	34,360
▪ Payroll taxes	22,525	13,119
Total	**79,813**	**47,479**

Number of employees at year-end

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

	At Dec. 31, 2008	At Dec. 31, 2007
▪ Management	624	171
▪ Other	3,574	2,241
Total	**4,198**	**2,412**

The year-on-year increase in the number of employees is due to the acquisition of the Liberty Surf Group and, to a lesser extent, recruitments for Iliad's call centers.

Headcount by segment is presented in the "Segment reporting" 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*, as amended (see Note 2).

Post-employment benefit obligations totaled €602,000 at December 31, 2008, compared with €539,000 at December 31, 2007.

The following economic assumptions were used to measure the Group's post-employment benefit obligation at December 31, 2008 and 2007:

	2007	2008
▪ Discount rate	4.25%	5.70%
▪ Inflation rate	2%	2%
▪ Salary growth rate	3%	3%

NOTE 7: DEVELOPMENT COSTS

Development costs – which are primarily incurred by Freebox – include the cost of developing new products, tailoring existing products to the Internet, and research and development of databases for new applications (see Note 2).

(in € thousands)	2008	2007
▪ Amortization of capitalized development costs	1,477	1,223
▪ Development costs recognized directly in the income statement	438	480
Total	**1,915**	**1,703**

NOTE 8: OTHER INCOME AND EXPENSES FROM OPERATIONS, NET

This item breaks down as follows:

(in € thousands)	2008	2007
▪ Other expenses:		
. Carrying amount of divested non-current assets	(4,967)	(6,066)
. Royalties and similar fees	(28,575)	(17,919)
. Bad debts	(8,437)	(5,231)
. Other	(1,905)	(246)
▪ Other income:		
. Proceeds from sales of non-current assets	14,317	9,021
. Other	13,160	849
Total	**(16,407)**	**(19,592)**

Comments on 2007 and 2008 data

"Royalties and similar fees" primarily comprise expenses payable by the Group within the scope of its operations, including royalties, payments to the Universal Service Fund and costs relating to the use of various licenses.

NOTE 9: DEPRECIATION, AMORTIZATION AND PROVISIONS

The following tables show the breakdown between the various components of depreciation, amortization and provisions:

Depreciation, amortization and provisions for impairment in value of non-current assets

(in € thousands)	2008	2007
▪ Depreciation and amortization expense:		
. Intangible assets	17,315	1,635
. Property, plant and equipment	299,872	224,301
▪ Provisions for impairment in value of property, plant and equipment	(796)	716
▪ Amortization of investment grants recognized as intangible assets	(17)	0
Total	**316,374**	**226,652**

Additions to other provisions

(in € thousands)	2008	2007
▪ Provisions for contingencies and charges	4,406	519
▪ Provisions for impairment in value of inventories and trade receivables	20,795	8,152
Total	**25,201**	**8,671**

Comments on 2007 and 2008 data

The high level of depreciation and amortization relating to non-current assets in both 2007 and 2008 reflects the major capital expenditure incurred by the Group over the past few years.

NOTE 10: OTHER OPERATING INCOME AND EXPENSE, NET

This item breaks down as follows:

(in € thousands)	2008	2007
▪ Fair value adjustments (see Note 17)	0	2,000
▪ Restructuring costs	30,684	0
Total	**30,684**	**2,000**

Comments on 2008 data

Following the acquisition of Liberty Surf Group, Iliad incurred expenses for (i) restructuring the operations conducted under the Alice brand with a view to making them profitable and (ii) combining these operations with Free's business. The Group decided to disclose these restructuring costs on a separate line in the above table as they represent a material non-recurring amount.

They primarily concern:

- The expected impact of the Redeployment Plan decided on in late 2008.
- The expenses incurred to combine the IT systems and other technical tools of Telecom Italia SAS and Free SAS and render them compatible.

NOTE 11: FINANCIAL INCOME AND EXPENSE

Financial income and expense can be analyzed as follows:

(in € thousands)	2008	2007
▪ Income from cash and cash equivalents	13,718	10,157
▪ Finance costs, gross	(33,628)	(15,228)
Finance costs, net	**(19,910)**	**(5,071)**
▪ Other financial income and expense		
. Translation adjustments	581	1,508
. Other	(193)	83
Financial income and expense, net	**(19,522)**	**(3,480)**

The increase in the net financial expense figure in 2008 is primarily attributable to the cost of the syndicated credit facility set up to finance the acquisition of Liberty Surf Group.

Income from cash and cash equivalents corresponds to income from short-term investments.

Finance costs, gross, comprises interest on borrowings and finance leases.

The expense for the year relating to the Group's OCEANE bonds includes interest payable both on the bonds and on the bond premium.

NOTE 12: CORPORATE INCOME TAX

Analysis of the corporate income tax charge

The corporate income tax charge breaks down as follows:

(in € thousands)	2008	2007
▪ Current tax charge ▪ Deferred tax charge	(43,722) 96,027	73,185 (1,169)
Total tax charge	**52,305**	**72,016**

Tax group

The Iliad Group has set up a tax group, which in 2008 included all consolidated companies except Assunet, Total Call, Protelco and Dedibox.

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.

	2008	2007
Profit for the period	**100,399**	**150,226**
▪ Corporate income tax	52,305	72,016
▪ Profit/(loss), net of taxes, from discontinued operations	66	(13,923)
Consolidated profit from continuing operations before tax	**152,770**	**208,319**
Theoretical tax rate	***34.43%***	***34.43%***
▪ Net impact of permanent differences	*+0.47%*	*+0.85%*
▪ Impact of unrecognized tax loss carryforwards	*0%*	*+0.02%*
▪ Impact of different tax rates	*- 1.09%*	*- 0.45%*
▪ Other impacts	*+0.43%*	*- 0.28%*
Effective tax rate	***34.24%***	***34.57%***

Deferred taxes

Movements in deferred taxes in 2008 can be analyzed as follows:

Type of movement	Value of DT assets/ (liabilities) at Jan. 1, 2008	Credits	Charges	Changes in Group structure	Currency translation	Other	Value of DT assets/ (liabilities) at Dec. 31, 2008
Recognition of deferred tax assets arising from tax loss carryforwards	0		(98,393)	393,939			295,546
Consolidation entries	(6,381)	3,262	(1,767)	(8,744)		5,393	(8,237)
Temporary differences	2,304	2,095	(1,224)				3,175
Other	(18,684)						(18,684)
Total	**(22,761)**	**5,357**	**(101,384)**	**385,195**		**5,393**	**271,800**

DT assets at Jan. 1, 2008	4,870
DT liabilities at Jan. 1, 2008	(27,631)
Net DT liabilities at Jan. 1, 2008	**(22,761)**

DT assets at Dec. 31, 2008	291,147
DT liabilities at Dec. 31, 2008	(19,347)
Net DT assets at Dec. 31, 2008	**271,800**

Movements in deferred taxes in 2007 can be analyzed as follows:

Type of movement	Value of DT assets/ (liabilities) at Jan. 1, 2007	Credits	Charges	Changes in Group structure	Currency translation	Other	Value of DT assets/ (liabilities) at Dec. 31, 2007
Recognition of deferred tax assets arising from tax loss carryforwards	0	0	0	0	0	0	0
Consolidation entries	(9,820)	2,521	(1,022)	(9)	0	1,949	(6,381)
Temporary differences	2,654	864	(1,194)	(20)	0	0	2,304
Other	(18,684)	0	0	0	0	0	(18,684)
Total	**(25,850)**	**3,385**	**(2,216)**	**(29)**	**0**	**1,949**	**(22,761)**

DT assets at Jan. 1, 2007	3,728
DT liabilities at Jan. 1, 2007	(29,578)
Net DT liabilities at Jan. 1, 2007	**(25,850)**

DT assets at Dec. 31, 2007	4,870
DT liabilities at Dec. 31, 2007	(27,631)
Net DT liabilities at Dec. 31, 2007	**(22,761)**

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, 2008	At Dec. 31, 2007
▪ Temporary differences	0	0
▪ Tax loss carryforwards	3,756	3,756
▪ Consolidation entries	7	14
Total	**3,763**	**3,770**

NOTE 13: PROFIT FROM DISCONTINUED OPERATIONS

Comments on 2008 data

On November 28, 2008 the Iliad Group sold its entire interest in Intercall, a company specialized in prepaid phone cards that the Group acquired when it purchased Liberty Surf Group (see Note 2).

The Iliad Group recognized a loss of €66,000 on the sale of Intercall.

Comments on 2007 data

On February 7, 2007 Iliad sold its entire interest in Kertel SA, a company specialized in prepaid phone cards which was part of the Group's Traditional Telephony business segment.

Kertel was sold for €20,661,000, including €6 million in vendor finance repayable between June 29, 2007 and December 31, 2007. The first two repayments of €2 million were received in 2007 and the final installment was received in early 2008.

The sale agreement includes an earn-out clause based on Kertel's EBIDTA for 2007, as follows:

- €1 million for EBITDA between €4 million and €4.75 million.
- €1.5 million for EBITDA between €4.75 million and €5.55 million.
- €2 million for EBITDA above €5.55 million.

No provision was recorded in the 2007 consolidated financial statements for any such additional purchase consideration.

Profit, net of taxes, from discontinued operations can be analyzed as follows:

▪ Net earnings of discontinued operations	165
▪ Net disposal proceeds	13,758
Profit, net of taxes, from discontinued operations	**13,923**

The net disposal proceeds break down as follows:

▪ Pre-tax disposal proceeds	13,909
▪ Disposal-related tax	(151)
Net disposal proceeds	**13,758**

Net earnings of discontinued operations represents the profit generated by Kertel between January 1, 2007 and January 31, 2007, which breaks down as follows:

(in € thousands)	January 2007
	Data reported by Kertel (fully attributable to the Iliad Group)
Revenues	2,950
EBITDA	248
Profit from ordinary activities	233
Operating profit	233

NOTE 14: BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share

Number of shares used for the calculation	2008	2007
▪ Number of shares at the year-end	54,431,275	54,151,550
▪ Weighted average number of shares	54,356,249	54,151,550

Diluted earnings per share

Number of shares used for the calculation	2008	2007
▪ Weighted average number of shares outstanding (see above)	54,356,249	54,151,550
▪ Number of share equivalents:		
. Stock options	155,845	412,906
. OCEANE bonds	0	3,754,968
Maximum weighted average number of shares after dilution	**54,512,094**	**58,319,424**

NOTE 15: NOTES TO THE CASH FLOW STATEMENT

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 2008 and 2007 can be analyzed as follows:

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
Total		**(38,994)**	**10,325**	**(31,264)**	**(16,935)**	**(3,009)**	**(79,877)**
Change in operating working capital requirement in 2008			**(20,939)**				

2007	Note	Balance at Jan. 1, 2007	Net debits	Net credits	Changes in Group structure	Other	Balance at Dec. 31, 2007
▪ Net inventories	22	2,936		1,858	(573)		505
▪ Net trade receivables	23	67,355	19,866		(6,079)		81,142
▪ Net other receivables	23	55,420	3,633		384		59,437
▪ Supplier payables	30	136,713	7,788		(2,554)		126,371
▪ Other payables		63,143	9,233		(2,344)	2,141	53,707
Total		**(74,145)**	**40,520**	**1,858**	**(1,370)**	**(2,141)**	**(38,994)**
Change in operating working capital requirement in 2007			**38,662**				

Other receivables

This item can be analyzed as follows:

	Note	Dec. 31, 2008	Dec. 31, 2007
Trade and other receivables	23	257,106	140,579
▪ Net trade receivables	23	(133,541)	(81,142)
▪ Other items with no impact on working capital requirements		(42,406)	0
Recognized in cash flow statement		**81,159**	**59,437**

Other payables

This item can be analyzed as follows:

	Note	Dec. 31, 2008	Dec. 31, 2007
Total trade and other payables	30	387,392	244,355
▪ Suppliers of goods and services (incl. VAT)	30	(211,740)	(126,371)
▪ Suppliers of non-current assets (excl. VAT)		(90,347)	(64,277)
▪ Other items with no impact on working capital requirements		(803)	
Recognized in cash flow statement		**84,502**	**53,707**

Acquisitions of non-current assets

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

	Note	Dec. 31, 2008	Dec. 31, 2007
▪ Intangible assets	18	4,292	1,857
▪ Property, plant and equipment	20	389,460	350,127
▪ Suppliers of non-current assets (excl. VAT)			
. at beginning of year		64,277	84,921
. impact of changes in Group structure		28,108	0
. at year-end		(90,347)	(64,277)
Recognized in cash flow statement		**395,790**	**372,628**

Cash and cash equivalents

	Note	Cash and cash equivalents at Dec. 31, 2008	Cash and cash equivalents at Dec. 31, 2007
Cash	24	12,549	80,112
Marketable securities	24	323,184	154,668
Sub-total		***335,733***	***234,780***
Bank borrowing facilities	29	(261)	(11,691)
Currency hedges		1,969	0
Total		**337,441**	**223,089**

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 cash flow statement.

(in € thousands)	2008	2007
▪ Acquisitions of assets under finance leases	16,354	24,551
▪ Acquisition of a company through a share issue	0	0
▪ Conversion of debt into equity	0	0

NOTE 16: SEGMENT REPORTING

Segment reporting format

The Iliad Group's primary segment reporting format is business segments.

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

Identifying business segments

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

- The **Broadband** segment, which includes Internet service provider operations (marketed under the Free and Alice brands), hosting services (marketed under the Online, BookMyName, Alice and Dedibox brands), call center operations (Centrapel, Total Call and Free), 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 set out in IAS 14.

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 business segment

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

2007	Broadband	Traditional Telephony	Inter-segment	Total
Revenues				
External revenues	1,178,422	33,953		**1,212,375**
Inter-segment revenues	10,557	19,009	(29,566)	**0**
Total revenues	1,188,979	52,962	(29,566)	**1,212,375**
Earnings				
EBITDA	435,013	8,605	0	**443,618**
Share-based payment expense	2,417	750	0	**3,167**
Depreciation, amortization and provisions for impairment of non-current assets	226,379	273	0	**226,652**
Profit from ordinary activities	206,217	7,582	0	**213,799**

Capital expenditure by business segment

2008	Broadband	Traditional Telephony	Inter-segment	Total
Intangible assets	4,282	10	0	**4,292**
Property, plant and equipment	391,350	148	0	**391,498**

2007	Broadband	Traditional Telephony	Inter-segment	Total
Intangible assets	1,857	0	0	**1,857**
Property, plant and equipment	370,725	46	0	**370,771**

Employee numbers by business segment

2008	Broadband	Traditional Telephony	Inter-segment	Total
Number of employees at year-end	4,143	55	0	**4,198**

2007	Broadband	Traditional Telephony	Inter-segment	Total
Number of employees at year-end	2,360	52	0	**2,412**

Analysis of consolidated assets by business segment

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

At December 31, 2007	Broadband	Traditional Telephony	Total
Non-current assets (excl. deferred taxes)	**764,616**	**1,719**	**766,335**
Current assets (excl. cash and cash equivalents)	**124,067**	**17,017**	**141,084**
Inventories	505	0	**505**
Trade and other receivables	123,562	17,017	**140,579**
Other short-term financial assets	0	0	**0**
Assets held for sale	8,110	0	**8,110**
Cash and cash equivalents			**234,780**

Analysis of consolidated equity and liabilities by business segment (excluding OCEANE convertible bonds)

At December 31, 2008	Broadband	Traditional Telephony	Total
Non-current liabilities (excl. deferred taxes)	**910,066**	**1,175**	**911,241**
Long-term provisions	746	401	**1,147**
Long-term financial liabilities	901,065	44	**901,109**
Other non-current liabilities	8,255	730	**8,985**
Current liabilities (excl. tax liabilities)	**407,373**	**16,870**	**424,243**
Short-term provisions	33,624	37	**33,661**
Trade and other payables	361,705	16,702	**378,407**
Short-term financial liabilities	12,044	131	**12,175**

At December 31, 2007	Broadband	Traditional Telephony	Total
Non-current liabilities (excl. deferred taxes)	**31,559**	**1,381**	**32,940**
Long-term provisions	923	493	**1,416**
Long-term financial liabilities	22,236	44	**22,280**
Other non-current liabilities	8,400	844	**9,244**
Current liabilities (excl. deferred taxes)	**244,184**	**15,961**	**260,145**
Short-term provisions	1,087	65	**1,152**
Trade and other payables	219,276	15,835	**235,111**
Short-term financial liabilities	23,821	61	**23,882**

NOTE 17: GOODWILL

Goodwill breaks down as follows:

(in € thousands)	At Dec. 31, 2008	At Dec. 31, 2007
Free	140,354	7,757
Freebox	3,153	2,121
IFW	19,484	19,484
Citéfibre	1,844	1,844
Total	**164,835**	**31,206**

The main movements in goodwill in 2008 and 2007 were as follows:

(in € thousands)	2008	2007
Net amount at Jan. 1	31,206	34,574
Increase following acquisitions:		
▪ Free (1)	132,597	0
▪ Freebox	1,032	553
▪ IFW	0	800
Decrease following disposals:		
▪ Kertel	0	(2,721)
Decrease following analysis:		
▪ Citéfibre	0	(2,000)
Net amount at Dec. 31	**164,835**	**31,206**

(1) in the process of being analyzed

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 was in the process of being analyzed at the year-end. Management estimates that the valuation procedure will 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.

➢ Freebox

The Group purchased several minority interests in Freebox in 2007 and 2008, recording €553,000 and €1,032,000 respectively in related goodwill.

Comments on 2007 data

➢ IFW

When Iliad acquired IFW in November 2005 the related purchase agreement provided for the payment of additional consideration by Iliad representing up to a maximum of €1 million if certain rights are exercised by the seller between January 1, 2007 and December 31, 2010.

In 2007 the seller partially exercised its rights under the agreement and Iliad paid €800,000 in additional purchase consideration which was allocated to IFW's goodwill.

At the date these financial statements were prepared, Iliad did not have any further information about whether the seller intended to request the payment of the remaining €200,000 in additional purchase consideration.

➢ Citéfibre

In view of developments in Citéfibre's business and the conditions related to rolling out the Group's optical fiber network, Iliad reduced the value of Citéfibre's goodwill from €3.8 million to €1.8 million in 2007 as part of the completion of its initial accounting for this goodwill within twelve months of the acquisition date.

NOTE 18: INTANGIBLE ASSETS

Intangible assets break down as follows:

(in € thousands)	At December 31, 2008			At December 31, 2007		
	Gross	Amortization	Net	Gross	Amortization	Net
Acquisitions:						
▪ Development costs	154	51	103	154	28	126
▪ Wimax license (1)	54,296	0	54,296	54,266	0	54,266
▪ Alice customer base	25,000	695	24,305	0	0	0
▪ Other	23,396	15,832	7,564	1,283	782	501
Internally-generated intangible assets:						
▪ Development costs	3,042	1,313	1,729	2,820	1,167	1,653
▪ Other	0	0	0	0	0	0
Total	**105,888**	**17,891**	**87,997**	**58,523**	**1,977**	**56,546**

(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 and continued in 2008 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)	2008	2007
Net at Jan. 1	56,546	56,411
. Acquisitions	2,741	275
. Internally-generated intangible assets	1,551	1,582
Disposals	0	0
Impact of changes in Group structure	44,474	(87)
Amortization	(17,315)	(1,635)
Net at Dec. 31	**87,997**	**56,546**

Impairment of intangible assets

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, 2008 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 2006 and 2007 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.

The impairment test carried out in 2008 also took into account recent data concerning transactions relating to regional licenses in France.

NOTE 19: IMPAIRMENT TESTS ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

Allocating goodwill to cash-generating unit (CGUs)

The CGUs identified by the Iliad Group correspond to the Group's business segments.

For the purpose of impairment testing, the entire €164,835,000 in goodwill recognized by the Group at December 31, 2008 was allocated to the Broadband CGU.

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.

NOTE 20: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment can be analyzed as follows:

(in € thousands)	At December 31, 2008			At December 31, 2007		
	Gross	Depreciation	Net	Gross	Depreciation	Net
▪ Land and buildings (1)	36,280	413	35,867	19,015	362	18,653
▪ Network usage rights	214,743	39,004	175,739	133,190	16,508	116,682
▪ Service access fees	466,843	290,959	175,884	281,058	141,025	140,033
▪ Network equipment (2)	869,295	321,617	547,678	636,839	256,777	380,062
▪ Other	78,018	16,645	61,373	32,862	11,692	21,170
Total	**1,665,179**	**668,638**	**996,541**	**1,102,964**	**426,364**	**676,600**
(1) of which finance leases	24,127	0	24,127	12,988	0	12,988
(2) of which finance leases	36,365	20,124	16,241	31,151	14,720	16,431

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)	2008	2007
Net at Jan. 1	676,600	533,204
Acquisitions (*)	405,814	374,678
Disposals	(4,967)	(6,026)
Impact of changes in Group structure	218,170	(239)
Depreciation	(299,076)	(225,017)
Net at Dec. 31	**996,541**	**676,600**
(*) Acquisitions excluding assets acquired under finance leases	**389,460**	**350,127**

Comments on 2007 and 2008 data

In 2007 and 2008 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 in 2008). 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 2008 the Group unbundled almost 700 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; (ii) continuing to lay optical fiber cable, particularly in Paris and the surrounding area as well as in several cities in the provinces; and (iii) bringing the optical fiber network into partial service at end-December 2008.

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, 2008.

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, 2008	At December 31, 2007
▪ Land and buildings	32,915	18,052
▪ Network usage rights	9,985	7,635
▪ Network equipment	127,037	64,166
Total	**169,937**	**89,853**

NOTE 21: OTHER FINANCIAL ASSETS

Other financial assets break down as follows:

(in € thousands)	At December 31, 2008 Net	At December 31, 2007 Net
Other long-term financial assets		
▪ Loans	10	0
▪ Other investment securities	18	44
▪ Guarantee deposits	4,443	1,939
Total other long-term financial assets	**4,471**	**1,983**
Other short-term financial assets		
▪ Loans	0	0
▪ Other	0	0
Total other short-term financial assets	**0**	**1,983**
Total other financial assets	**4,471**	**1,983**

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, 2008 Net	At December 31, 2007 Net
▪ Financial assets at fair value through profit or loss	18	44
▪ Held-for-trading investments	0	0
▪ Held-to-maturity investments	0	0
▪ Loans and receivables issued by the Group	4,453	1,939
▪ Available-for-sale financial assets	0	0
Total other financial assets	**4,471**	**1,983**

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

(in € thousands)	2008	2007
Net at Jan. 1	1,983	4,461
Acquisitions	1,643	584
Redemptions and repayments	(900)	(2,849)
Impact of changes in Group structure	1,772	(396)
Changes in provisions	(27)	183
Net at Dec. 31	**4,471**	**1,983**

Comments on 2008 data

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

Comments on 2007 data

In 2004 the Group granted a ten-year seller's loan in connection with the sale of a building. In 2007 the purchaser of the building repaid this loan in full in advance of term.

NOTE 22: INVENTORIES

Inventories break down as follows:

(in € thousands)	At December 31, 2008	At December 31, 2007
Raw materials	443	298
Work-in-progress	0	0
Finished products	1,810	762
Inventories – gross	**2,253**	**1,060**
Provisions:		
. raw materials	(410)	(197)
. finished products	(178)	(358)
Total provisions	**(588)**	**(555)**
Inventories – net	**1,665**	**505**

Comments on 2007 and 2008 data

Finished products inventories correspond primarily to WiFi cards, as well as cell phones and various accessories marketed by the Iliad Group.

NOTE 23: TRADE AND OTHER RECEIVABLES

Trade and other receivables break down as follows:

(in € thousands)	**At December 31, 2008**	**At December 31, 2007**
Trade and other receivables		
Trade receivables	160,858	96,490
Advances and prepayments	751	932
Tax receivables (VAT)	45,658	35,405
Other	63,844	16,382
Prepaid expenses	14,537	7,946
Total – gross	**285,648**	**157,155**
Provisions for trade receivables	(27,317)	(15,348)
Provisions for other receivables	(1,225)	(1,228)
Net trade and other receivables	**257,106**	**140,579**

Net trade receivables	133,541	81,142
Net other receivables	123,565	59,437

The year-on-year increase in trade and other receivables reflects the August 2008 consolidation of operations conducted under the Alice brand, as well as higher business volumes.

NOTE 24: CASH AND CASH EQUIVALENTS

Cash and cash equivalents can be analyzed as follows:

(in € thousands)	At December 31, 2008		At December 31, 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Certificates of deposit				
Net value	**50,649**	**50,649**	**150,974**	**150,974**
Money-market mutual funds				
Net value	**272,535**	**272,535**	**3,694**	**3,694**
Cash and cash equivalents	**12,549**	**12,549**	**80,112**	**80,112**
Total, net	**335,733**	**335,733**	**234,780**	**234,780**

The Group's certificates of deposit have terms of less than three months from their issue date.

The Group's portfolio of money-market mutual funds consists of units that can be sold at immediate notice and which fall within the "euro monetary" and "international monetary" classifications of the French securities regulator (AMF).

NOTE 25: ASSETS HELD FOR SALE

Assets held for sale break down as follows:

(in € thousands)	At December 31, 2008	At December 31, 2007
Buildings held for sale	16,790	8,110
Total	**16,790**	**8,110**

Comments on 2007 and 2008 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 SAS).

Assets held for sale had no related liabilities at December 31, 2007 or 2008. They did not give rise to the recognition of any gains or losses in the 2007 income statement but a net gain of €1K was recorded in the 2008 income statement.

An analysis of assets held for sale is provided by business segment in Note 16.

NOTE 26: EQUITY

Share capital

The stock options granted by the Iliad Group on January 20, 2004 have been exercisable since January 20, 2008.

At December 31, 2008, 279,725 stock options had been exercised for the same number of new shares. Consequently, the Group’s share capital stood at €12,062,000 at December 31, 2008, €62,000 higher than the year-earlier figure of €12,000,000.

At December 31, 2008 the Group held 83,361 Iliad shares.

At that date Iliad’s ownership structure was as follows:

Shareholder	Number of shares	%
Executive Management	38,700,800	71.10
Public	15,730,475	28.90
Total	**54,431,275**	**100.00**

Dividends paid and dividends recommended to shareholders at the Annual General Meeting

Dividends paid in 2008 for 2007 totaled €16,863,000. No interim dividend was paid during the year.

At the next Annual General Meeting, shareholders will be invited to approve a dividend payment of €0.34 per share.

Reserves

(in € thousands)	At December 31, 2008	At December 31, 2007
▪ Legal reserve	1,208	1,200
▪ Long-term capital gains reserve	0	0
▪ Other reserves	279,835	159,224
▪ Retained earnings	128,673	113,130
▪ Reserves relating to:		
. revaluation of property, plant and equipment	0	0
. revaluation of intangible assets	0	0
. revaluation of available-for-sale financial assets	0	0
. cash flow hedges	(13,750)	(3,711)
. translation adjustments	0	0
. current and deferred tax on items recorded directly in, or transferred from equity	0	0
. equity-settled share-based payments	0	0
▪ Profit for the period	100,399	150,226
Total	**496,365**	**420,069**

Cash flow hedge reserve

In the second half of 2007 the Group set up a strategy to actively hedge its exposure to fluctuations in the EUR/USD exchange rate as a result of its increasing number of purchases denominated in US dollars.

Hedges were also set up in 2008 to cover the Group's exposure to changes in interest rates on bank borrowings taken out during the year.

The Group's derivative instruments are described in Note 34.

At December 31, 2007 and 2008 the cash flow hedge reserve had negative balances of €3,711,000 and €13,750,000 respectively.

NOTE 27: STOCK OPTION PLANS

The following tables summarize the main features of the various stock option plans approved in 2008 and prior years and outstanding at the year-end.

At December 31, 2008

Date of Shareholders' Meeting	Date of plan launch	Number of options exercisable	Number of beneficiaries	Exercise price (in €)	Number of options exercised in 2008	Options outstanding at Dec. 31, 2008
December 12, 2003	January 20, 2004	409,434	5	16.30	279,725	129,709
December 12, 2003	December 20, 2005	394,005	67	48.44	0	394,005
May 29, 2006	June 14, 2007	162,455	1	74.62	0	162,455
May 29, 2006	August 30, 2007	701,331	95	68.17	0	701,331
May 29, 2008	November 5, 2008	596,600	121	53.79	0	596,600
Total						**1,984,100**

At December 31, 2007

Date of Shareholders' Meeting	Date of plan launch	Number of options exercisable	Number of beneficiaries	Exercise price (in €)	Number of options exercised in 2007	Options outstanding at Dec. 31, 2007
December 12, 2003	January 20, 2004	409,434	19	16.30	0	409,434
December 12, 2003	December 20, 2005	439,203	70	48.44	0	439,203
May 29, 2006	June 14, 2007	162,455	1	74.62	0	162,455
May 29, 2006	August 30, 2007	703,960	96	68.17	0	703,960 (*)
Total						**1,715,052**

(*) Split in 2 plans: 162,455 stock options granted to one beneficiary and 541,505 stock options granted to 95 beneficiaries.

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	€48.44	€48.44	€74.62	€68.17	€53.79
Life of the options	4 years	5 years	5 years	5 years	5 years
Annual cost (in € thousands)	865	675	700	2,800	2,265

The expense recorded in relation to these plans totaled €5,388,000 in 2008 and €3,167,000 in 2007.

NOTE 28: PROVISIONS

Provisions break down as follows:

(in € thousands)	At December 31, 2008	At December 31, 2007
Long-term provisions		
Provisions for charges	1,147	1,416
Total long-term provisions	**1,147**	**1,416**
Short-term provisions		
Provisions for contingencies	9,161	1,152
Provisions for charges (*)	24,500	0
Total short-term provisions	**33,661**	**1,152**
Total provisions	**34,808**	**2,568**

(*) See Note 10

Provisions are considered to be "long-term" when the Iliad Group does not expect to use them within 12 months after 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, 2008	At December 31, 2007
Provisions for charges	25,647	1,416
Provisions for contingencies	9,161	1,152
Total provisions for contingencies and charges	**34,808**	**2,568**

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
Total	**2,568**	**29,262**	**(142)**	**(356)**	**4,481**	**(1,005)**	**34,808**

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

The increase in provisions for charges in 2008 includes the impact of the Redeployment Plan.

Movements in provisions for contingencies and charges were as follows in 2007:

(in € thousands)	At Dec. 31, 2006	Increases in 2007	Decreases in 2007 (utilizations)	Decreases in 2007 (surplus provisions)	Changes in Group structure	Other movements	At Dec. 31, 2007
Provisions for claims and litigation and general contingencies	1,205	713	(108)	(633)	(25)	0	1,152
Provisions for charges	1,277	439	(1)	(272)	(27)	0	1,416
Total	**2,482**	**1,152**	**(109)**	**(905)**	**(52)**	**0**	**2,568**

See Note 6, "Human Resources Data" for further information concerning the amount set aside during the year for employee benefits.

The income statement impact (net of charges incurred) of movements in provisions was as follows:

(in € thousands)	**2008**	**2007**
Profit from ordinary activities	(4,273)	(519)
Operating profit	(24,500)	0
Financial income and expense, net	9	272
Total	**(28,764)**	**(247)**

NOTE 29: FINANCIAL LIABILITIES

Financial liabilities can be analyzed as follows:

(in € thousands)	At December 31, 2008	At December 31, 2007
Bank borrowings	833,393	0
Convertible bonds	308,692	301,927
Borrowings related to finance leases	29,356	21,404
Cash flow hedges	21,323	802
Other	5,560	74
Total long-term financial liabilities	**1,198,324**	**324,207**
Bank borrowings	0	750
Convertible bonds	7,274	7,274
Borrowings related to finance leases	7,197	6,556
Other bank borrowing facilities	261	11,691
Cash flow hedges	0	4,858
Other	4,717	27
Total short-term financial liabilities	**19,449**	**31,156**
Total	**1,217,773**	**355,363**

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 2008 and 2007:

(in € thousands)	2008	2007
Borrowings at Jan. 1	355,363	313,820
New borrowings (*)	848,890	24,552
Repayments of borrowings	(9,087)	(7,265)
Change in other bank borrowing facilities	(20,028)	8,475
Impact of changes in Group structure	14,661	33
Interest on OCEANE bonds and bond premium	6,766	10,078
Impact of cash flow hedges	15,663	5,660
Other	5,545	10
Total borrowings at Dec. 31	**1,217,773**	**355,363**

(*) New borrowings excluding borrowings related to finance leases	832,536	1

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.

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, 2008

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 €950 million line dedicated to the related acquisition and restructuring costs, of which €844.9 million had been drawn down at December 31, 2008; and

- a €250 million revolving credit facility, none of which had been used at December 31, 2008.

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, 2008	At December 31, 2007
Fixed-rate borrowings	754,879	337,235
Variable-rate borrowings	462,894	18,128
Total borrowings	**1,217,773**	**355,363**

Breakdown of borrowings by nature and maturity

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**
Sub-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
Sub-total: other borrowings	**12,175**	**872,571**	**17,061**	**901,807**
Total	**19,449**	**1,181,263**	**17,061**	**1,217,773**

The following table presents borrowings by nature and maturity at December 31, 2007:

(in € thousands)	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years	Total
Convertible bonds	7,274	301,927	0	**309,201**
Sub-total: convertible bonds	**7,274**	**301,927**	**0**	**309,201**
Bank borrowings	750	0	0	750
Borrowings related to finance leases	6,556	13,568	7,836	27,960
Other bank borrowing facilities	11,691	0	0	11,691
Sundry borrowings	4,885	801	75	5,761
Sub-total: other borrowings	**23,882**	**14,369**	**7,911**	**46,162**
Total	**31,156**	**316,296**	**7,911**	**355,363**

Description of the Group's main finance leases outstanding at December 31, 2008

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 payment or renewal options, nor do they 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, 2008 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	7,197	17,855	11,501	**36,553**
Present value	7,197	16,040	8,298	**31,535**

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

NOTE 30: TRADE AND OTHER PAYABLES

These items break down as follows:

(in € thousands)	At December 31, 2008	At December 31, 2007
Trade and other payables recorded under other non-current liabilities		
Trade payables	468	1,021
Accrued taxes and employee-related payables	602	0
Other payables	7,915	8,223
Sub-total	**8,985**	**9,244**
Trade and other payables recorded under current liabilities		
Trade payables	311,688	197,109
Advances and prepayments	0	0
Accrued taxes and employee-related payables	56,248	35,085
Other payables	4,363	1,587
Deferred income	6,108	1,330
Sub-total	**378,407**	**235,111**
Total	**387,392**	**244,355**

Total trade payables can be analyzed as follows:

(in € thousands)	At December 31, 2008	At December 31, 2007
Suppliers of goods and services	211,740	126,371
Suppliers of non-current assets	100,416	71,759
Total	**312,156**	**198,130**

NOTE 31: LEASE COMMITMENTS

Lease expenses recognized in the income statement break down as follows:

(in € thousands)	2008	2007
▪ Minimum lease payments	8,184	5,999
▪ Contingent lease payments	0	11
▪ Sub-leases	4,163	3,963
Total	**12,347**	**9,973**

The table below analyzes the Group's lease commitments at December 31, 2008 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	9,689	6,368	5,888	3,091	8	148	**25,192**
Vehicles	1,003	601	149	0	0	0	**1,753**
Equipment	29	0	0	0	0	0	**29**
Network infrastructure	357	78	42	14	0	0	**491**
Total	**11,078**	**7,047**	**6,079**	**3,105**	**8**	**148**	**27,465**

None of the Group's lease arrangements contain material contingent lease payments or renewal options, nor do they impose specific restrictions, for example concerning dividends, additional debt or further leasing.

NOTE 32: RELATED-PARTY TRANSACTIONS

Related-party transactions solely correspond to transactions with key management personnel.

Transactions with key management personnel

- Persons concerned:

Under IAS 24, key management personnel are those persons who have authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly. For the Iliad Group, these persons correspond to members of the Board of Directors of Iliad SA and members of the Management Committee.

- Compensation paid to key management personnel in 2008 and 2007 breaks down as follows:

(in € thousands)	2008	2007
▪ Total compensation	1,730	1,632
▪ Short-term benefits	0	0
▪ Post-employment benefits	0	0
▪ Other long-term benefits	0	0
▪ Termination benefits	0	0
▪ Share-based payments	2,783	2,714
Total	**4,513**	**4,346**

In addition, in 2008 the Iliad Group purchased 36 Freebox shares from Rani Assaf for €240,000 and 36 Freebox shares from Sébastien Boutruche, also for €240,000.

No liabilities have been recognized in the balance sheet in relation to compensation payable to key management personnel.

NOTE 33: FINANCIAL INSTRUMENTS

Reconciliation by class of instrument and accounting category

(in € thousands)	Assets carried at fair value through profit or loss	Hedging instruments carried at fair value with changes recognized in equity	Loans and receivables	Liabilities carried at amortized cost	Carrying amount	Fair value
At December 31, 2008						
Cash	12,549				12,549	12,549
Marketable securities	323,184				323,184	323,184
Trade receivables			133,541		133,541	133,541
Other receivables			123,565		123,565	123,565
Other long-term financial assets	18		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)
Total carrying amount	**335,751**	**(21,323)**	**261,559**	**(1,583,842)**	**(1,007,855)**	**N/A**

(in € thousands)	Assets carried at fair value through profit or loss	Hedging instruments carried at fair value with changes recognized in equity	Loans and receivables	Liabilities carried at amortized cost	Carrying amount	Fair value
At December 31, 2007						
Cash	80,112				80,112	80,112
Marketable securities	154,668				154,668	154,668
Trade receivables			81,142		81,142	81,142
Other receivables			59,437		59,437	59,437
Other long-term financial assets	44		1,939		1,983	1,983
Long-term financial liabilities (excl. OCEANE bonds)		(802)		(21,478)	(22,280)	(22,280)
Short-term financial liabilities (excl. OCEANE bonds)		(4,858)		(19,024)	(23,882)	(23,882)
OCEANE bonds				(309,201)	(309,201)	See (1)
Other non-current liabilities				(9,244)	(9,244)	(9,244)
Other current liabilities				(235,111)	(235,111)	(235,111)
Total carrying amount	**234,824**	**(5,660)**	**142,518**	**(594,058)**	**(222,376)**	**N/A**

(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.

NOTE 34: FINANCIAL RISK MANAGEMENT

Market risks

Foreign exchange risk

The Iliad Group's functional currency is the euro. However, it purchases certain goods and services outside France and is therefore exposed to foreign exchange risks arising from various currency exposures, mainly with respect to the US dollar.

In 2007 the Group decided to set up a hedging strategy in relation to highly probable commercial transactions denominated in US dollars using zero-premium collars. The transactions covered by the hedges set up were forecast to take place in 2008 and first-half 2009.

At the end of 2008 the Group updated its production plans for 2009 and accordingly adjusted its forecast outflows in US dollars for the year. The resulting additional hedging requirements have been covered by purchases of calls.

Detailed forecasts of the Group's future purchases denominated in US dollars are drawn up as part of the budget process. These transactions are hedged over a maximum period of one and a half years. Consequently, the Group's residual exposure after hedging foreign exchange risk on US dollar-denominated transactions was not material in 2008.

At December 31, 2008 all of these currency hedges qualified as cash flow hedges under IAS 39.

The table below sets out the Group's foreign exchange risks and related sensitivity.

Foreign exchange risk

(in € thousands)	USD
Assets	9,915
Liabilities	27,884
Net position before hedging	17,969
Off-balance sheet position	0
Net position after hedging	17,969
Closing rate	1.40953

Foreign exchange risk sensitivity

	USD
Net position after hedging	17,969
Net position after hedging based on the assumption that exchange rates change unfavorably for the Group by €0.01	18,098
Sensitivity	129

Interest rate risk

The Iliad Group set up a €1,200 million syndicated credit facility in 2008 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, 2008 these derivatives had a fair value of €21,323,000. Taking into account the above-described hedges, over 60% of the Group’s total debt was hedged against changes in interest rates at December 31, 2008.

Obligations under finance leases and equipment leasing arrangements amounted to €36.5 million at December 31, 2008 compared with €28 million at December 31, 2007. The majority of the financing lease arrangements entered into by Iliad in 2007 and 2008 related to the rollout of the Group’s FTTH network. At December 31, 2008, the Group had €11.1 million in obligations under real estate finance leases entered into with Genefim (a subsidiary of Société Générale) to acquire Optical Nodes (ONs), corresponding to the Free premises where all optical fiber connections are made for a given geographic area. At the same date, the Group’s obligations under FTTH equipment leasing contracts entered into with Cisco Capital represented close to €3.4 million.

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, 2008) and an analysis of sensitivity to interest rate fluctuations.

(in € thousands)	**Within 1 year**	**Between 1 and 5 years**	**Beyond 5 years**
Financial liabilities	19,449	1,181,263	17,061
Financial assets	0	0	4,443
Net position before hedging	**19,449**	**1,181,263**	**12,618**
Off-balance sheet position	0	0	0
Net position after hedging	**19,449**	**1,181,263**	**12,618**

Net position to be rolled over within one year (in € thousands)	**19,449**
Change in interest rate	**1%**
Average remaining life (in months)	**12**
Sensitivity (in € thousands)	**194**

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, 2008 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, 2008:

	Applicable financial ratios	**Consequence of breach**	**Actual ratios at December 31, 2008**
€1,200 million credit facility (Borrower – Iliad)	Leverage ratio < 2.75 Interest cover ratio > 5.1	Default	Leverage ratio: 1.757 Interest cover ratio: 28.83

At December 31, 2008 the Group was not exposed to any liquidity risk in view of the high level of cash generated by its ADSL operations and the maturity schedule of its debt (see Note 29).

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, 2008 trade receivables represented a gross amount of €161 million and a net amount of €134 million (see Note 23 "Trade and other receivables"). The Group's exposure to customer credit risk is not material and is monitored daily through cash collection and debt recovery processes. The deterioration in the economic environment in 2008 should not have a significant impact on customer credit risk.

- Investments: the Group's policy is to invest in (i) money market securities such as certificates of deposit and 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, 2008, the Group's short-term investments – which amounted to €323 million (see Note 24 "Cash and cash equivalents") – mainly comprised money market securities (certificates of deposit and commercial paper) with maximum maturities of three months and issued by companies or financial institutions with a good credit rating (a minimum of A2/P2 or equivalent), as well as units in French and other European mutual funds. 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, 2008 trade receivables totaled €161 million and provisions for doubtful receivables amounted to €27 million.

At the balance-sheet date, substantially all past-due receivables were classified as doubtful and provisions had been recorded based on statistical recovery rates. At December 31, 2007 and 2008 the amount of past-due trade receivables that had not been written down was not material.

NOTE 35: OFF BALANCE SHEET COMMITMENTS AND CONTINGENCIES

Commitments given

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

Beneficiary	Amount (in € thousands)	Purpose
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

(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[1]*; 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.

[1] 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, 2008, the Group had access to:

- A €950 million credit facility set up to finance the acquisition of Liberty Surf Group, of which it had drawn down €844.9 million.

- A €250 million revolving credit facility, none of which had been used at the year-end.

One of the Group's financial partners has granted a €3 million financial guarantee to the Paris City authorities in connection with the right to use public land granted by the said authorities to the Iliad Group in 2006.

In 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 extended to December 31, 2009 during the first half of 2008, and the aggregate maximum value of the property acquisitions covered was increased by €15 million to €65 million. At December 31, 2008 the Group had used €24.1 million 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, 2008 the Group’s employees had accumulated a total of 126,505 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 dispute 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, 2008 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

- As part of its analysis of the estimated useful lives applied for depreciating and amortizing non-current assets, in early 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.

- Between January 1, 2009 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, 2008.

NOTE 37: LIST OF CONSOLIDATED COMPANIES AT DECEMBER 31, 2008

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

NOTE 38: LIST OF CONSOLIDATED COMPANIES AT DECEMBER 31, 2007

	Registration number	Head office	Percentage control Dec. 31, 2007	Percentage control Dec. 31, 2006	Percentage ownership Dec. 31, 2007	Percentage ownership Dec. 31, 2006	Consolidation method in 2007
ILIAD 8 rue de la Ville l'Evêque 75008 Paris	342 376 332	Paris	100.00%	100.00%	100.00%	100.00%	Full
ASSUNET 8 rue de la Ville l'Evêque 75008 Paris	421 259 797	Paris	89.96%	89.92%	89.96%	89.92%	Full
CENTRAPEL 8 rue de la Ville l'Evêque 75008 Paris	434 130 860	Paris	99.98%	99.98%	99.98%	99.98%	Full
CITEFIBRE 8 rue de la Ville l'Evêque 75008 Paris	479 015 240	Paris	99.78%	99.78%	99.78%	99.78%	Full
DEDIBOX 8 rue de la Ville l'Evêque 75008 Paris	484 961 206	Paris	90.00%	90.00%	90.00%	90.00%	Full
FREE 8 rue de la Ville l'Evêque 75008 Paris	421 938 861	Paris	100.00%	100.00%	100.00%	100.00%	Full
FREEBOX 8 rue de la Ville l'Evêque 75008 Paris	433 910 616	Paris	96.08%	95.79%	96.08%	95.79%	Full
FREE INFRASTRUCTURE 8 rue de la Ville l'Evêque 75008 Paris	488 095 803	Paris	100.00%	100.00%	100.00%	100.00%	Full
FREE MOBILE 8 rue de la Ville l'Evêque 75008 Paris	499 247 138	Paris	100.00%	/	100.00%	/	Full
IFW 8 rue de la Ville l'Evêque 75008 Paris	400 089 942	Paris	100.00%	100.00%	100.00%	100.00%	Full
IH 8 rue de la Ville l'Evêque 75008 Paris	441 532 173	Paris	100.00%	100.00%	100.00%	100.00%	Full
IMMOBILIERE ILIAD 8 rue de la Ville l'Evêque 75008 Paris	501 194 419	Paris	100.00%	/	100.00%	/	Full
IRE 8 rue de la Ville l'Evêque 75008 Paris	489 741 645	Paris	100.00%	100.00%	100.00%	100.00%	Full
KEDRA 8 rue de la Ville l'Evêque 75008 Paris	439 597 857	Paris	100.00%	100.00%	100.00%	100.00%	Full
ONLINE 8 rue de la Ville l'Evêque 75008 Paris	433 115 904	Paris	100.00%	100.00%	100.00%	100.00%	Full
ONE TEL 8 rue de la Ville l'Evêque 75008 Paris	419 392 931	Paris	100.00%	100.00%	100.00%	100.00%	Full
TOTAL CALL Technoparc – Route de Nouceur Sidi Maar Casablanca – Morocco	/	Morocco	100.00%	100.00%	100.00%	100.00%	Full
TOUTCOM 8 rue de la Ville l'Evêque 75008 Paris	387 601 636	Paris	98.00%	98.00%	98.00%	98.00%	Full

NOTE 39: CHANGES IN SCOPE OF CONSOLIDATION AND PERCENTAGE CONTROL IN 2008

Consolidated companies:

	Percentage control Dec. 31, 2007	Consolidation method at Dec. 31, 2007	Acquisition/ incorporation date	Percentage control Dec. 31, 2008	Consolidation method at Dec. 31, 2008
FREEBOX	96.08%	Full	February 20, 2008 May 14, 2008	96.59%	Full
PROTELCO	/	/	December 31, 2008	100.00%	Full