Iliad Group – IFRS consolidated financial statements – Year ended December 31, 2010

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CONSOLIDATED INCOME STATEMENT

(in € thousands)	Note	2010	2009
Revenues	4	**2,038,255**	**1,954,500**
Purchases used in production	5	(899,488)	(920,336)
Payroll costs	6	(104,436)	(108,580)
External charges		(144,093)	(153,960)
Taxes other than on income		(37,251)	(42,890)
Additions to provisions	9	(28,982)	(29,290)
Other income from operations	8	23,517	18,297
Other expenses from operations	8	(49,408)	(56,366)
EBITDA (1)	1	***798,114***	***661,375***
Share-based payment expense	26	(8,117)	(7,281)
Depreciation, amortization and provisions for impairment of non-current assets	9	(312,066)	(294,741)
Profit from ordinary activities		**477,931**	**359,353**
Other operating income and expense, net	10	60,950	(26,491)
Operating profit		**538,881**	**332,862**
Income from cash and cash equivalents	11	2,320	5,613
Finance costs, gross	11	(44,015)	(56,346)
Finance costs, net	11	**(41,695)**	**(50,733)**
Other financial income	11	0	1,724
Other financial expenses	11	(7,779)	0
Corporate income tax	12	(176,269)	(108,995)
Profit for the period before profit from discontinued operations and assets held for sale		**313,138**	**174,858**
Profit, net of taxes, from discontinued operations and assets held for sale		**0**	1,010
PROFIT FOR THE PERIOD		**313,138**	**175,868**
Attributable to:			
▪ *Owners of the Company*		***313,161***	***175,663***
▪ *Minority interests*		***(23)***	***205***
Earnings per share (in €):			
▪ *Basic earnings per share*	*13*	***5.74***	***3.23***
▪ *Diluted earnings per share*	*13*	***5.52***	***3.17***
Earnings per share from continuing operations (in €):			
▪ *Basic earnings per share from continuing operations*	*13*	***5.74***	***3.21***
▪ *Diluted earnings per share from continuing operations*	*13*	***5.52***	***3.16***

(1) See definition on page 15

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in € thousands)	Note	2010	2009
PROFIT FOR THE PERIOD		**313,138**	**175,868**
▪ Fair value gains/(losses) on interest rate and currency hedging instruments, net of tax		7,274	(3,810)
Total income and expenses recognized directly in equity		**7,274**	**(3,810)**
Total comprehensive income for the period		**320,412**	**172,058**

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

CONSOLIDATED BALANCE SHEET – ASSETS

(in € thousands)	Note	At December 31, 2010	At December 31, 2009
Goodwill	16	214,248	214,048
Intangible assets	17	299,242	80,291
Property, plant and equipment	19	1,337,119	1,087,470
Other long-term financial assets	20	12,934	12,517
Deferred income tax assets	12	24	191,983
Other non-current assets		40,822	16,662
TOTAL NON-CURRENT ASSETS		**1,904,389**	**1,602,971**
Inventories	21	888	719
Current income tax assets		698	1,108
Trade and other receivables	22	167,125	185,024
Other short-term financial assets	20	2,687	16
Cash and cash equivalents	23	344,853	633,901
TOTAL CURRENT ASSETS		**516,251**	**820,768**
ASSETS HELD FOR SALE	**24**	**71,574**	**31,509**
TOTAL ASSETS		**2,492,214**	**2,455,248**

CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES

(in € thousands)	Note	At December 31, 2010	At December 31, 2009
Share capital	25	12,121	12,096
Additional paid-in capital	25	98,660	93,362
Retained earnings and other reserves	25	967,558	658,952
TOTAL EQUITY		**1,078,339**	**764,410**
. Attributable to owners of the Company		***1,077,867***	***763,873***
. Minority interests		***472***	***537***
Long-term provisions	27	1,393	1,397
Long-term financial liabilities	28	999,967	1,120,118
Deferred income tax liabilities	12	12,760	16,789
Other non-current liabilities	29	1,874	2,169
TOTAL NON-CURRENT LIABILITIES		**1,015,994**	**1,140,473**
Short-term provisions	27	24,357	8,880
Taxes payable		1,785	159
Trade and other payables	29	335,542	362,666
Short-term financial liabilities	28	36,197	178,660
TOTAL CURRENT LIABILITIES		**397,881**	**550,365**
TOTAL EQUITY AND LIABILITIES		**2,492,214**	**2,455,248**

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, 2009	**12,062**	**89,121**	**(4,589)**	**20,494**	**480,460**	**597,548**
<u>Movements in 2009</u>						
▪ Profit for the period					175,868	175,868
▪ Income and expenses recognized directly in equity:						
✓ Impact of interest rate and currency hedges				(3,810)		(3,810)
Total comprehensive income for the period				***(3,810)***	***175,868***	***172,058***
▪ Capital increase	34	4,241				4,275
▪ Dividends paid by Iliad SA					(18,509)	(18,509)
▪ Dividends paid by subsidiaries					(25)	(25)
▪ Purchases/sales of own shares			1,839			1,839
▪ Impact of stock options				7,281		7,281
▪ Other				(57)		(57)
Total equity at December 31, 2009	12,096	93,362	(2,750)	23,908	637,794	**764,410**

Total equity at January 1, 2010	**12,096**	**93,362**	**(2,750)**	**23,908**	**637,794**	**764,410**
<u>Movements in 2010</u>						
▪ Profit for the period					313,138	313,138
▪ Income and expenses recognized directly in equity:						
✓ Impact of interest rate and currency hedges				7,274		7,274
Total comprehensive income for the period				***7,274***	***313,138***	***320,412***
▪ Capital increase	25	5,298				5,323
▪ Dividends paid by Iliad SA					(20,174)	(20,174)
▪ Dividends paid by subsidiaries					(43)	(43)
▪ Purchases/sales of own shares			294			294
▪ Impact of stock options				8,117		8,117
▪ Other						
Total equity at December 31, 2010	12,121	98,660	(2,456)	39,299	930,715	**1,078,339**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(in € thousands)	Note	2010	2009
Profit for the period (including minority interests)		**313,138**	**175,868**
+ / - Depreciation, amortization and provisions against non-current assets and net additions to provisions for contingencies and charges (excluding restructuring costs)		367,532	285,184
- / + Unrealized gains and losses on changes in fair value		3,712	(3,603)
+ / - Income and expenses related to stock options and other share-based payments		8,117	7,281
- / + Other income and expenses, net		(1)	41
- / + Gains and losses on disposals of assets		(6,844)	(7,873)
- / + Dilution gains and losses		0	0
+ / - Share of profit of associates		0	0
- Dividends (investments in non-consolidated undertakings)		0	0
- Restructuring costs		0	26,491
Cash flows from operations after finance costs, net, and income tax (excluding restructuring costs)		685,654	483,389
+ Finance costs, net	11	41,695	50,733
+ / - Income tax expense (including deferred taxes)	12	176,269	108,995
Cash flows from operations before finance costs, net, and income tax (excluding restructuring costs) (A)		**903,618**	**643,117**
- *Income tax paid* **(B)**		(11,608)	98,743
+ / - Change in operating working capital requirement (including employee benefit obligations) **(C)**	14	(17,123)	(7,610)
= Net cash generated from operating activities before restructuring costs (D) = (A + B + C)		**874,887**	**734,250**
- Restructuring costs **(E)**		0	(26,293)
= Net cash generated from operating activities after restructuring costs (F) = (D + E)		**874,887**	**707,957**
- Acquisitions of property, plant and equipment and intangible assets	14	(783,579)	(428,325)
+ Disposals of property, plant and equipment and intangible assets		41,148	8,728
- Acquisitions of investments in non-consolidated undertakings		0	0
+ Disposals of investments in non-consolidated undertakings		0	0
+ / - Effect of changes in Group structure – acquisitions and earn-outs		(300)	44,125
+ / - Effect of changes in Group structure – disposals		0	0
+ / - Change in outstanding loans and advances		(418)	(7,671)
+ Cash inflows from assets held for sale		4,714	6,276
- Cash outflows for assets held for sale		(44,203)	(20,995)
+ / - Other		(11,109)	0
= Net cash used in investing activities (G)		**(793,747)**	**(397,862)**
+ Proceeds from capital increases:			
. Paid by owners of the Company		0	0
. Paid by minority shareholders of consolidated companies		0	0
+ Proceeds received on the exercise of stock options		5,739	1,560
- / + Own-share transactions		294	1,839
- Dividends paid during the period:		0	0
. Dividends paid to owners of the Company		(20,174)	(18,509)
. Dividends paid to minority shareholders of consolidated companies		(43)	(25)
+ Proceeds from new borrowings		683,870	105,022
- Repayment of borrowings (including finance leases)	28	(1,009,115)	(64,019)
- Net interest paid (including on finance leases)		(34,649)	(43,004)
= Net cash used in financing activities (H)		**(374,078)**	**(17,136)**
+ / - Effect of exchange-rate movements on cash and cash equivalents **(I)**		9	(2)
= Net change in cash and cash equivalents (F + G + H + I)		**(292,929)**	**292,957**
Cash and cash equivalents at beginning of year	14	630,398	337,441
Cash and cash equivalents at year-end	14	337,469	630,398

NOTE 1: ACCOUNTING PRINCIPLES

1-1. GENERAL INFORMATION

Iliad SA is a *société anonyme* registered in France and listed on Eurolist by Euronext Paris under the symbol “ILD”. The Company’s registered office is located at 8 rue de la Ville l’Evêque, 75008 Paris, France.

The Iliad Group is a leading operator in the French internet access and telecommunications markets. Its businesses are conducted by Free (an alternative ADSL broadband operator that uses the Free and Alice brands), Free Infrastructure (optical fiber), One.Tel (a landline telephony operator), IFW (specialized in Wimax), and Free Mobile (mobile telephony).

The Board of Directors approved the consolidated financial statements for the year ended December 31, 2010 on March 7, 2011 and their publication date was set for March 9, 2011. These financial statements will only be definitive after approval by the Company’s shareholders at the Annual Shareholders’ Meeting scheduled to be held on May 24, 2011.

1-2. APPLICABLE ACCOUNTING STANDARDS

The principal accounting policies adopted for the preparation of these consolidated financial statements are set out below. Unless otherwise specified, the same policies have been consistently applied for all of the periods presented.

Basis of preparation

The consolidated financial statements of the Iliad Group have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The historical cost convention has been applied, except for financial assets and liabilities which are carried at fair value with changes in fair value recognized either directly in the income statement or in equity when hedge accounting is applied.

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

The following new standards, interpretations and amendments to existing standards are mandatory for the first time for the financial year beginning January 1, 2010:

- *Revised version of IFRS 3, Business Combinations (phase 2) and consequential amendments to IAS 27, Consolidated and Separate Financial Statements* (effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009). This revised standard and amendments concern the accounting treatment to be applied for acquisitions (notably goodwill) and changes in Group structure. The Group has adopted the revised versions of IFRS 3 and IAS 27 for all business combinations occurring as from January 1, 2010. These standards had no impact on the Group's 2010 consolidated financial statements.

The following new standards, interpretations and amendments to existing standards are mandatory for the first time for the financial year beginning January 1, 2010, but did not impact the Group's financial statements:

- *IFRIC 16, Hedges of a Net Investment in a Foreign Operation* (applicable for annual periods beginning on or after July 1, 2009). IFRIC 16 applies to entities that hedge the foreign currency risk arising from net investments in foreign operations and wish to qualify for hedge accounting in accordance with IAS 39. This interpretation is not relevant to the Iliad Group.

- *IFRIC 17, Distributions of Non-cash Assets to Owners* (applicable for annual periods beginning on or after July 1, 2009). This interpretation applies to the following types of non-reciprocal distributions by an entity to its owners acting in their capacity as owners: (i) distributions of non-cash assets and (ii) distributions that give owners a choice of receiving either non-cash assets or a cash alternative. It is not relevant to the Iliad Group as the Company does not distribute non-cash assets to its owners.

- *IFRIC 18, Transfers of Assets from Customers* (applicable for annual periods beginning on or after July 1, 2009). This interpretation applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. It is not relevant to Iliad as the Group does not carry out such transfers.

- *Amendment to IAS 39, Financial Instruments: Recognition and Measurement, Eligible Hedged Items* (applicable for annual periods beginning on or after July 1, 2009). This amendment clarifies how the existing principles underlying hedge accounting should be applied concerning (i) inflation in a financial hedged item and (ii) purchased option hedging instruments. It is not relevant to the Iliad Group.

The following new standards, interpretations and amendments to existing standards are applicable for annual periods beginning on or after January 1, 2010 but are not currently relevant to the Group's operations:

- *IFRIC 12, Service Concession Arrangements* (applicable for annual periods beginning on or after January 1, 2010). IFRIC 12 applies to public-to-private service concession arrangements where (i) the grantor controls or regulates the services provided by the operator and (ii) the grantor controls any significant residual interest in the infrastructure at the end of the term of the arrangement. This interpretation is not relevant to the Iliad Group.

- *Amendment to IAS 32, Classification of Rights Issues* (applicable for annual periods beginning on or after February 1, 2010). The purpose of this amendment is to clarify the accounting treatment for rights issues denominated in a currency other than the issuer's functional currency. It is not relevant to the Iliad Group.

- *Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards: Additional Exemptions for First-time Adopters* (applicable for annual periods beginning on or after January 1, 2010). These amendments authorize entities operating in the oil and gas sectors to use the carrying amount under their previous GAAP as the deemed cost of oil and gas assets at the date of first-time adoption of IFRS. They are not relevant to the Iliad Group.

- *Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* (applicable for annual periods beginning on or after July 1, 2010). The purpose of these amendments is to relieve first-time adopters of IFRS from providing the comparative prior-period information required under IFRS 7 concerning fair value measurements and liquidity risk for annual comparative periods ending before December 31, 2009. It is not relevant to Iliad as the Group is not a first-time adopter of IFRS.

- *Amendments to IFRS 2, Share-based Payment* (applicable for annual periods beginning on or after January 1, 2010). These amendments clarify the accounting for group cash-settled share-based payment transactions where the entity receiving the goods or services concerned has no obligation to settle the share-based payment transaction. The Iliad Group does not carry out such transactions.

The following revised standards have been issued but are not mandatory for the financial year beginning January 1, 2010, and have not been early adopted by the Group:

- *IAS 24 (Revised), Related Party Disclosures* (applicable for annual periods beginning on or after January 1, 2011). The objective of the revised IAS 24 is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties. Management considers that this standard will not have a material impact on the presentation of Iliad's consolidated financial statements as the Group already provides disclosures on related party transactions.

- *IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments* (applicable for annual periods beginning on or after July 1, 2010). IFRIC 19 provides guidance on accounting for transactions where an entity issues equity instruments to a creditor of the entity to extinguish all or part of a financial liability, including how the equity instruments should be measured. Management does not consider that this interpretation will have a significant impact on the presentation of the Group's financial statements.

1-3. CONSOLIDATION

Consolidation methods

Subsidiaries

Subsidiaries are entities that are controlled by the Group.

Control is presumed to exist when the Group has the power to govern an entity's financial and operating policies, either directly or indirectly, so as to obtain benefits from its activities, generally accompanying a shareholding representing more than one half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and they are deconsolidated from the date that control ceases.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group does not have any investments in special-purpose entities, associates or joint ventures.

Eliminations on consolidation

All intragroup transactions and balances are eliminated on consolidation as well as gains and losses on transactions between subsidiaries.

Business combinations

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus all costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, including any minority interests.

Any 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.

Goodwill impairment losses are recorded within operating profit in the income statement, under "Other operating income and expense, net".

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in euros, which is the Group's presentation currency.

Unless otherwise specified, all amounts are presented in thousands of euros.

Foreign currency translation

Assets and liabilities of Group companies that are denominated in foreign currencies are translated into euros at the year-end rate. Income and expense items are translated at average exchange rates for the year.

All resulting exchange differences are recognized directly in equity.

Fiscal year-end

All Group companies have a December 31 fiscal year-end.

1-4. PRESENTATION OF THE FINANCIAL STATEMENTS

As permitted under IAS 1, *Presentation of Financial Statements*, the Group's income statement is presented by nature.

Operating profit corresponds to profit for the period, before:

- financial income and expenses (as defined in Note 11);
- current and deferred taxes; and
- profit from discontinued operations and assets held for sale.

Profit from ordinary activities corresponds to operating profit as defined above, before "Other operating income and expense, net". These items include income and expenses which are rare, unusual and infrequent, which represent material amounts and whose presentation within other items relating to ordinary activities could be misleading for users of the financial statements in their understanding of the Group's performance.

The Iliad Group has presented EBITDA on a separate line in the income statement. EBITDA is a key indicator of the Group's operating performance and corresponds to profit from ordinary activities as defined above, before:

- depreciation, amortization and impairment of property, plant and equipment and intangible assets; and

- share-based payment expense.

1-5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The main accounting policies applied by the Group are as follows:

Revenues

Revenues from the Group's operations are recognized and presented as follows in accordance with IAS 18, *Revenue*:

- Revenues from usage of connection time are recognized in the period in which the usage takes place.

- Revenues from subscriptions and flat-fee packages are recognized over the period covered by the subscriptions or packages.

- Revenues from the sales or provision of content supplied by external parties are presented as a gross amount when the Group is deemed to be the party in the transaction with primary responsibility in relation to the end-customer. These revenues are presented net of the amounts due to the content supplier when the latter is responsible for supplying the content to the end-customer and setting the retail price.

- Revenues from the sale of advertising banners are spread over the period during which the banners are displayed.

- Revenues from website hosting activities are recognized during the period in which the service is rendered.

Foreign currency transactions

The recognition and measurement rules for foreign currency transactions are set out in IAS 21, *The Effects of Changes in Foreign Exchange Rates*. In accordance with that standard, transactions denominated in foreign currencies are recorded at their value in euros at the date of the transaction. At each reporting date, foreign currency monetary items are translated at the applicable closing rate and any exchange differences are recognized in profit as follows:

- as operating items for commercial transactions;
- as financial income or expenses for financial transactions.

Earnings per share

The Iliad Group presents basic and diluted earnings per share.

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

Diluted earnings per share is calculated by adjusting the figures for attributable profit for the period and the weighted average number of shares outstanding, for the impact of all potentially dilutive equity instruments.

Intangible assets

Intangible assets primarily include:

- Development costs capitalized in accordance with IAS 38, which are amortized over the period during which the Group is expected to consume the related future economic benefits.

  These costs are incurred in relation to designing new equipment and are recognized as intangible assets when they relate to distinctly separate projects for which (i) the costs can be clearly identified, (ii) the technical feasibility of successfully completing the project can be demonstrated, and (iii) it is probable that future benefits will be generated. These conditions are deemed to be met when the six general criteria defined in IAS 38 are fulfilled, i.e. when the Group can demonstrate:

  1) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
  2) its intention to complete the intangible asset and use or sell it;
  3) its ability to use or sell the asset;
  4) how the intangible asset will generate probable future economic benefits;
  5) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
  6) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

  Capitalized development costs are presented net of any related subsidies or research tax credits.

- 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 recognized following impairment tests are recorded in the income statement under “Other operating income and expense, net” below profit from ordinary activities.

- Software, which is amortized on a straight-line basis over a period of one to three years.

- The Alice customer base, which is being amortized over a period of 12 years.

Property, plant and equipment

Property, plant and equipment are stated at acquisition cost, including transaction expenses, or at production cost. Cost includes any expenses directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by Group Management.

Depreciation is calculated by the straight-line method, based on the following estimated useful lives:

- Buildings 15 to 50 years
- Technical equipment 3 to 14 years
- General equipment 10 years
- Computer equipment 3 to 5 years
- Office furniture and equipment 2 to 10 years
- Access fees for co-location facilities used to conduct unbundling operations are depreciated over a period of 15 years.
- Access fees for services specific to broadband Internet operations are depreciated over four years.
- Amounts paid as consideration for obtaining indefeasible rights of use (IRU) on dark optical fibers are depreciated over the term of use of the fiber concerned.
- Modems 4 years

At each reporting date, the Group assesses whether the depreciation schedules reflect the useful lives of its assets, and makes amendments where necessary.

Borrowing costs

In accordance with IAS 23, borrowing costs directly attributable to the acquisition or production of a qualifying asset are included in the cost of that asset.

Finance leases

Material assets acquired under finance leases are capitalized in the consolidated financial statements.

In accordance with IAS 17, leases are considered to be finance leases when they have the effect of transferring to the lessee substantially all the risks and rewards inherent to ownership of the asset covered by the lease.

In such cases:

- At the commencement of the lease term, the assets acquired are recognized in the balance sheet based on the fair value of the leased property or, if lower, the present value of the minimum lease payments. They are subsequently depreciated over their useful lives.

- The related obligation is recorded under debt, based on the lease terms.

- Lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

Impairment of assets

Non-financial assets with indefinite useful lives are not amortized, but are tested for impairment on an annual basis at the year-end (December 31) or whenever there is an indication that they may be impaired. In assessing whether there is any indication that an asset may be impaired, the Group considers events or circumstances that suggest that significant unfavorable changes have taken place which may have a prolonged, adverse effect on the Group’s economic or technological environment, or on the assumptions used on acquisition of the asset concerned.

All other assets are also tested for impairment on an annual basis or whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

Financial assets

- Financial assets held for trading are classified as financial assets at fair value through profit or loss and are recognized as current assets. Gains and losses arising from changes in the fair value of these assets are presented in the income statement.

- Financial assets that the Iliad Group has the intention and ability to hold to maturity are classified as held-to-maturity investments and measured at amortized cost. Gains and losses on these investments are recognized in the income statement when they 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 initially recognized 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 recorded when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

The likelihood of collection is estimated based on the best possible assessment of the risk of non-recovery of the receivable concerned.

Deferred taxes

Deferred taxes are recognized using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

However, deferred taxes are not accounted for if they arise from initial recognition of an asset or liability in a transaction other than a business combination and there is no difference in the applicable tax and accounting treatment. Deferred taxes are determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred taxes are recognized on temporary differences arising on investments in subsidiaries except where it is probable that the temporary difference will not reverse in the foreseeable future.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, short-term investments with original maturities of less than three months and highly-liquid investments in money-market mutual funds. Short-term investments are marked-to-market at each balance sheet date.

Bank overdrafts are classified as current financial liabilities.

Assets held for sale

In accordance with IFRS 5, non-current assets that are immediately available for sale in their present condition, and whose sale is highly probable in the short/medium term are classified to "Assets held for sale".

These assets are presented in the balance sheet under "Assets held for sale" and are measured at the lower of carrying amount and fair value less costs to sell.

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 initially recognized at fair value, net of directly attributable transaction costs incurred. They are subsequently measured at amortized cost.

Convertible bonds

The fair value of the liability component of convertible bonds is determined based on prevailing market interest rates for similar bonds with no conversion rights. This amount is recognized as a liability based on amortized cost until the liability is settled when the bonds are converted or reach maturity. The balance of the bond issue proceeds is allocated to the conversion option and recognized in equity, net of tax.

Employee benefits

Other than share-based payments – which are described in a specific note – the only employee benefits within the Iliad Group correspond to pension benefits.

In accordance with IAS 19, *Employee Benefits*, independent actuarial valuations of post-employment benefit obligations under defined benefit plans are made using the projected unit credit method, with benefits recognized in line with vesting.

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 grants to Group employees are measured at fair value at the grant or issue 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.

A certain number of Group employees have been granted shares in a subsidiary subject to conditions relating to their presence within the Group. The shares are measured based on the fair value of the benefit granted to the employee on the grant date, including in particular the estimated turnover of beneficiaries, a discount in respect of the non-transferability period, and the fair value of the shares at the grant date. This benefit is recognized in the income statement under “Share-based payment expense”, on a straight-line basis over the definitive vesting period of the shares, with a corresponding adjustment to equity.

Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value at each balance sheet date. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the hedged item. The Group designates certain derivatives as hedges of a particular risk associated with a highly probable forecast transaction (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and hedging strategy. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are effective in offsetting changes in cash flows of hedged items.

The fair values of the various derivative instruments used for hedging purposes are disclosed in Note 32. 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.

The effective portion of any gain or loss from remeasuring a derivative financial instrument designated as a cash flow hedge is recognized directly in equity and the ineffective portion is recognized in the income statement.

NOTE 2: SCOPE OF CONSOLIDATION

List of consolidated companies and consolidation methods

The scope of consolidation and consolidation methods used are described in Note 35 for the year ended December 31, 2010 and Note 36 for the year ended December 31, 2009.

CHANGES IN SCOPE OF CONSOLIDATION IN 2010

Changes in the scope of consolidation in 2010 – as set out in the table in Note 37 – concerned the following:

- The formation in May 2010 of Iliad Gaming SAS, a simplified joint-stock company (*société par actions simplifée*) that is wholly owned by Iliad SA. Iliad Gaming SAS – which is an online gaming and betting operator – was fully consolidated in the consolidated financial statements at December 31, 2010.

- The formation in May 2010 of Call One BPO, a Moroccan company that is wholly owned by Iliad SA and was fully consolidated in the consolidated financial statements at December 31, 2010. Call One BPO's corporate purpose is to (i) create and operate all activities related to call centers and (ii) supply services concerning assistance, call-outs, maintenance and equipment in the telecommunications field.

NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group makes estimates and assumptions concerning the future. It continually evaluates these estimates and assumptions which are based both on past experience and on other factors deemed reasonable to be used for assessing the carrying amount of assets and liabilities. Actual amounts may differ significantly from these estimates should different assumptions or conditions apply.

The main accounting estimates and judgments used by the Group relate to (i) useful lives and impairment of non-current assets and (ii) assessment of doubtful receivables and calculation of the corresponding provisions.

NOTE 4: REVENUES

An analysis of revenues by operating segment is provided in Note 15.

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

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)	2010	2009
▪ Wages and salaries	74,797	79,371
▪ Payroll taxes	29,639	29,209
Total	**104,436**	**108,580**

Number of employees at year-end

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

	At Dec. 31, 2010	At Dec. 31, 2009
▪ Management	580	514
▪ Other	3,775	3,538
Total	**4,355**	**4,052**

Headcount by segment is presented in the “Employee numbers by operating segment” table in Note 15 “Segment information”.

Post-employment benefits

The methods used for recognizing and measuring pension and other post-employment benefit obligations comply with IAS 19, *Employee Benefits* (see Note 1).

Post-employment benefit obligations totaled €1,874,000 at December 31, 2010, compared with €1,256,000 at December 31, 2009.

The following main economic assumptions were used to measure the Group’s post-employment benefit obligation at December 31, 2010 and 2009:

	2010	2009
▪ Discount rate	4.75%	5 %
▪ Inflation rate	2%	2 %
▪ Salary growth rate	3%	3 %
▪ Mortality table	INSEE 2006-2008	INSEE 2004-2006
▪ Type of retirement	Voluntary	Voluntary
▪ Retirement age		
- Management	Statutory retirement age post 2010 French pension reform	62 years
- Other		60 years

NOTE 7: DEVELOPMENT COSTS

Development costs include the following:

- The cost of designing new products, tailoring existing products to the Internet, and researching or creating databases for new applications (see Note 1). These costs are primarily incurred by Freebox.

- Specific development costs relating to the process for laying optical fiber. These costs are mainly incurred by Free Infrastructure.

- As from 2010, the technological development costs incurred in the mobile telephony business, notably concerning the network's architecture and functionalities.

Development costs that are recognized directly in the income statement are presented net of any related research tax credits.

(in € thousands)	2010	2009
▪ Amortization of capitalized development costs	788	1,660
▪ Development costs recognized directly in the income statement	1,918	260
Total	**2,706**	**1,920**

NOTE 8 : OTHER INCOME AND EXPENSES FROM OPERATIONS

"Other income from operations" breaks down as follows:

(in € thousands)	2010	2009
. Proceeds from sales of non-current assets	17,682	8,728
. Other	5,835	9,569
Total other income from operations	**23,517**	**18,297**

"Other expenses from operations" can be analyzed as follows:

(in € thousands)	2010	2009
. Carrying amount of divested non-current assets	(10,838)	(1,865)
. Royalties and similar fees	(34,441)	(37,720)
. Bad debts	(2,231)	(11,415)
. Other	(1,898)	(5,366)
Total other expenses from operations	**(49,408)**	**(56,366)**

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 of non-current assets

(in € thousands)	2010	2009
▪ Depreciation and amortization expense:		
. Intangible assets	4,773	15,567
. Property, plant and equipment	308,064	278,631
▪ Provisions for impairment of property, plant and equipment	127	1,001
▪ Amortization of investment grants recognized as intangible assets	(898)	(458)
Total	**312,066**	**294,741**

The high level of depreciation of property, plant and equipment reflects the major capital expenditure projects carried out by the Group in recent years.

Additions to other provisions

(in € thousands)	2010	2009
▪ Provisions for contingencies and charges	610	(1,650)
▪ Provisions for impairment of inventories and trade receivables	28,372	30,940
Total	**28,982**	**29,290**

NOTE 10: OTHER OPERATING INCOME AND EXPENSE, NET

This item represented net income of €60,950,000 in 2010, compared with a net expense of €26,491,000 in 2009.

Comments on the 2010 figure

The €60.9 million in net income recorded under "Other operating income and expense, net" in 2010 reflects the combined impact of:

- €125 million in non-recurring income.
- A €40 million write-down of the Wimax license, reflecting the Group's assessment of its likely future use.
- Additions to provisions for claims and litigation and general contingencies to reflect unfavorable changes in certain situations for the Group during the year.

Comments on the 2009 figure

Following the acquisition of Liberty Surf Group, as from 2008 Iliad incurred costs for (i) restructuring the operations conducted under the Alice brand with a view to returning them to breakeven and (ii) combining these operations with Free's business. In 2008, the Group decided to disclose these restructuring costs separately as they represented a material non-recurring amount.

In 2009 these restructuring costs primarily concerned:

- Expenses incurred to combine the IT systems and other technical tools of Telecom Italia SAS and Free SAS and render them compatible, as well as the commercial impact of the difficulties arising from these operations.
- An additional provision recorded for the Redeployment Plan decided on in late 2008.
- Costs caused by renegotiating or terminating contracts.

NOTE 11: FINANCIAL INCOME AND EXPENSES

Financial income and expenses can be analyzed as follows:

(in € thousands)	2010	2009
▪ Income from cash and cash equivalents	2,320	5,613
▪ Finance costs, gross	(44,015)	(56,346)
Finance costs, net	**(41,695)**	**(50,733)**
▪ Other financial income and expenses		
. Translation adjustments/Hedging expense	(7,824)	148
. Other	45	1,576
Net financial expense	**(49,474)**	**(49,009)**

The increase in the net financial expense figure in 2010 reflects (i) the cost of setting up the Group’s syndicated credit facility (see Note 28), and (ii) lower returns from short-term investments.

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

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

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

NOTE 12: CORPORATE INCOME TAX

Analysis of the corporate income tax charge

The corporate income tax charge breaks down as follows:

(in € thousands)	2010	2009
Current taxes		
▪ on income	(7,842)	(15,773)
Deferred taxes		
▪ on income	189,564	107,979
▪ on value added (CVAE)	(5,453)	16,789
Total tax charge	**176,269**	**108,995**

Tax group

The Iliad Group has set up a tax group, which at end-2010 included all consolidated companies except for (i) companies that are less than 95%-owned by the Group, (ii) companies that were set up in 2010, and (iii) companies whose registered office is outside France.

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.

	2010	2009
Profit for the period	**313,138**	**175,868**
▪ Corporate income tax	176,269	108,995
▪ Profit, net of taxes, from discontinued operations	0	(1,010)
Consolidated profit from continuing operations before tax	**489,407**	**283,853**
Theoretical tax rate	***34.43%***	***34.43%***
▪ Net impact of permanent differences	0.18%	- 0.37%
▪ Impact of unrecognized tax loss carryforwards	0.11%	0.06%
▪ Impact of different tax rates	0.02%	0.01%
▪ Other impacts	1.28%	4.27%
Effective tax rate	***36.02%***	***38.40%***

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 using information available at the balance sheet date, or when the companies concerned have been historically loss-making and their turnaround is in progress.

Unrecognized deferred tax assets totaled €4,242,000 at December 31, 2010, compared with €3,821,000 one year earlier.

NOTE 13: BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share

Number of shares used for the calculation

	2010	2009
▪ Number of shares at the year-end	54,696,740	54,583,440
▪ Weighted average number of shares	54,563,253	54,445,188

Diluted earnings per share

Number of shares used for the calculation

	2010	2009
Profit for the period attributable to owners of the Company	313,161	175,663
Interest expense on OCEANE convertible bonds (net of tax)	9,568	9,388
Diluted profit for the period attributable to owners of the Company	322,729	185,051
Weighted average number of shares outstanding (after dilution)		
▪ Weighted average number of shares outstanding (see above)	54,563,253	54,445,188
▪ Number of share equivalents:		
. Stock options	188,676	194,878
. OCEANE bonds	3,754,968	3,754,968
Maximum weighted average number of shares after dilution	**58,506,897**	**58,395,034**
Diluted earnings per share (in €)	**5.52**	**3.17**

Instruments with no dilutive impact

As Iliad's average share price in 2010 was €75.48, the stock options granted in June 2007 and August 2010 did not have a dilutive impact.

NOTE 14: NOTES TO THE STATEMENT OF CASH FLOWS

Cash flows from operating activities

Net cash generated from operating activities is determined by the indirect method, which consists of adding back to or deducting from profit for the period (i) all non-cash transactions, (ii) deferrals or adjustments concerning past or future cash inflows or outflows related to operations, and (iii) all cash flows relating to investing or financing activities.

Changes in operating working capital requirement

Changes in operating working capital requirement during 2010 and 2009 can be analyzed as follows:

2010	Note	Balance at Jan.1, 2010	Net debits	Net credits	Changes in Group structure	Other	Balance at Dec. 31, 2010
▪ Net inventories	21	719	169				888
▪ Net trade receivables	22	103,665		(8,846)			94,819
▪ Net other receivables	22	78,659		(5,962)		(391)	72,306
▪ Supplier payables	29	(193,138)	33,993			(375)	(159,520)
▪ Other payables		(77,998)		(2,231)			(80,229)
Total		**(88,093)**	**34,162**	**(17,039)**		**(766)**	**(71,736)**
Change in operating working capital requirement in 2010			**17,123**				

2009	Note	Balance at Jan. 1, 2009	Net debits	Net credits	Changes in Group structure (1)	Other	Balance at Dec. 31, 2009
▪ Net inventories	21	1,665		(946)			719
▪ Net trade receivables	22	133,541		(18,539)		(11,337)	103,665
▪ Net other receivables	22	81,159		(2,223)	(251)	(26)	78,659
▪ Supplier payables	29	(211,740)	28,814			(10,212)	(193,138)
▪ Other payables		(84,502)	504			6,000	(77,998)
Total		**(79,877)**	**29,318**	**(21,708)**	**(251)**	**(15,575)**	**(88,093)**
Change in operating working capital requirement in 2009			**7,610**				

(1) For 2009, this item corresponds to fair value adjustments to the identifiable assets and liabilities of Liberty Surf Group on completion of the initial accounting for the acquisition (see Note 16).

The impact of restructuring costs on receivables and payables is included in the “Other” column and therefore does not affect changes in operating working capital requirement.

Other receivables

This item can be analyzed as follows:

	Note	2010	2009
Trade and other receivables	22	167,125	185,024
▪ Net trade receivables	22	(94,819)	(103,665)
▪ Other			(2,700)
Recognized in statement of cash flows		**72,306**	**78,659**

Other payables

This item can be analyzed as follows:

	Note	2010	2009
Trade and other payables	29	337,416	364,835
▪ Suppliers of goods and services (incl. VAT)	29	(159,520)	(193,138)
▪ Suppliers of non-current assets (excl. VAT)		(97,567)	(93,498)
▪ Other		(100)	(201)
Recognized in statement of cash flows		**80,229**	**77,998**

Acquisitions of non-current assets

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

	Note	2010	2009
▪ Intangible assets	17	262,827	1,973
▪ Property, plant and equipment	19	535,930	418,394
▪ Suppliers of non-current assets (excl. VAT)			
. at beginning of year		93,498	90,347
. impact of changes in Group structure (1)		0	11,109
. at year-end		(97,567)	(93,498)
▪ Other		(11,109)	0
Recognized in statement of cash flows		**783,579**	**428,325**

(1) For 2009 this item corresponds to fair value adjustments to the identifiable assets and liabilities of Liberty Surf Group on completion of the initial accounting for the acquisition (see Note 16).

Cash and cash equivalents

	Note	Cash and cash equivalents at Dec. 31, 2010	Cash and cash equivalents at Dec. 31, 2009
Cash (including currency hedges)	23	32,430	9,536
Marketable securities	23	312,423	624,365
Sub-total		***344,853***	***633,901***
Bank borrowing facilities	28	(7,384)	(2,101)
Remeasurement of currency hedges	33	0	(1,402)
Total		**337,469**	**630,398**

Non-monetary flows relating to investing and financing activities

The following table presents transactions carried out by the Iliad Group that did not have an impact on cash flows, and which are therefore not included in the statement of cash flows.

(in € thousands)	2010	2009
▪ Acquisitions of assets under finance leases	56,790	24,975

NOTE 15: SEGMENT INFORMATION

Reportable segments

The Group reports information on operating segments based on its business segments.

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

Segment reporting format

The Group has two operating segments, identified using criteria directly based on its organizational structure and internal reporting systems as defined by the Management Committee:

The **Broadband** segment, which includes Internet service provider operations, hosting services, user assistance operations, Wimax activities, operations related to the rollout of the FTTH (fiber-to-the home) network, mobile telephony and online gambling games and sports betting.

The **Traditional Telephony** segment, which includes switched landline telephony, directory services and insurance brokerage operations.

This segment reporting format complies with the criteria in IFRS 8.

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

Analysis of the consolidated income statement by operating segment

2010	Broadband	Traditional Telephony	Inter-segment	Total
Revenues				
External revenues	2,024,851	13,404		**2,038,255**
Inter-segment revenues	3,810	27,718	(31,528)	**0**
Total revenues	2,028,661	41,122	(31,528)	**2,038,255**
Earnings				
EBITDA	798,787	(673)	0	**798,114**
Share-based payment expense	6,912	1,205	0	**8,117**
Depreciation, amortization and provisions for impairment of non-current assets	311,923	143	0	**312,066**
Profit/(loss) from ordinary activities	479,952	(2,021)	0	**477,931**

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

Capital expenditure by operating segment

2010	Broadband	Traditional Telephony	Inter-segment	Total
Intangible assets	262,787	40	0	**267,827**
Property, plant and equipment	520,570	187	0	**520,757**

2009	Broadband	Traditional Telephony	Inter-segment	Total
Intangible assets	1,960	13	0	**1,973**
Property, plant and equipment	426,242	110	0	**426,352**

Employee numbers by operating segment

2010	Broadband	Traditional Telephony	Inter-segment	Total
Number of employees at year-end	4,293	62	0	**4,355**

2009	Broadband	Traditional Telephony	Inter-segment	Total
Number of employees at year-end	3,991	61	0	**4,052**

Analysis of consolidated assets by operating segment

At December 31, 2010	Broadband	Traditional Telephony	Total
Non-current assets (excl. taxes)	**1,852,605**	**10,938**	**1,863,543**
Current assets (excl. cash and cash equivalents)	**233,872**	**8,402**	**242,274**
Inventories	888	0	**888**
Trade and other receivables	158,723	8,402	**167,125**
Other short-term financial assets	2,687	0	**2,687**
Assets held for sale	71,574	0	**71,574**
Cash and cash equivalents			**344,853**

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

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

At December 31, 2010	Broadband	Traditional Telephony	Total
Non-current liabilities (excl. deferred taxes)	**1,002,692**	**542**	**1,003,234**
Long-term provisions	1,002	391	**1,393**
Long-term financial liabilities	999,923	44	**999,967**
Other non-current liabilities	1,767	107	**1,874**
Current liabilities (excl. taxes payable)	**380,484**	**15,612**	**396,096**
Short-term provisions	24,060	297	**24,357**
Trade and other payables	326,949	8,593	**335,542**
Short-term financial liabilities	29,475	6,722	**36,197**

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

NOTE 16: GOODWILL

The main movements in goodwill in 2010 and 2009 were as follows:

(in € thousands)	2010	2009
Carrying amount at Jan. 1	214,048	164,835
Increase following acquisitions:		
▪ Freebox	0	468
▪ Online	0	179
Other movements:		
▪ Free (1)	0	48,566
▪ IFW	200	0
Carrying amount at Dec. 31	**214,248**	**214,048**

(1) For 2009 this item corresponds to fair value adjustments to the identifiable assets and liabilities of Liberty Surf Group on completion of the initial accounting for the acquisition.

NOTE 17: INTANGIBLE ASSETS

Intangible assets break down as follows:

(in € thousands)	At December 31, 2010			At December 31, 2009		
	Gross	Amortization	Net	Gross	Amortization	Net
Acquisitions:						
▪ Development costs	0	0	0	139	139	0
▪ Wimax license	54,296	40,000	14,296	54,296	0	54,296
▪ Mobile license	252,640	0	252,640			
▪ Alice customer base	25,000	4,862	20,138	25,000	2,778	22,222
▪ Other	12,363	2,670	9,693	6,245	4,367	1,878
Internally-generated intangible assets:						
▪ Development costs	4,582	2,107	2,475	3,380	1,485	1,895
Total	**348,881**	**49,639**	**299,242**	**89,060**	**8,769**	**80,291**

Following an impairment test carried out in 2010 (see Note 18), the Group recorded a €40 million impairment loss on its Wimax license.

In January 2010, the Iliad Group was issued France's fourth 3G mobile telecommunications license in return for consideration of €242.7 million. Other acquisitions of mobile-related intangible assets during the year amounted to €19.3 million.

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)	2010	2009
Carrying amount at Jan. 1	80,291	87,997
. Acquisitions	261,532	146
. Internally-generated intangible assets	1,295	1,827
Reclassifications	0	5,951
Other	(40,000)	(522)
Amortization	(3,876)	(15,108)
Net at Dec. 31	**299,242**	**80,291**

NOTE 18: IMPAIRMENT TESTS ON GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets not yet available for use 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.

Intangible assets with finite useful lives are tested for impairment whenever there is an indication that they may be impaired.

The Iliad Group does not have any intangible assets with indefinite useful lives.

Impairment tests

As over 99% of the Group’s revenue is derived from the Broadband CGU, the fair value less costs to sell of this CGU was determined by reference to the Group’s market value, which is considerably higher than the carrying amount of the CGU. Accordingly, the Group has not recognized any impairment losses on goodwill or intangible assets.

Due to the announced difficulties with Wimax technology and the success of competing technologies, in 2010 Iliad carried out an impairment test on its Wimax-related assets by comparing their carrying amounts with their recoverable amounts calculated by reference to the future cash flows that the Group expects to derive from these assets. Based on the results of this test a €40 million impairment loss was recorded for the Group’s Wimax-related assets in 2010.

NOTE 19: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment can be analyzed as follows:

(in € thousands)	At December 31, 2010			At December 31, 2009		
	Gross	Depreciation	Net	Gross	Depreciation	Net
▪ Land and buildings (1)	119,163	845	118,318	65,563	518	65,045
▪ Network usage rights	161,544	37,059	124,485	173,334	51,300	122,034
▪ Service access fees	529,338	331,950	197,388	571,261	361,841	209,420
▪ Network equipment (2)	1,496,301	687,087	809,214	1,107,299	501,822	605,477
▪ Other	91,298	3,584	87,714	108,448	22,954	85,494
Total	**2,397,644**	**1,060,525**	**1,337,119**	**2,025,905**	**938,435**	**1,087,470**
(1) of which finance leases	85,934	251	85,683	39,029	27	39,002
(2) of which finance leases	55,548	32,445	23,103	46,438	26,101	20,337

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)	2010	2009
Net at Jan. 1	1,087,470	996,541
Acquisitions (*)	592,720	443,369
Disposals	(38,502)	(1,865)
Impact of changes in Group structure (1)	0	(64,992)
Reclassifications	3,622	(5,951)
Depreciation	(308,191)	(279,632)
Net at Dec. 31	**1,337,119**	**1,087,470**
(*) Acquisitions excluding assets acquired under finance leases	535,930	418,394

(1) For 2009 this item corresponds to fair value adjustments to the identifiable assets and liabilities of Liberty Surf Group on completion of the initial accounting for the acquisition (see Note 16).

During 2010 the Group kept up its capital spending drive for growth projects. This included the following:

- ADSL-related capital expenditure incurred to extend the coverage of the optical fiber network (including through IRUs) and further improve and renew network equipment. In 2010 the Group unbundled 700 new France Telecom sites.

- Expenditure to expand its operations and manage the ADSL subscriber base (including investments in Freebox and Alicebox modems and service access fees).

- Further investments as part of its FTTH rollout.

- Initial capital outlay for the Group's mobile telephony network after Iliad was awarded a 3G mobile telephony license in January 2010.

Impairment of property, plant and equipment

Items of property, plant and equipment are tested for impairment 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, 2010.

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, 2010	At December 31, 2009
▪ Land and buildings	98,724	56,631
▪ Network usage rights	14,705	9,934
▪ Network equipment	351,757	191,863
Total	**465,186**	**258,428**

NOTE 20: OTHER FINANCIAL ASSETS

Other financial assets break down as follows:

(in € thousands)	At December 31, 2010 Net	At December 31, 2009 Net
Other long-term financial assets		
▪ Loans	3,287	3,104
▪ Other investment securities	3,828	3,517
▪ Guarantees and deposits	5,819	5,896
Total other long-term financial assets	**12,934**	**12,517**
Other short-term financial assets		
▪ Loans	16	16
▪ Cash flow hedges	2,671	0
Total other short-term financial assets	**2,687**	**16**
Total other financial assets	**15,621**	**12,533**

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, 2010 Net	At December 31, 2009 Net
▪ Financial assets at fair value through profit or loss	2,686	17
▪ Held-for-trading investments	0	0
▪ Held-to-maturity investments	0	0
▪ Loans and receivables issued by the Group	9,122	9,016
▪ Available-for-sale financial assets	3,813	3,500
Total other financial assets	**15,621**	**12,533**

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

(in € thousands)	2010	2009
Net at Jan. 1	12,533	4,471
Acquisitions	6,660	10,617
Redemptions and repayments	(6,242)	(2,930)
Impact of changes in Group structure	0	0
Additions to provisions	1	375
Impact of cash flow hedges	2,671	0
Net at Dec. 31	**15,621**	**12,533**

Acquisitions and redemptions and repayments in 2009 and 2010 primarily related to movements in guarantees and deposits paid.

NOTE 21: INVENTORIES

Inventories break down as follows:

(in € thousands)	At December 31, 2010	At December 31, 2009
Raw materials	644	573
Work-in-progress	0	0
Finished products	474	687
Inventories – gross	**1,118**	**1,260**
Provisions:		
. raw materials	(209)	(521)
. Finished products	(21)	(20)
Total provisions	**(230)**	**(541)**
Inventories – net	**888**	**719**

NOTE 22: TRADE AND OTHER RECEIVABLES

Trade and other receivables break down as follows:

(in € thousands)	At December 31, 2010	At December 31, 2009
Trade and other receivables		
Trade receivables	139,689	162,006
Advances and prepayments	1,187	1,139
Tax receivables (VAT)	43,970	45,870
Other	11,221	19,445
Prepaid expenses	17,148	16,129
Total – gross	**213,215**	**244,589**
Provisions for trade receivables	(44,870)	(58,340)
Provisions for other receivables	(1,220)	(1,225)
Net trade and other receivables	**167,125**	**185,024**

Net trade receivables	94,819	103,666
Net other receivables	72,306	81,358

NOTE 23: CASH AND CASH EQUIVALENTS

Cash and cash equivalents can be analyzed as follows:

(in € thousands)	At December 31, 2010		At December 31, 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Certificates of deposit				
Net value	**45,000**	**45,000**	**0**	**0**
Mutual funds (UCITs)				
Net value	**267,423**	**267,423**	**624,365**	**624,365**
Cash	**32,430**	**32,430**	**9,536**	**9,536**
Total, net	**344,853**	**344,853**	**633,901**	**633,901**

The Group's policy is to invest its cash in instruments that qualify as cash equivalents within the meaning of IFRS. As a result, these investments have a short maturity (less than three months), are highly liquid, and are subject to an insignificant risk of changes in value.
Consequently, the Group invests its surplus cash in certificates of deposit with maturities of less than three months as well as in UCITs that fall into the "euro monetary" and "international monetary" classifications of the French securities regulator (AMF).

NOTE 24: ASSETS HELD FOR SALE

Assets held for sale break down as follows:

(in € thousands)	At December 31, 2010	At December 31, 2009
Buildings held for sale	71,574	31,509
Total	**71,574**	**31,509**

In line with its strategy of acquiring the premises necessary for rolling out its FTTH network, 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 is responsible for managing these transactions.

Assets held for sale had no related liabilities at December 31, 2009 or 2010. They gave rise to the recognition of a €217,000 net gain in the 2009 income statement and a €158,000 net gain in 2010.

An analysis of assets held for sale is provided by operating segment in Note 15.

NOTE 25: EQUITY

Share capital

Stock options granted by the Iliad Group on January 20, 2004 have been exercisable by their beneficiaries since January 20, 2008. Similarly, the first tranche of the stock options granted on December 20, 2005 has been exercisable since December 20, 2009 and the second tranche since December 20, 2010.

In 2010, 113,300 stock options were exercised for the same number of new shares. The Group's share capital therefore increased by €25,000 to €12,121,000 at December 31, 2010 from €12,096,000 one year earlier.

At December 31, 2010 the Group held 56,800 Iliad shares. At that date, Iliad's ownership structure was as follows:

Shareholder	Number of shares	%
Executive Management	37,341,890	68.27
Public	17,354,850	31.73
Total	**54,696,740**	**100.00**

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

The dividend paid in 2010 for 2009 totaled €20,174,000. No interim dividend was paid in 2010.

At the next Annual General Meeting, shareholders will be invited to approve a dividend payment of €0.40 per share.

Cash flow hedge reserve

Hedges were set up in 2008 to cover the Group's exposure to changes in interest rates on bank borrowings taken out in 2008 and 2009. These hedges are described in Note 32.

At December 31, 2009 and 2010 the cash flow hedge reserve (net of the tax effect) had negative balances of €17,560,000 and €10,286,000 respectively.

NOTE 26: STOCK OPTION PLANS

The following tables summarize the main features of the various stock option plans approved in 2010 and prior years, and outstanding at the year-end.

At December 31, 2010

Date of Shareholders' Meeting	Date of plan launch	Exercise price (in €)	Number of options outstanding at Jan. 1, 2010	Number of options granted in 2010	Number of options cancelled in 2010	Number of options exercised in 2010	Number of exercisable options outstanding at Dec. 31, 2010	Number of non-exercisable options outstanding at Dec. 31, 2010
December 12, 2003	January 20, 2004	16.30	33,371	0	0	5,126	28,245	0
December 12, 2003	December 20, 2005	48.44	338,178	0	2,292	108,174	227,712	0
May 29, 2006	June 14, 2007	74.62	162,455	0	0	0	0	162,455
May 29, 2006	August 30, 2007	68.17	694,759	0	14,459	0	0	680,300
May 29, 2008	November 5, 2008	53.79	589,400	0	12,000	0	0	577,400
August 30, 2010	August 29, 2014	67.67	0	183,150	900	0	0	182,250
August 30, 2010	August 29, 2015	67.67	0	427,350	2,100	0	0	425,250

At December 31, 2009

Date of Shareholders' Meeting	Date of plan launch	Exercise price (in €)	Number of options outstanding at Jan. 1, 2009	Number of options granted in 2009	Number of options cancelled in 2009	Number of options exercised in 2009	Number of exercisable options outstanding at Dec. 31, 2009	Number of non-exercisable options outstanding at Dec. 31, 2009
December 12, 2003	January 20, 2004	16.30	129,709	0	0	96,338	33,371	0
December 12, 2003	December 20, 2005	48.44	197,002	0	0	55,827	141,175	0
December 12, 2003	December 20, 2005	48.44	197,003	0	0	0	0	197,003
May 29, 2006	June 14, 2007	74.62	162,455	0	0	0	0	162,455
May 29, 2006	August 30, 2007	68.17	701,331	0	6,572	0	0	694,759
May 29, 2008	November 5, 2008	53.79	596,600	0	7,200	0	0	589,400

Exercise date of 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 since December 20, 2009 and half since 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
August 30, 2010	30% of the options exercisable from August 29, 2014 and 70% from August 29, 2015.

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	06/14/2007	08/30/2007	11/05/2008	08/30/2010	08/30/2010
Quantity	270,757	162,455	703,960	596,600	183,150	427,350
Per-share exercise price	€48.44	€74.62	€68.17	€53.79	€67.67	€67.67
Life of the options	5 years	5 years	5 years	5 years	4 years	5 years
Underlying volatility	30.40%	22.50%	22.50%	30%	25 %	25 %
Annual cost (in € thousands)	675	700	2,800	2,265	775	1,356
Maturity	12/20/2010	06/13/2012	08/30/2012	11/05/2013	08/29/2014	08/29/2015

The expense recorded in relation to these plans totaled €7,145,000 in 2010 and €7,281,000 in 2009.

Share grant plan

Following an authorization given by its sole shareholder in May 2010, Free Mobile has set up a share grant plan involving shares representing up to 5% of its share capital.

A total of 16 employees and managers were granted shares representing 4.6% of Free Mobile's share capital, in May 2010 and December 2010. This plan includes an option to settle the share-based payment on Iliad shares, the price of which will be determined by an independent expert.

These shares will vest after a period of two years which will be followed by a two-year lock-up period during which the beneficiaries will not be able to sell their vested shares.

The expense recognized for these plans in 2010 amounted to €972,000.

NOTE 27: PROVISIONS

The provisions recognized at December 31, 2010 are intended to cover the Group's commercial risks related to its operations, risks of tax reassessments and employee-related costs.

Provisions break down as follows:

(in € thousands)	At December 31, 2010	At December 31, 2009
Long-term provisions		
Provisions for charges	1,393	1,397
Total long-term provisions	**1,393**	**1,397**
Short-term provisions		
Provisions for contingencies	23,945	5,191
Provisions for charges	412	3,689
Total short-term provisions	**24,357**	**8,880**
Total provisions	**25,750**	**10,277**

Provisions are considered to be "long-term" when the Iliad Group does not expect to use them within 12 months of the balance sheet date. In all other cases they are deemed to be "short-term".

Provisions for contingencies and charges break down as follows:

(in € thousands)	At December 31, 2010	At December 31, 2009
Provisions for contingencies	23,945	5,191
Provisions for charges	1,805	5,086
Total provisions for contingencies and charges	**25,750**	**10,277**

Movements in provisions for contingencies and charges were as follows in 2010:

(in € thousands)	At Dec. 31, 2009	Increases in 2010	Decreases in 2010 (utilizations)	Decreases in 2010 (surplus provisions)	Changes in Group structure	Other movements	At Dec. 31, 2010
Provisions for claims and litigation and general contingencies	5,191	19,821	(480)	(594)		7	23,945
Provisions for charges	5,086	190	(3,204)	(267)			1,805
Total	**10,277**	**20,011**	**(3,684)**	**(861)**		**7**	**25,750**

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

(in € thousands)	At Dec. 31, 2008	Increases in 2009	Decreases in 2009 (utilizations)	Decreases in 2010 (surplus provisions)	Changes in Group structure	Other movements (1)	At Dec. 31, 2009
Provisions for claims and litigation and general contingencies	9,161	1,156	(7,525)	(3,601)	0	6,000	5,191
Provisions for charges	25,647	5,383	(25,938)	(6)	0	0	5,086
Total	**34,808**	**6,539**	**(33,463)**	**(3,607)**	**0**	**6,000**	**10,277**

(1) Reclassifications to payables

The income statement impact of movements in provisions was as follows:

(in € thousands)	2010	2009
Profit from ordinary activities	3,074	9,175
Operating profit	(18,544)	21,350
Financial income and expense, net	4	6
Total	**(15,466)**	**30,531**

NOTE 28: FINANCIAL LIABILITIES

Financial liabilities can be analyzed as follows:

(in € thousands)	At December 31, 2010	At December 31, 2009
Bank borrowings	578,123	729,444
Convertible bonds	323,030	315,722
Borrowings related to finance leases	80,666	42,904
Cash flow hedges	13,086	26,780
Other	5,062	5,268
Total long-term financial liabilities	**999,967**	**1,120,118**
Bank borrowings	0	156,642
Convertible bonds	7,274	7,274
Borrowings related to finance leases	14,908	9,694
Other bank borrowing facilities	7,384	2,101
Cash flow hedges	2,601	0
Other	4,030	2,949
Total short-term financial liabilities	**36,197**	**178,660**
Total	**1,036,164**	**1,298,778**

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 2010 and 2009:

(in € thousands)	2010	2009
Borrowings at Jan. 1	1,298,778	1,217,772
New borrowings (*)	740,660	129,997
Repayments of borrowings	(1,009,115)	(64,019)
Change in other bank borrowing facilities	5,283	1,840
Impact of changes in Group structure	0	0
Interest on OCEANE bonds and bond premium	7,307	7,030
Impact of cash flow hedges	(11,093)	5,457
Other	4,344	701
Total borrowings at Dec. 31	**1,036,164**	**1,298,778**

(*) New borrowings excluding borrowings related to finance leases	683,870	105,022

Convertible bonds

In June 2006, Iliad issued 3,754,968 OCEANE bonds convertible into new shares and/or exchangeable for existing shares. The bonds mature on January 1, 2012 and are redeemable at face value, i.e., €88.05 per bond.

The bond indenture includes standard early redemption clauses. Notably, the bondholders may hold a General Meeting to decide that all of the bonds must be redeemed in advance of term in the following cases:

- if the Company fails to pay any interest due on any bonds within ten business days of the due date for payment thereof;
- if the Company fails to comply with any other obligations relating to the bonds and such failure is not remedied within ten business days of the Company receiving notice thereof;
- if the Company or any one of its major subsidiaries defaults on the payment of a loan or a loan guarantee representing a total amount of at least €5 million;
- if the Company or any one of its major subsidiaries is required to repay another form of borrowing in advance of term;
- if the Company reduces its interest in Free SAS to below 95%;
- if the Company or any one of its major subsidiaries is subject to any of the procedures provided for in Chapter 6 of the French Commercial Code relating to corporate insolvency or any similar measure or procedure;
- if the Company's shares are no longer listed on a regulated or similar market in the European Union.

Guarantees given

The Iliad Group has not given any specific guarantees in return for its existing borrowing facilities with banks other than those specified below.

Description of the Group's main bank borrowing facilities outstanding at December 31, 2010

A €1,400 million syndicated credit facility

On June 9, 2010, the Group refinanced the €1,200 million loan granted when it acquired Liberty Surf Group in 2008 by setting up a new €1,400 million syndicated credit facility. This new facility – which was arranged with a pool of 11 international banks – comprises two tranches:

- A €600 million loan tranche to refinance the Group's net debt, which was fully drawn down at December 31, 2010.
- A revolving tranche of €800 million expiring in June 2015. None of this tranche had been drawn down at December 31, 2010.

The financial covenants for this syndicated credit facility are described in Note 32.

Loan granted by the European Investment Bank (EIB)

During the year Iliad was granted a €150 million loan from the EIB in order to help finance the rollout of ADSL and FTTH networks. The loan has a 10-year term and is repayable in installments. None of the loan had been used at December 31, 2010.

The financial covenants applicable to this loan are described in Note 32.

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, 2010	At December 31, 2009
Fixed-rate borrowings	834,610	783,810
Variable-rate borrowings	201,554	514,968
Total borrowings	**1,036,164**	**1,298,778**

Breakdown of borrowings by nature and maturity

The following table presents borrowings by nature and maturity at December 31, 2010:

(in € thousands)	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years	Total
Convertible bonds	7,274	323,030	0	330,304
Bank borrowings	0	578,123	0	578,123
Borrowings related to finance leases	14,908	47,317	33,349	95,574
Other bank borrowing facilities	7,384	0	0	7,384
Sundry borrowings	6,631	13,086	5,062	24,779
Total	**36,197**	**961,556**	**38,411**	**1,036,164**

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

(in € thousands)	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years	Total
Convertible bonds	7,274	315,722	0	322,996
Bank borrowings	156,642	729,444	0	886,086
Borrowings related to finance leases	9,694	26,599	16,305	52,598
Other bank borrowing facilities	2,101	0	0	2,101
Sundry borrowings	2,949	26,780	5,268	34,997
Total	**178,660**	**1,098,545**	**21,573**	**1,298,778**

Description of the Group’s main finance leases outstanding at December 31, 2010

Real estate finance leases

The Group purchases premises to house the technical equipment required for rolling out its FTTH network. As part of this process, in January 2007 Iliad entered into a master agreement with Genefim to finance the purchase of such premises through a real-estate finance lease with a 12-year term following which the related assets may be acquired for a token amount of €1. The agreement does not contain any contingent lease payment or renewal options and does not impose specific restrictions, for example concerning dividends, additional debt or further leasing.

Equipment finance leases

As part of its operations, the Group holds several items of equipment (mainly switching equipment) under finance leases with terms of between three and seven years. None of the lease arrangements contain contingent lease payments or impose specific restrictions, for example concerning dividends, additional debt or further leasing. All of the contracts include bargain purchase options at the end of the lease term.

Present value of future minimum lease payments due under finance leases

The following table presents a reconciliation between total future minimum lease payments due under finance leases at December 31, 2010 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	14,908	47,333	33,333	**95,574**
Present value	14,908	42,804	24,986	**82,698**

Present value is determined by applying a 4.46% discount rate.

NOTE 29: TRADE AND OTHER PAYABLES

These items break down as follows:

(in € thousands)	December 31, 2010	December 31, 2009
Trade and other payables recorded under other non-current liabilities		
Trade payables	0	0
Accrued taxes and employee-related payables	1,874	1,569
Other payables	0	600
Sub-total	**1,874**	**2,169**
Trade and other payables recorded under current liabilities		
Trade payables	271,039	294,476
Advances and prepayments	653	0
Accrued taxes and employee-related payables	57,575	64,181
Other payables	5,976	2,471
Deferred income	299	1,538
Sub-total	**335,542**	**362,666**
Total	**337,416**	**364,835**

Total trade payables can be analyzed as follows:

(in € thousands)	December 31, 2010	December 31, 2009
Suppliers of goods and services	159,520	193,138
Suppliers of non-current assets	111,519	101,338
Total	**271,039**	**294,476**

NOTE 30: 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 2010 and 2009 breaks down as follows:

(in € thousands)	2010	2009
▪ Total compensation	1,944	1,812
▪ Short-term benefits	0	0
▪ Post-employment benefits	0	0
▪ Other long-term benefits	0	0
▪ Termination benefits	0	0
▪ Share-based payments	3,997	3,714
Total	**5,941**	**5,526**

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

NOTE 31: FINANCIAL INSTRUMENTS

Reconciliation by class of instrument and accounting category

(in € thousands)	Assets carried at fair value through profit or loss	Other available-for-sale financial assets	Hedging instruments carried at fair value with changes recognized in equity	Loans and receivables	Liabilities carried at amortized cost	Carrying amount	Fair value
At December 31, 2010							
Cash	32,430					32,430	32,430
Marketable securities	312,423					312,423	312,423
Trade receivables				94,819		94,819	94,819
Other receivables				72,306		72,306	72,306
Other short-term financial assets	2,671			16		2,687	2,687
Other long-term financial assets	15	3,813		9,106		12,934	12,934
Long-term financial liabilities (excl. OCEANE bonds)			(13,086)		(663,851)	(676,937)	(676,937)
Short-term financial liabilities (excl. OCEANE bonds)			(2,601)		(26,322)	(28,923)	(28,923)
OCEANE bonds					(330,304)	(330,304)	See (1)
Other non-current liabilities					(1,874)	(1,874)	(1,874)
Other current liabilities					(335,542)	(335,542)	(335,542)
Total carrying amount	**347,539**	**3,813**	**(15,687)**	**176,247**	**(1,357,893)**	**(845,981)**	**N/A**

(in € thousands)	Assets carried at fair value through profit or loss	Other available-for-sale financial assets	Hedging instruments carried at fair value with changes recognized in equity	Loans and receivables	Liabilities carried at amortized cost	Carrying amount	Fair value
At December 31, 2009							
Cash	9,536					9,536	9,536
Marketable securities	624,365					624,365	624,365
Trade receivables				103,666		103,666	103,666
Other receivables				81,358		81,358	81,358
Other short-term financial assets				16		16	16
Other long-term financial assets	17	3,500		9,000		12,517	12,517
Long-term financial liabilities (excl. OCEANE bonds)			(26,780)		(777,616)	(804,396)	(804,396)
Short-term financial liabilities (excl. OCEANE bonds)					(171,386)	(171,386)	(171,386)
OCEANE bonds					(322,996)	(322,996)	See (1)
Other non-current liabilities					(2,169)	(2,169)	(2,169)
Other current liabilities					(362,666)	(362,666)	(362,666)
Total carrying amount	**633,918**	**3,500**	**(26,780)**	**194,040**	**(1,636,833)**	**(832,155)**	**N/A**

(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 32: 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 the euro zone and is therefore exposed to foreign exchange risk, mainly in relation to the US dollar.

Detailed forecasts of the Group's future purchases denominated in US dollars are drawn up as part of the budget process. These transactions are regularly hedged over a maximum period of one and a half years.

The Group has chosen to hedge its exposure to foreign exchange risk through purchases of options in order to obtain a guaranteed floor rate.

The Group's residual exposure after hedging foreign exchange risk on US dollar-denominated transactions was not material in 2010.

At December 31, 2010 all of these currency hedges qualified as cash flow hedges under IAS 39.

The tables below set out the Group's foreign exchange risks and related sensitivity.

Foreign exchange risk

At Dec. 31, 2010 (in € thousands)	**Assets (a)**	**Liabilities (b)**	**Foreign currency commitments (c)**	**Net position before hedging (d) = (a) – (b) +/- (c)**	**Hedging instruments (e)**	**Net position after hedging (f) = (d) – (e)**
US dollar	15,145	35,907	0	20,762	0	20,762
Total	**15,145**	**35,907**	**0**	**20,762**	**0**	**20,762**

Currency hedges had a negative €3,712,000 impact on the Group's income statement in 2010.

Foreign exchange risk sensitivity

(in € thousands)	USD
Net position after hedging	20,762
Net position after hedging based on the assumption that the USD exchange rate changes unfavorably for the Group by €0.01	20,917
Sensitivity	155

Interest rate risk

The Group's interest rate risk management policy is aimed at (i) reducing its exposure to fluctuations in interest rates, (ii) adjusting the portions of its fixed-rate and variable-rate borrowings, and (iii) optimizing its average cost of borrowing.

Interest rate hedges had a €7,274,000 positive impact on equity in 2010.

Hedges of borrowings

In order to reduce the volatility of its future cash flows relating to interest payments on its borrowings, Iliad has set up swaps to convert variable-rate borrowings into fixed-rate borrowings.

The Group's swap contracts in place at December 31, 2010 were as follows:

- A swap contract on a notional amount of €100 million covering the period 2008-2011
- A swap contract on a notional amount of €300 million covering the period 2008-2012
- A swap contract on a notional amount of €450 million covering the period 2012-2015
- A swap contract on a notional amount of €300 million covering the period 2012-2016

These contracts have been classified as cash flow hedges and changes in their fair value are therefore recognized in equity. At December 31, 2010 these derivatives had a negative fair value of €15,687,000.

The Group does not have any exposure to interest rate risk on its finance leases or equipment leasing arrangements as the related contracts are primarily at fixed rates.

Taking into account the above-described hedges and fixed rate contracts, over 80% of the Group's total debt was hedged against changes in interest rates at December 31, 2010.

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, 2010 and an analysis of sensitivity to interest rate fluctuations.

(in € thousands)	Due within 1 year	Between 1 and 5 years	Due beyond 5 years
Financial liabilities	36,197	961,556	38,411
Financial assets	2,687	3,287	5,819
Net position before hedging	**33,510**	**958,269**	**32,592**
Off-balance sheet position	0	0	0
Net position after hedging	**33,510**	**958,269**	**32,592**

Net position to be rolled over within one year and long-term variable rate borrowings (in € thousands)	**33,510**	**194,170**	**0**
Change in interest rate	**1%**	**1%**	**1%**
Average remaining life (in months)	**12**	**12**	**12**
Sensitivity (in € thousands)	**335**	**1,942**	**0**

Equity risk

The Group does not hold any equities in its investment portfolio apart from non-material stakes in two companies. 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 25).

Liquidity risk

The Group has historically financed its growth principally through internal resources, with limited recourse to borrowing to finance its development and external growth.

At December 31, 2010 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, 2010:

	Applicable financial ratios	Consequence of breach	Actual ratios at December 31, 2010
• €1,400 million credit facility (Borrower – Iliad) • €150 million EIB loan (Borrower – Iliad)	Leverage ratio < 2.5 Interest cover ratio > 5.1	Early repayment	Leverage ratio: 0.84 Interest cover ratio: 19.84

The Group's leverage ratio corresponds to the ratio of consolidated net debt to EBITDA (excluding provisions) for the period. The interest cover ratio represents the ratio of consolidated EBITDA (excluding provisions) to net financial expenses for the period.

At December 31, 2010 the Group was not exposed to any liquidity risk in view of the high level of cash generated by its ADSL operations, the maturity schedule of its debt (see Note 28) and its extremely low leverage.

Credit and counterparty risk

The Group's financial assets primarily comprise cash and cash equivalents – particularly investments – as well as trade and other receivables (see Note 31 "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, 2010 trade receivables represented a gross amount of €139 million and a net amount of €95 million (see Note 22 "Trade and other receivables"). The Group's exposure to customer credit risk is monitored daily through cash collection and debt recovery processes. The Group uses the services of specific debt collection agencies to recover any receivables that remain unpaid after the reminder process.

- Short-term investments: the Group's policy is to invest in (i) money market securities (commercial paper with maturities of less than three months), or (ii) certificates of deposit with maturities of less than three months, or (iii) other monetary instruments with short-term maturities, generally not exceeding one month. It also takes care to ensure good diversification amongst high quality counterparties.

At December 31, 2010, the Group's short-term investments amounted to €312 million (see Note 23 "Cash and cash equivalents"). As a result of the policy described above, these investments do not expose the Group to a significant level of counterparty risk.

In addition, as part of its strategy for managing foreign exchange risk, 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, 2010 trade receivables totaled €139 million and provisions for doubtful receivables amounted to €44 million.

At the same date, substantially all past-due receivables were classified as doubtful and provisions had been recorded based on statistical recovery rates. The amount of past-due trade receivables that had not been written down at the year-end was not material.

Concentration risk

The Group is not exposed to any concentration risk in view of its high number of customers (subscribers).

NOTE 33: OFF BALANCE SHEET COMMITMENTS AND CONTINGENCIES

1 – Lease commitments

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

(in € millions)	2010	2009
▪ Minimum lease payments	17	15
▪ Contingent lease payments	0	0
▪ Sub-leases	4	4
Total	**21**	**19**

The table below analyzes the Group's lease commitments at December 31, 2010 by type of asset and maturity.

(in € millions) **Type of leased asset**	**Due within 1 year**	**Due in 1 to 5 years**	**Due beyond 5 years**	**Total**
Real estate	14	42	36	**92**
Vehicles	2	1	0	**3**
Equipment	1	18	197	**216**
Total	**17**	**61**	**233**	**311**

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.

2 – Network-related commitments

Network investments

Commitments given in relation to network investments amounted to €10 million at December 31, 2010.

Capacity purchases

(in € millions) **Type of commitment**	**Due within 1 year**	**Due in 1 to 5 years**	**Due beyond 5 years**	**Total**
Capacity purchases	37	74	0	**111**
Total	**37**	**74**	**0**	**111**

3 – Other commitments

3-1 – Commitments related to telecom licenses

UMTS license

ARCEP decision 2010-0043 dated January 12, 2010 authorizing Free Mobile to set up and operate a 3G network includes a certain number of obligations, notably concerning the network's commercial launch date, the rollout timeline and population coverage, as well as Free Mobile's future service offering. Under these obligations, the Free Mobile network is required to cover 27% of the French population by the beginning of 2012, 75% by the beginning of 2015 and 90% by the beginning of 2018.

Wimax license

In a decision dated December 9, 2003, ARCEP granted IFW the right to use across France a batch of frequencies included in the 3.5 GHz band of the wireless local loop. In connection with this decision, IFW committed to guarantee a minimum population coverage rate of 9% by December 31, 2011.

3-2 – Other commitments

At December 31, 2010, the Group had access to:

- A €1,400 million credit facility, of which €600 million had been drawn down at the year-end.
- A €150 million loan from the European Investment Bank (EIB), none of which had been used at the year-end.

At the same date, other commitments given by the Group amounted to €22 million and other commitments received totaled €7 million.

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, 2010 the Company's employees had accumulated a total of 166,752 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

ARJEL issued the Group subsidiary, Iliad Gaming (i) a license to offer online sports betting services (on June 7, 2010) and (ii) an online poker license (on June 25, 2010).

Claims and litigation

Group companies are involved in a certain number of disputes arising in the normal course of business. When the Group and its legal advisors estimate that it is probable that these disputes will lead to an outflow of resources embodying economic benefits, provisions for contingencies and charges are recorded, in accordance with IAS 37.

The Group considers that the provisions set up to cover such contingencies, litigation or disputes known of or in progress at December 31, 2010 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 34: EVENTS AFTER THE BALANCE SHEET DATE

Free Mobile (Iliad Group) and Orange signed a national 2G mobile roaming agreement on March 2, 2011.

Free Mobile and Orange have decided to extend this agreement to 3G.

This agreement will take effect once Free Mobile – having committed under the terms of its license to the rollout of its own network covering at least 90% of the French population by 2018 – has achieved coverage of at least 25% of the French population.

NOTE 35: LIST OF CONSOLIDATED COMPANIES AT DECEMBER 31, 2010

The following table includes the main legal holdings.

	Registration number	Head office	Percentage control at Dec. 31, 2010	Percentage control at Dec. 31, 2009	Percentage ownership at Dec. 31, 2010	Percentage ownership at Dec. 31, 2009	Consolidation method in 2010
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
CALLONE BPO 7 Bld Mohamed V 20800 Mohammedia - Morocco	/	Morocco	100.00%	0%	100.00%	0%	Full
CENTRAPEL 8 rue de la Ville l'Evêque 75008 Paris	434 130 860	Paris	99.98%	99.98%	99.98%	99.98%	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	433 910 619	Paris	96.86%	96.86%	96.86%	96.86%	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
ILIAD GAMING 8 rue de la Ville l'Evêque 75008 Paris	522 418 250	Paris	100.00%	0%	100.00%	0%	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
ONLINE 8 rue de la Ville l'Evêque 75008 Paris	433 115 904	Paris	95.18%	95.18%	95.18%	95.18%	Full
ONE TEL 8 rue de la Ville l'Evêque 75008 Paris	419 392 931	Paris	100.00%	100.00%	100.00%	100.00%	Full
PROTELCO 8 rue de la Ville l'Evêque 75008 Paris	509 760 948	Paris	100.00%	100.00%	100.00%	100.00%	Full
TOTAL CALL Technoparc – Route de Nouceur Sidi Maar Casablanca - Morocco	/	Morocco	100.00%	100.00%	100.00%	100.00%	Full

NOTE 36: LIST OF CONSOLIDATED COMPANIES AT DECEMBER 31, 2009

	Registration	Head office	Percentage control at	Percentage control at	Percentage ownership at	Percentage ownership at	Consolidation method in

	number		Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2008	2009
ILIAD 8 rue de la Ville l'Evêque 75008 Paris	342 376 332	Paris	100.00%	100.00%	100.00%	100.00%	Full
ASSUNET 8 rue de la Ville l'Evêque 75008 Paris	421 259 797	Paris	89.96%	89.96%	89.96%	89.96%	Full
CENTRAPEL 8 rue de la Ville l'Evêque 75008 Paris	434 130 860	Paris	99.98%	99.98%	99.98%	99.98%	Full
CITEFIBRE 8 rue de la Ville l'Evêque 75008 Paris	479 015 240	Paris	99.89%	99.78%	99.89%	99.78%	Full
DEDIBOX 8 rue de la Ville l'Evêque 75008 Paris	484 961 206	Paris	0%	90.00%	0%	90.00%	N.C.
FREE 8 rue de la Ville l'Evêque 75008 Paris	421 938 861	Paris	100.00%	100.00%	100.00%	100.00%	Full
FREEBOX 8 rue de la Ville l'Evêque 75008 Paris	433 910 619	Paris	96.86%	96.59%	96.86%	96.59%	Full
FREE INFRASTRUCTURE 8 rue de la Ville l'Evêque 75008 Paris	488 095 803	Paris	100.00%	100.00%	100.00%	100.00%	Full
FREE MOBILE 8 rue de la Ville l'Evêque 75008 Paris	499 247 138	Paris	100.00%	100.00%	100.00%	100.00%	Full
IFW 8 rue de la Ville l'Evêque 75008 Paris	400 089 942	Paris	100.00%	100.00%	100.00%	100.00%	Full
IH 8 rue de la Ville l'Evêque 75008 Paris	441 532 173	Paris	100.00%	100.00%	100.00%	100.00%	Full
IMMOBILIERE ILIAD 8 rue de la Ville l'Evêque 75008 Paris	501 194 419	Paris	100.00%	100.00%	100.00%	100.00%	Full
IRE 8 rue de la Ville l'Evêque 75008 Paris	489 741 645	Paris	100.00%	100.00%	100.00%	100.00%	Full
KEDRA 8 rue de la Ville l'Evêque 75008 Paris	439 597 857	Paris	100.00%	100.00%	100.00%	100.00%	Full
ONLINE 8 rue de la Ville l'Evêque 75008 Paris	433 115 904	Paris	95.18%	100.00%	95.18%	100.00%	Full
ONE TEL 8 rue de la Ville l'Evêque 75008 Paris	419 392 931	Paris	100.00%	100.00%	100.00%	100.00%	Full
PROTELCO 8 rue de la Ville l'Evêque 75008 Paris	509 760 948	Paris	100.00%	100.00%	100.00%	100.00%	Full
TOTAL CALL Technoparc – Route de Nouceur Sidi Maar Casablanca - Morocco	/	Morocco	100.00%	100.00%	100.00%	100.00%	Full
TOUTCOM 8 rue de la Ville l'Evêque 75008 Paris	387 601 636	Paris	0%	98.00%	0%	98.00%	N.C.

NOTE 37: CHANGES IN SCOPE OF CONSOLIDATION AND PERCENTAGE CONTROL IN 2010

Main consolidated companies

	Percentage control at Dec. 31, 2009	Consolidation method at Dec. 31, 2009	Acquisition/ incorporation date	Percentage control at Dec. 31, 2010	Consolidation method at Dec. 31, 2010
CALLONE BPO	0	N.C.	May 10, 2010	100.00%	Full
ILIAD GAMING	0	N.C.	May 11, 2010	100.00%	Full