



2010 REGISTRATION DOCUMENT

FINANCIAL REPORT



iliad

Summary

1 PERSONS RESPONSIBLE	3	14 ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT	81
1.1 Person responsible for the registration document	4	14.1 Members of the administrative, management and supervisory bodies	82
1.2 Statement by the person responsible for the registration document	4	14.2 Convictions, bankruptcy, conflicts of interest and other information	87
1.3 Person responsible for financial information	4	14.3 Directors' and senior managers' interests in the Company and the Group	88
1.4 Provisional timetable for financial communications	4		
2 AUDITORS	5	15 COMPENSATION AND BENEFITS	89
2.1 Statutory auditors	6	15.1 Directors' and officers' compensation	90
2.2 Alternate auditors	6	15.2 Agreements entered into by the Company or members of the Group with the Company's corporate officers or principal shareholders	95
2.3 Fees paid by the Group to the Statutory Auditors and members of their networks	7	15.3 Loans and guarantees granted to corporate officers	95
3 SELECTED FINANCIAL INFORMATION	9	16 FUNCTIONING OF THE COMPANY'S ADMINISTRATIVE AND MANAGEMENT BODIES	97
Key figures for 2010	10	16.1 Organization of the Company's administrative and management bodies	98
Principal financial indicators	11	16.2 Service contracts entered into between the Company and members of the Company's administrative and management bodies	102
4 RISK FACTORS	13	16.3 Corporate governance bodies	102
4.1 Risks relating to the Group and its structure	14	16.4 Internal control	104
4.2 Risks relating to the Group's activities	15		
4.3 Financial risks	17	17 EMPLOYEES	105
4.4 Legal risks	17	17.1 Changes in the Group's workforce during the past three years	106
4.5 Risks relating to claims and litigation	20	17.2 Compensation	107
4.6 Insurance and risk coverage	20	17.3 Employee relations	108
5 INFORMATION ABOUT THE COMPANY AND THE GROUP	21	17.4 Training	109
5.1 History and development	22	17.5 Corporate social responsibility	109
5.2 Investments	24	18 MAJOR SHAREHOLDERS	111
5.3 The Free Corporate Foundation	25	18.1 Identification of shareholders	112
6 OVERVIEW OF THE GROUP'S BUSINESS	27	18.2 Voting rights of shareholders	113
6.1 Principal markets	28	18.3 Shareholders' agreements and undertakings	114
6.2 Principal activities	29	18.4 Arrangements which may result in a change in control of the Company	114
6.3 Exceptional factors which have influenced the Group's principal activities or principal markets	42	19 RELATED PARTY TRANSACTIONS	115
6.4 Extent to which the Group is dependent on patents or licenses, industrial, commercial or financial contracts or new manufacturing processes	42	20 FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES	117
6.5 Basis for statements made by the Group regarding its competitive position	44	20.1 Consolidated financial statements for 2010, 2009 and 2008	118
6.6 Regulatory situation	44	20.2 Parent company financial statements for 2010	170
7 ORGANIZATIONAL STRUCTURE	51	20.3 Dividend policy	189
7.1 Brief description of the Group	52	20.4 Litigation and arbitration proceedings	190
7.2 Group organization chart at December 31, 2010	53	20.5 Significant changes in the Company's financial or trading position	190
8 PROPERTY, PLANT AND EQUIPMENT	55	21 ADDITIONAL INFORMATION	191
8.1 Existing or planned material tangible fixed assets	56	21.1 Share capital	192
8.2 Environmental issues that may affect the Company's utilization of its tangible fixed assets	56	21.2 Bylaws	197
9 MANAGEMENT REPORT	59	21.3 The market for Iliad shares	200
9.1 Analysis of the Group's business and results	60	21.4 Liquidity contract	201
9.2 Overview	60	22 MATERIAL CONTRACTS	203
9.3 Significant events of the year	65	22.1 Financial contracts	204
9.4 Comparison of results for 2010 and 2009	66	22.2 Operating contracts	204
9.5 Additional information	72	23 THIRD PARTY INFORMATION, STATEMENTS BY EXPERTS AND DECLARATIONS OF INTERESTS	205
10 CAPITAL RESOURCES	73	24 DOCUMENTS ON DISPLAY	207
11 RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES	75	25 INFORMATION ON SHAREHOLDINGS	209
11.1 Research and development	76	GLOSSARY	211
11.2 Intellectual property	76	ANNEXE A	217
12 TREND INFORMATION	77	ANNEXE B	228
13 PROFIT FORECASTS OR ESTIMATES	79	CROSS-REFERENCE TABLE	230



REGISTRATION DOCUMENT AND FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 2010

DISCLAIMER

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



In accordance with the General Regulations of the *Autorité des Marchés Financiers* (AMF), including Article 212-13, the original French version of this registration document was filed with the AMF on April 6, 2011.

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

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



1

PERSONS RESPONSIBLE

1.1	PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT	4
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1.2	STATEMENT BY THE PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT	4
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1.3	PERSON RESPONSIBLE FOR FINANCIAL INFORMATION	4
-----	---	---

1.4	PROVISIONAL TIMETABLE FOR FINANCIAL COMMUNICATIONS	4
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1.1 PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

Maxime Lombardini, Chief Executive Officer of Iliad.

1.2 STATEMENT BY THE PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

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

I further declare that, to the best of my knowledge, the financial statements for 2010 have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and results of the Company and the consolidated group as a whole, and that the information contained in the Management Report whose various sections are presented in the cross-reference table on page 230 provides a fair review of the business, results and financial position of the Company and its subsidiaries, as well as a description of the principal risks and uncertainties that they face.

The Statutory Auditors' report on the consolidated financial statements for the year ended December 31, 2008 contains an observation set out on pages 174-175 of the 2008 registration document filed with the AMF on April 30, 2009 under number d.09-0366.

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

Maxime Lombardini
Chief Executive Officer of Iliad

1.3 PERSON RESPONSIBLE FOR FINANCIAL INFORMATION

Thomas Reynaud
Senior Vice-President and Chief Financial Officer

Iliad
8, rue de la Ville l'Evêque
75008 Paris
France
Telephone: +33 1 73 50 20 00
www.iliad.fr

1.4 PROVISIONAL TIMETABLE FOR FINANCIAL COMMUNICATIONS

May 4, 2011:	First-quarter 2011 revenues;
May 24, 2011:	Annual Shareholders' Meeting;
September 1, 2011:	First-half 2011 revenues and earnings;
By November 15, 2011:	Revenues for the first nine months of 2011.



2

AUDITORS

2.1 STATUTORY AUDITORS 6

2.2 ALTERNATE AUDITORS 6

2.3 FEES PAID BY THE GROUP TO
THE STATUTORY AUDITORS
AND MEMBERS OF THEIR
NETWORKS 7

2.1 STATUTORY AUDITORS

PricewaterhouseCoopers Audit
Represented by Frédéric Charcosset
63, rue de Villiers
92208 Neuilly sur Seine Cedex, France

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

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

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

Member of a professional organization:

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

Member of a professional organization:

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

2.2 ALTERNATE AUDITORS

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

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

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

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

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

Year ended December 31, 2010

TABLE OF FEES PAID TO THE STATUTORY AUDITORS

	PricewaterhouseCoopers Audit				Boissière Expertise Audit			
	Amount		%		Amount		%	
	2010	2009	2010	2009	2010	2009	2010	2009
<i>In € thousands – excluding tax</i>								
Audit								
Statutory and contractual audits	332.6	427.6	88%	95%	220.0	190.3	100%	100%
Issuer	132.6	132.6	35%	30%	105.6	103.0	48%	54%
Fully-consolidated subsidiaries	200.1	295.1	53%	66%	114.4	87.3	52%	46%
Audit-related work	45.7	21.1	12%	5%	0.0	0.0	0%	0%
Issuer	45.7	21.1	12%	5%	0.0	0.0	0%	0%
Fully-consolidated subsidiaries	0.0	0.0	0%	0%	0.0	0.0	0%	0%
SUB-TOTAL	378.3	448.8	100%	100%	220.0	190.3	100%	100%
Other services provided by the networks to fully-consolidated subsidiaries								
Legal and tax advisory services								
IT consulting								
SUB-TOTAL	0.0	0.0	0%	0%	0.0	0.0	0%	0%
TOTAL	378.3	448.8	100%	100%	220.0	190.3	100%	100%





3

SELECTED FINANCIAL INFORMATION

KEY FIGURES FOR 2010

10

PRINCIPAL FINANCIAL INDICATORS

11

<i>In € millions</i>	Year ended December 31, 2010	Year ended December 31, 2009	Year ended December 31, 2008
INCOME STATEMENT			
Revenues	2,038.3	1,954.5	1,565.0
Operating income and expense, net	(1,560.4)	(1,595.1)	(1,362.0)
Profit from ordinary activities	477.9	359.4	203.0
Other operating income and expense, net	61.0	(26.5)	(30.7)
Operating profit	538.9	332.9	172.3
Financial income and expense, net	(49.5)	(49.0)	(19.5)
Corporate income tax	(176.3)	(109.0)	(52.3)
Profit for the period	313.1	175.9	100.4
Ebitda ⁽¹⁾	798.1	661.4	524.7
BALANCE SHEET			
Non-current assets	1,904.4	1,602.9	1,545.0
Current assets	516.2	820.8	695.2
<i>Of which cash and cash equivalents</i>	<i>347.5</i>	<i>633.9</i>	<i>335.7</i>
Assets held for sale	71.6	31.5	16.8
Total assets	2,492.2	2,455.2	2,257.0
Total equity	1,078.3	764.4	597.5
Non-current liabilities	1,016.0	1,140.5	1,227.8
Current liabilities	397.9	550.3	431.7
Total equity and liabilities	2,492.2	2,455.2	2,257.0
CASH FLOWS			
Net cash generated from operating activities	874.9	734.3	474.2
Net cash used in investing activities	(793.7)	(424.2)	(1,159.2)
Net cash generated from (used in) financing activities	(374.1)	(17.1)	799.4
Net change in cash and cash equivalents	(292.9)	293.0	114.4
Cash and cash equivalents at year-end	337.5	630.4	337.4

(1) See definition in glossary p. 213 of this registration document.

KEY FIGURES FOR 2010

In 2010, consolidated revenues topped the €2 billion mark for the first time ever, climbing 4.3% year-on-year to €2,038 million. The year-on-year increase was attributable to robust growth reported by Free and the dilutive effect on the prior-year figure of consolidating Alice.

Iliad's main profitability indicators were up significantly in 2010, fueled by ongoing economies of scale achieved in the Group's historic businesses and a swift turnaround in Alice's financial position.

(i) **Excluding Alice:** during the year the Group continued its sustained growth trajectory while enhancing profitability:

- organic revenue growth came to 9% between 31 december 2009 and 31 december 2010;
- Ebitda margin reached a record high of over 40%, up by more than 1.1 points between 31 december 2009 and 31 december 2010, reflecting the positive impact of unbundling operations and tight control over the main expense items;

(ii) Alice: 2010 saw a swift turnaround in Alice's financial position, due to:

- the full-year favorable impact of measures taken in 2009, particularly in terms of reducing network and IT expenses and fixed costs;

- the migration of Alice subscribers in areas covered by Free's network to unbundled offerings, enabling the Group to maximize gross profit generated from subscriptions.

These factors resulted in **Alice contributing €83 million to consolidated Ebitda**, versus €24 million in 2009. Alice also had an accretive impact on consolidated profit and Free Cash Flow in 2010.

RAPIDLY SCALED-BACK DEBT AND A SOLID FINANCIAL STRUCTURE

This rapid rise in consolidated profitability was achieved in tandem with very strong cash generation by the ADSL business, with Free Cash Flow from ADSL operations totaling €436 million, versus €328 million in 2009.

Consequently, despite its pro-active capital expenditure plan (including the acquisition of its 3G mobile license for over €240 million), the Group was able to continue to rapidly scale back its debt and achieve a leverage ratio of 0.87x at December 31, 2010 compared with over 2x ⁽¹⁾ when it acquired Alice in August 2008.

PRINCIPAL FINANCIAL INDICATORS

In € millions	Year ended December 31, 2010	Year ended December 31, 2009	Year-on-year change (%)
Consolidated revenues	2,038.3	1,954.5	+4.3%
Ebitda	798.1	661.4	+20.7%
% of revenues	39.2%	33.8%	-
Profit from ordinary activities	477.9	359.4	+33.0%
Consolidated profit for the period	313.1 *	175.9	+78.0%
Dividend per share	€0.40	€0.37	-
Free Cash Flow from ADSL operations	435.5	327.6	+32.9%
Leverage ratio	0.87x	1.01x	-

* Including non-recurring income of €39.9 million after tax.

(1) The Group's leverage ratio on an annualized basis at June 30, 2008, including the debt taken on to finance the August 26, 2008 acquisition of Alice.



4

RISK FACTORS

4.1 RISKS RELATING TO THE GROUP AND ITS STRUCTURE 14

- 4.1.1 Dependence on managers and key employees 14
- 4.1.2 Dependence on the principal shareholder 14
- 4.1.3 Risks relating to the availability of equipment for the development of the broadband Internet access offering 14
- 4.1.4 Risks relating to the impact of acquisitions or investments 14
- 4.1.5 Risks relating to the need to improve the technical features and functions of the services offered by the Group 14

4.2 RISKS RELATING TO THE GROUP'S ACTIVITIES 15

- 4.2.1 Risks relating to the growth of the Internet market in France 15
- 4.2.2 Risks relating to the difficulty in upgrading the capacity of the platform for online access to the Group's services in line with the growth in Internet traffic 15
- 4.2.3 Risks relating to the rapid changes in pricing and technical aspects of Internet access offerings 15
- 4.2.4 Risks relating to competition 15
- 4.2.5 Risks relating to security and confidentiality of information on the Internet 16
- 4.2.6 Risks relating to the rollout of the optical fiber to the home network 16
- 4.2.7 Risks relating to the launch of the mobile business 16

4.3 FINANCIAL RISKS 17

- 4.3.1 Foreign exchange, interest rate and liquidity risks 17
- 4.3.2 Equity risks 17

4.4 LEGAL RISKS 17

- 4.4.1 Risks relating to unfavorable changes in the legal and regulatory environment 17
- 4.4.2 Risks relating to the Group's relations with the incumbent operator 17
- 4.4.3 Risks relating to liability for content 18
- 4.4.4 Risks relating to intellectual property rights 18
- 4.4.5 Risks relating to the use of open source software 18
- 4.4.6 Links with or dependence on other companies 18
- 4.4.7 Operating assets not owned by Iliad 19
- 4.4.8 Industrial and environmental risks 19
- 4.4.9 Risks relating to the loss of licenses and frequencies 19

4.5 RISKS RELATING TO CLAIMS AND LITIGATION 20

4.6 INSURANCE AND RISK COVERAGE 20

The Group carries out its business in an environment which is undergoing rapid change and which poses a number of risks for the Group, some of which are outside its control. Investors are advised to give careful consideration to all the risks set out below and to all the information contained in this registration document. The risks and uncertainties presented below are not the only ones facing the Group, as other risks and uncertainties of which the Group is not currently aware or which it does not consider to be significant could also have a negative impact on its business, results or financial position. The Group's risk management procedures are set out in Section 16.4.1 of this registration document.

4.1 RISKS RELATING TO THE GROUP AND ITS STRUCTURE

4.1.1 DEPENDENCE ON MANAGERS AND KEY EMPLOYEES

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

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

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

4.1.2 DEPENDENCE ON THE PRINCIPAL SHAREHOLDER

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

4.1.3 RISKS RELATING TO THE AVAILABILITY OF EQUIPMENT FOR THE DEVELOPMENT OF THE BROADBAND INTERNET ACCESS OFFERING

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

4.1.4 RISKS RELATING TO THE IMPACT OF ACQUISITIONS OR INVESTMENTS

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

4.1.5 RISKS RELATING TO THE NEED TO IMPROVE THE TECHNICAL FEATURES AND FUNCTIONS OF THE SERVICES OFFERED BY THE GROUP

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

4.2 RISKS RELATING TO THE GROUP'S ACTIVITIES

4.2.1 RISKS RELATING TO THE GROWTH OF THE INTERNET MARKET IN FRANCE

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

4.2.2 RISKS RELATING TO THE DIFFICULTY IN UPGRADING THE CAPACITY OF THE PLATFORM FOR ONLINE ACCESS TO THE GROUP'S SERVICES IN LINE WITH THE GROWTH IN INTERNET TRAFFIC

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

4.2.3 RISKS RELATING TO THE RAPID CHANGES IN PRICING AND TECHNICAL ASPECTS OF INTERNET ACCESS OFFERINGS

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

4.2.4 RISKS RELATING TO COMPETITION

Internet

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

Telephony

The landline telephony sector in France is a mature market and therefore not likely to undergo rapid expansion. It is heavily dominated by the incumbent operator. Although the Group considers that it possesses a number of competitive advantages in this market, including in particular the use of its own network, it cannot guarantee that it will manage to continue to develop its landline telephony business as planned in a sector where the players are principally multinational companies whose financial resources exceed those of the Group and whose capacity for investment, particularly in advertising, presents a considerable advantage.

Television – Audiovisual and other content

Competition was fierce for television, video and games services via ADSL in 2010, and is likely to intensify. Although the Group considers that it has a competitive edge in this market, particularly through the use of its HD Freebox and the new-generation Freebox Server, which protects the transmission of content, it cannot guarantee that it will be able to develop its audiovisual and games business as planned. Any such development will depend on the content offered and on being able to expand unbundling into new areas.

Other services

The on-line gaming and betting services offered by Iliad Gaming were faced with intense competition in 2010 amid a regulatory environment which granted little leeway to operators in the sector. Although the Group considers that it has a competitive edge in this market, it cannot guarantee it will succeed in developing its on-line gaming and betting business as planned.

4.2.5 RISKS RELATING TO SECURITY AND CONFIDENTIALITY OF INFORMATION ON THE INTERNET

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

4.2.6 RISKS RELATING TO THE ROLLOUT OF THE OPTICAL FIBER TO THE HOME NETWORK

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

4.2.7 RISKS RELATING TO THE LAUNCH OF THE MOBILE BUSINESS

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

In addition, negative public opinion about the potential health hazards caused by mobile phone masts could result in further difficulties in rolling out a third-generation mobile communications network and/or an increase in the number of legal disputes which could hold up the rollout. Any such delays in the rollout schedule could result in the Group not being able to meet its regulatory coverage requirements (see Arcep Decision 2010-0043 dated January 12, 2010, authorizing Free Mobile to use frequencies to set up and operate a third-generation mobile communications network open to public use).

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

On March 2, 2011, Free Mobile signed a National 2G and 3G roaming agreement with Orange France in order to ensure coverage for Free Mobile subscribers on Orange France's 2G and 3G networks. Orange France will provide roaming services once Free Mobile has achieved coverage of at least 25% of the French population. The respect of the timeframe covered by this agreement, the quality of the roaming service provided and changes in the behavior of roaming subscribers on Orange France's 2G/3G network could have an adverse impact on the Group's business, results of operations and financial position and on its ability to achieve its objectives. Furthermore, the termination of the 2G/3G roaming agreement or of the 3G roaming agreement with Orange France could also have an unfavorable impact on the Group's business, results of operations and financial position and on its ability to achieve its objectives.

The commercial launch of the Group's mobile services on a mature and competitive French market could also have an adverse impact on the Group's business, results of operations and financial position and on its ability to achieve its objectives.

4.3 FINANCIAL RISKS

4.3.1 FOREIGN EXCHANGE, INTEREST RATE AND LIQUIDITY RISKS

These risks are described in full in Notes 28 and 32 to the consolidated financial statements for the year ended December 31, 2010.

4.3.2 EQUITY RISKS

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

On February 28, 2011, Xavier Niel, the Company's principal shareholder held 62.65% of the capital and 60.57% of the voting rights. The fact that a significant portion of the Company's capital and voting rights is held by a single shareholder, and that said shareholder may freely dispose of all or part of his interest in the Company, could have a material adverse effect on the price of the Company's shares.

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

4.3.2.2 Share price volatility

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

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

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

4.3.2.3 Subsequent sale of shares by significant shareholders

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

4.4 LEGAL RISKS

4.4.1 RISKS RELATING TO UNFAVORABLE CHANGES IN THE LEGAL AND REGULATORY ENVIRONMENT

The Group's operations are subject to specific French and European Union regulations governing the electronic communications sector. For the last ten years the electronic communications sector has been subject to increasing fiscal pressure, with operators being subject to various specific taxes and contributions.

Any unfavorable change in the regulations applicable to the Group's operations could have an adverse effect on its business, results of operations and financial position.

4.4.2 RISKS RELATING TO THE GROUP'S RELATIONS WITH THE INCUMBENT OPERATOR

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

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

4.4.3 RISKS RELATING TO LIABILITY FOR CONTENT

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

4.4.4 RISKS RELATING TO INTELLECTUAL PROPERTY RIGHTS

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

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

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

4.4.5 RISKS RELATING TO THE USE OF OPEN SOURCE SOFTWARE

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

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

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

4.4.6 LINKS WITH OR DEPENDENCE ON OTHER COMPANIES

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

4.4.7 OPERATING ASSETS NOT OWNED BY ILIAD

Other than networks to which Iliad is interconnected as well as certain interconnection equipment and the dark fibers used by its network under long-term Indefeasible Right of Use (IRU) agreements ⁽¹⁾ (described in Section 6.4.2 of this registration document), the Group considers that it is the owner of all the assets required for carrying out its business operations. At December 31, 2010, the Group had access to 58,300 kilometers of fibers, including 31,800 under IRU agreements. The expiration dates of these IRU agreements are set out in Section 6.4.2 of this registration document.

4.4.8 INDUSTRIAL AND ENVIRONMENTAL RISKS

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

4.4.9 RISKS RELATING TO THE LOSS OF LICENSES AND FREQUENCIES

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

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

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

The incumbent mobile telecom operators have filed a complaint with the European Commission against the French State, claiming that the French government effectively provided state aid to Free Mobile. These proceedings are currently in process and the related rulings are expected during 2011. Free Mobile considers that the claims made by the applicants are unfounded.

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

- payment of taxes and royalties;
- contributions to the Universal Service Fund;
- respecting correspondence privacy;
- carrying emergency calls.

Arcep decision 03-1294 dated December 9, 2003 authorizes IFW to operate microwave frequencies in the 3.5 GHz bandwidth, provided it complies with specifications that include a number of requirements relating to network rollout and population coverage. An Arcep inspection on IFW's compliance with its commitments took place on June 30, 2010 and the next such inspection is scheduled to take place before December 31, 2011. If Arcep finds that IFW has not complied with the specifications, it may impose the sanctions provided for in the French Post and Electronic Communications Code.

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

(1) See definition on page 214 of this registration document.

4.5 RISKS RELATING TO CLAIMS AND LITIGATION

In the normal course of its business, the Group is involved in a certain number of legal proceedings. The Group considers that the provisions set up to cover such contingencies, litigation or disputes known of or in progress at December 31, 2010 are sufficient to ensure that there would be no material impact on the consolidated financial position of the Group in the event of unfavorable outcomes. To the best of the Company's knowledge, there are no current or pending governmental, legal or arbitration proceedings that could have, or have in the past twelve months, a material impact on the financial position, results of operations, business and assets and liabilities of the Company or the Group.

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

The Group's companies are involved in inquiries, claims and legal proceedings with regulatory authorities, competitors and other parties. The Group considers that the provisions set up to cover such contingencies, litigation or disputes known of or in progress at December 31, 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 (see Note 27 to the consolidated financial statements).

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

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

4.6 INSURANCE AND RISK COVERAGE

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

The cost of Iliad's insurance cover for all Group companies came to approximately €5.1 million in 2010, representing all the insurance premiums paid. In order to obtain the best possible coverage for all the Group's companies, Iliad uses the services of its online insurance brokerage company, Assunet, which negotiates the insurance policies on its behalf.

- The Group's main policy covers third party liability in the event of fire as required by the incumbent operator in respect of its occupancy of co-location facilities. The rollouts of the FTTH and third-generation mobile communications networks are covered by a principal contractor's liability insurance policy. Work carried out on the optical nodes (ONs) is covered by "non-builder developer" (*constructeur non réalisateur*) insurance.
- The Group has taken out specific insurance policies to cover the operation of the active and inactive electronic communications network. Its business as a fixed-line electronic communications operator is covered by a professional liability insurance policy, which has been amended to include hosting operations for private and professional websites. The Group has also taken out two insurance policies to cover industrial risks and equipment breakage for all locations where its equipment is housed (Points of Presence, subscriber connection nodes, optical nodes), and at the head office, and all of its LTO-ONs. In addition, in March 2008, the Group renewed the directors' and officers' liability insurance policy taken out in March 2005 which covers all forms of such liability claims.

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

5

INFORMATION ABOUT THE COMPANY AND THE GROUP

5.1 HISTORY AND DEVELOPMENT 22

5.1.1	Company name	22
5.1.2	Registration details	22
5.1.3	Date of incorporation and term	22
5.1.4	Registered office, legal form and applicable law	22
5.1.5	Key dates	22
5.1.6	Important events in the development of the Group's business	23

5.2 INVESTMENTS 24

5.2.1	Principal investments over the last three fiscal years	24
5.2.2	Principal investments in progress	25
5.2.3	Principal future investments	25

5.3 THE FREE CORPORATE FOUNDATION 25

5.1 HISTORY AND DEVELOPMENT

5.1.1 COMPANY NAME

The Company's name is Iliad.

5.1.2 REGISTRATION DETAILS

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

5.1.3 DATE OF INCORPORATION AND TERM

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

The Company was incorporated on August 31, 1987 for a fixed period of 99 years from its registration date at the Trade and Companies Registry, expiring on October 15, 2086 unless said period is extended or the Company is wound up in advance.

5.1.4 REGISTERED OFFICE, LEGAL FORM AND APPLICABLE LAW

Registered office: 8, rue de la Ville l'Evêque, 75008 Paris, France

Telephone: +33 1 73 50 20 00

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

5.1.5 KEY DATES

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

1996

- Launch of the reverse look-up directory 3617 ANNU.

1999

- Creation of the Internet service provider Free.
- The Group is granted category L. 33-1 and L. 34-1 telecommunications licenses, authorizing it to roll out a telecommunications network and to provide telecommunications services to the public.

2000

- Sale of the Group's Minitel business (excluding 3617 ANNU).

2001

- Launch of the Freebox (modem and DSLAM) research and development project.
- Acquisition of the French subsidiary of the Australian telecommunications operator One.Tel (December 2001).

2002

- Launch of Free's broadband service.
- Start of local loop unbundling (LLU) operations in Paris.

2003

- Launch in August 2003 of the ADSL landline telephony service using the Freebox modem (under Option 1).
- Launch of an ADSL-based audiovisual content service offering in December 2003.

2004

- Iliad's initial public offering. Listing on the Euronext Paris *Premier Marché* on January 30, 2004.
- Launch in March 2004 of voice over ADSL services under Option 5 using the Freebox modem.
- Launch of a fully unbundled service offering (June 2004).
- Launch of the ADSL 2+ offering (October 2004).

2005

- Acquisition of Altitude Telecom which held the only national Wimax license for France (3.5 GHz) (November 2005).

2006

- Launch of the HD Freebox TV service, DTT Tuner (TF1 and M6 accessible), WiFi Mimo and mobile telephony over WiFi (April 2006).
- Launch of Dedibox – a dedicated server and hosting service available to private individuals (May 2006).
- Issue of bonds convertible for new shares and/or exchangeable for existing shares (Océane) representing a total nominal value of €330,624,932.40 (June 2006).
- Free announces its fiber-to-the-home (FTTH) rollout program (September 2006).
- Acquisition of Citéfibre (October 2006).

2007

- Iliad applies for France's fourth mobile phone license which is rejected by Arcep as it includes a request for a deferred payment arrangement (July 2007).
- Launch of Free's FTTH offer, Internet access at a speed of 100 Mbit/s, telephony and audiovisual services for €29.99 per month (August 2007).

2008

- Iliad sets up a €1.2 billion syndicated credit facility (July 2008).
- Iliad acquires the entire capital and voting rights of Liberty Surf Group S.A.S. (Alice).
- Liberty Surf Group (LSG) – a wholly-owned Iliad subsidiary – sells Intercall S.A. (November 2008).

2009

- Set-up of a strategic partnership with Chiligaming (part of the Gaminvest Holding Ltd group) pending the opening up of the online gaming and betting market in France.
- Citéfibre shares delisted from the *Marché Libre* (April 2009).

2010

- Free Mobile becomes the fourth 3G mobile operator in France (January 2010).
- Iliad sets up a €1.4 billion credit facility (June 2010).
- The EIB supports innovation in France by granting a €150 million loan to the Iliad Group (August 2010).
- Launch of the Freebox Revolution (December 2010).

5.1.6 IMPORTANT EVENTS IN THE DEVELOPMENT OF THE GROUP'S BUSINESS

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

5.1.6.1 A leading Internet service provider in France

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

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

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

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

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

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

5.1.6.2.1 Local loop unbundling

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

LLU allows the Group to offer its subscribers attractive prices and a competitive range of services, providing higher transmission speeds combined with telephony and audiovisual services for subscribers with a Freebox modem.

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

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

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

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

5.1.6.3 The Group becomes a major mobile telephony player

Following the bid process for France's fourth 3G mobile telecommunications license launched on August 1, 2009, on January 12, 2010, Arcep issued Decision 2010-0043 authorizing the Iliad subsidiary Free Mobile to use frequencies in the 2.1 GHz and 900 MHz bands to set up and operate a third-generation mobile communications network in mainland France.

Mobile communications represents a significant avenue of growth for the Group.

As described in Section 6.2.4 of this registration document, the Group started to roll out its 3G network as from early 2010. Its objective is to cover 27% of France's population by early 2012, 75% by end-2015 and 90% by end-2018.

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

In addition to the 3G license, since November 2005, through its subsidiary IFW, the Group has held the sole license to use frequencies in the 3.5 GHz band for the whole of mainland France. This license may be used to support or round out the third-generation network that is currently being rolled out by Free Mobile.

5.2 INVESTMENTS

5.2.1 PRINCIPAL INVESTMENTS OVER THE LAST THREE FISCAL YEARS

Over the last three years the Group has continued to rapidly expand its broadband operations, by pursuing a pro-active capital expenditure strategy, involving the following principal investments, which are also disclosed in Note 15 to the consolidated financial statements:

- growth-related expenditure for the ADSL business, mainly corresponding to (i) Freebox and AliceBox modems, DSLAMs used for the broadband Internet access offering, and cabling costs (access fees) paid to the incumbent operator, and (ii) investments relating to extending local loop unbundling and increasing network density;
- expenditure related to rolling out an FTTH network, including for fitting out sites, laying optical fiber, and connecting up subscribers;
- investments required to obtain a 3G license and roll out a third-generation mobile communications network.

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

In € millions	2010	2009	2008
ADSL expenditure	326	308	316
FTTH expenditure	194	112	65
Mobile communications expenditure	262	-	-
TOTAL	782	420	381

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

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

5.2.2 PRINCIPAL INVESTMENTS IN PROGRESS

In 2010, the Group's principal investments represented (i) ADSL-related expenditure, which directly depends on the number of new subscribers won and the number of new sites opened as a result of the ongoing work on unbundling the local loop, (ii) ADSL expenditure as a result of the Freebox Revolution launch, (iii) FTTH expenditure, and (iv) expenditure relating to the rollout of the third-generation mobile communications network, including the payment on January 13, 2010 of €242.7 million in fees due for the right to use frequencies in the 2.1 GHz band (see Section 20.1).

5.2.3 PRINCIPAL FUTURE INVESTMENTS

- (i) **ADSL expenditure:** The Group plans to undertake further ADSL capital expenditure with a view to (i) producing Freebox modems (notably the latest version, the Freebox Revolution) and distributing these modems to its subscribers, and (ii) increasing its network density by installing additional Freebox DSLAMs at the incumbent operator's sites and operating new sections of optical fiber. With respect to the unbundling of the local loop, the Group is using the information in its possession regarding the geographical breakdown of its broadband subscribers to give priority to unbundling the local loops at those incumbent operator's sites serving the greatest number of subscribers and thus secure a rapid and satisfactory return on its investment. The Group intends to continue to extend its local loop unbundling operations by connecting up between 300 and 400 new incumbent operator's sites a year over the coming two years. In so doing, the Group expects to reach a subscriber unbundling rate of over 90% in the medium term.
- (ii) **FTTH expenditure:** During the coming years, the Group will continue with its horizontal rollouts (mainly outside Paris), using the incumbent operator's service offering that allows access to its existing cable ducts, and will speed up the process of connecting up subscribers thanks to agreements signed among the various operators to pool their vertical rollouts in densely populated areas. At end-2010 the Group had invested almost €500 million under its FTTH investment plan (including the ONs).
- (iii) **Mobile communications expenditure:** Since it received the go-ahead in early 2010 to set up and operate a third-generation mobile communications network in mainland France, the Group has launched the rollout of this network. The aggregate amount of expenditure planned for the rollout is around €1 billion.

Financing

The combination of the significant amount of Free Cash Flow at end-2010, the strong cash flows generated from the ADSL business, a low level of debt and the available credit facilities, means that the Group can self finance its business development.

5.3 THE FREE CORPORATE FOUNDATION

Established in 2006, the Free Corporate Foundation is dedicated to reducing the digital divide and developing open source software. To this end it helps disadvantaged people and public-interest bodies to access web-based services and technology, through a range of measures aimed at supplying funds, equipment and hosting capacity. The Free Corporate Foundation also provides these people and bodies with access to open source software. All of these steps help society's most underprivileged populations to gain access to education, as well as to cultural and leisure activities.

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

Computer and Internet use contribute to educating young people, exchanging knowledge and more generally to boosting social and economic development. Despite all these advantages, full-population access to Information and Communication Technologies (ICT) is still far from being a reality. In a bid to help remedy this situation, in 2010 the Free Corporate Foundation continued its support for *Ateliers Sans Frontières* (Workshops without Borders) and its ASSOCLIC project, for the second year running.

In 2010, the Free Corporate Foundation provided financial support to 33 not-for-profit associations, including:

- ANSA (*Agence Nouvelle des Solidarités Actives*);
- Réseau 2000;
- Fréquence Écoles;
- Synapse Picardie;
- les Ateliers Sans Frontières;
- le Centre Régional de Documentation Pédagogique de Versailles;
- le Centre Expérimental Orthophonique et Pédagogique (CEOP);
- InterTICE (a fair dedicated to educational uses of digital technology);
- L'Enfant @ l'hôpital;
- Ressource;
- Fréquence Écoles;
- la Fraternité de la Belle de Mai;
- le cercle des élèves ESSTIN;
- Science Ouverte;
- Nord Internet Solidaire (ANAS).

The Free Corporate Foundation also supports a number of associations – particularly those of business and engineering schools – by donating computers, such as for the *Association des Élèves de l'École Polytechnique*, Supélec Rezo Rennes, Central Réseaux, I-Resam, CR@NS (*Cachan Réseaux @ Normale Sup*), ResEI (Télécom Bretagne) and l'Association GADZ.

Lastly, the Foundation hosts and provides the use of some 50 servers for various associations including April (Association pour la promotion et la recherche en informatique libre), TuxFamily.org, Centrale Réseaux, Linux62, Apinc (Association pour l'Internet non commercial), AFAU (Association Française des Amateurs d'Usenet), OxyRadio (a not-for-profit webradio station that promotes artists who allow free online access to their works), Englightment, Login (OpenStreetMap project), and the Agoravox Foundation.

As part of the measures put in place to distribute open source software, the Free Corporate Foundation has set up FTP and HTTP mirror sites for software (Linux ubuntu, Linux debian, FreeBSD and Videolan) and provides hosting services in France for SourceForge projects. The SourceForge repository hosts over 260,000 projects and has more than 2.7 million registered users, making it the largest collection of OpenSource applications available online.

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

- hosting servers for the Regional Center for Educational Documents (CRDP) for the Versailles Education Authority: the Versailles Education Authority is the largest in France, covering some 1,100,000 primary and secondary school students and representing 9% of France's total school population. The Group provides hosting services for over 2,000 websites – including individual school sites and more general sites dedicated to educational issues or subject-specific matters – as well as more than 2,500 blogs for schools in the Yvelines, Essonne, Hauts-de-Seine and Val-d'Oise regions in the Greater Paris area;
- the French Red Cross: this project involves providing IT equipment to each of the 15 French Red Cross centers in the Greater Paris area. The computers, printers, software and French language teaching supplies will be used as part of the training provided to the 2,000 people who come to these centers for emergency accommodation or social support ; the Synapse Picardie association: the aim of this not-for-profit organization is to provide comprehensive and sustainable solutions in order to reduce the digital divide in the Somme region of France. During 2010, the Free Corporate Foundation provided backing for this association's project of supplying reconditioned second-hand computer equipment to 1,000 families in the region ;
- the L'Enfant @ l'hôpital association: online chats with scholars and explorers, learning about IT and digital photography and participating in workshops on art and creative writing. These are all examples of activities organized by the L'Enfant @ l'hôpital association for sick children in the hospital, proving that there are a multitude of alternative ways of learning ;
- the Centre Expérimental Orthophonique et Pédagogique: the Free Corporate Foundation is partnering a projet run by this organization, which is an educational center for children who are hard of hearing. The aim of the center is to make children more autonomous and help them overcome some of the constraints caused by their hearing impairment by using distance learning and communication and other IT solutions.

The Free Corporate Foundation also pursued and strengthened its partnership with *Agence Nouvelle des Solidarités Actives* (ANSA) in 2010 to support the projects of the TicActives program.

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

6

OVERVIEW OF THE GROUP'S BUSINESS

6.1 PRINCIPAL MARKETS 28

- 6.1.1 Determining factors for growth in the Internet access market in France 28
- 6.1.2 Players in the Internet access market in France 28

6.2 PRINCIPAL ACTIVITIES 29

- 6.2.1 Description of the Group's principal activities 29
- 6.2.2 A network servicing the Group's Internet and telephony operations 32
- 6.2.3 Competitive advantages 39
- 6.2.4 Strategy 41

6.3 EXCEPTIONAL FACTORS WHICH HAVE INFLUENCED THE GROUP'S PRINCIPAL ACTIVITIES OR PRINCIPAL MARKETS 42

6.4 EXTENT TO WHICH THE GROUP IS DEPENDENT ON PATENTS OR LICENSES, INDUSTRIAL, COMMERCIAL OR FINANCIAL CONTRACTS OR NEW MANUFACTURING PROCESSES 42

- 6.4.1 Dependence on patents and software licenses 42
- 6.4.2 Dependence on supply, industrial, commercial or financial agreements 42
- 6.4.3 Dependence on new operating processes 43
- 6.4.4 Dependence on the Group's main customers and suppliers 43

6.5 BASIS FOR STATEMENTS MADE BY THE GROUP REGARDING ITS COMPETITIVE POSITION 44

6.6 REGULATORY SITUATION 44

- 6.6.1 Regulation of electronic communications networks and services 44
- 6.6.2 Regulation of the content of electronic communications 49

6.1 PRINCIPAL MARKETS

The Group's principal operating market is the Internet access market.

6.1.1 DETERMINING FACTORS FOR GROWTH IN THE INTERNET ACCESS MARKET IN FRANCE

6.1.1.1 General information on the French broadband market

The number of broadband subscribers in France increased by some 1.3 million in 2010. With a total of 20.8 million broadband subscribers at December 31, 2010, the penetration rate for French households is one of the highest in Europe.

In France, as in other Western European countries, ADSL is the technology of choice, accounting for almost 93% of broadband connections at December 31, 2010. The importance of this technology goes hand in hand with the development of unbundling operations, representing nearly 83% of the population at the end of 2010. All of France's overseas departments have at least one unbundled site. The high broadband penetration rate for French households offers attractive prospects for the Group in light of its positioning in this sector.

In addition, the increased use of broadband Internet has spurred the development of new features and value-added services, especially for television over the Internet (IPTV).

6.1.1.2 The very high-speed broadband market: a powerful growth vector

The French very high-speed broadband market is in a strong growth phase, propelled by the fact that the main Internet access providers have speeded up their rollout of FTTH networks. The number of properties equipped with optical fiber is increasing steadily with 1,075,000 at December 31, 2010 *versus* 800,000 at December 31, 2009, representing a rise of more than 34%.

6.1.2 PLAYERS IN THE INTERNET ACCESS MARKET IN FRANCE

In France, as in the rest of Europe, the Internet access market has matured after several years marked by a proliferation of providers. Incumbent operators have made up for initial lost ground and have reestablished their positioning in their domestic markets. At the same time, a move towards consolidation is reducing the overall number of market players. The first wave of this consolidation process has already taken place, with SFR's purchase of Neuf Cegetel and Iliad's acquisition of Alice.

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

- Internet service providers which have teamed up with telecommunications operators such as Orange, SFR and Bouygues Telecom;
- Numericable, a cable network operator;
- independent local access providers; and
- companies offering Internet access as a means of winning customers for their services, such as banks and supermarkets.

Since the arrival of Bouygues Telecom and the launch of its "Idéo" packages, the French market has seen its first quadruple-play offerings (triple-play plus a mobile phone subscription). These offers met with some success in 2010 although triple-play offerings (voice, Internet and TV) are still the market standard.

6.2 PRINCIPAL ACTIVITIES

6.2.1 DESCRIPTION OF THE GROUP'S PRINCIPAL ACTIVITIES

The Iliad Group is a major player in landline telecommunications in France, occupying almost 23% ⁽¹⁾ of the country's ADSL market. It has two core segments ⁽²⁾, defined based on operating criteria:

- **the Broadband segment**, which primarily includes Internet service provider operations, hosting services, user assistance operations and operations related to the rollout of the FTTH network;
- **the Traditional Telephony segment**, which includes switched landline telephony (One.Tel and Iliad Telecom), directory services (mainly the ANNU reverse look-up directory accessible by Minitel, telephone, Internet and SMS text messaging) and insurance brokerage operations (Assunet).

6.2.1.1 The Broadband segment

6.2.1.1.1 Presentation of the Group's offerings

6.2.1.1.1.1 Offerings and services available under the Free and Alice brands

The Group offers its subscribers the following different Internet access solutions, with a box provided and no installation fees:

- **unlimited broadband via ADSL**. This offering allows subscribers to access the Internet at a speed of at least 2 Mbit/s and up to 28 Mbit/s (observed) in areas where the local loop is unbundled and 22 Mbit/s in non-unbundled areas (depending on whether a subscriber's line is eligible). Two options are available under this offering:
 - **Option 1** (subscribers on an unbundled line), whereby the Group markets services carried on its own network (excluding local loop),
 - **Option 5** (subscribers not on an unbundled line), whereby the Group sells on to subscribers a wholesale offer proposed by the incumbent operator;
- **FTTH very high-speed broadband**. This offering – which is available in selected areas chosen by Free – provides subscribers with very high-speed Internet access (100 Mbit/s download and 50 Mbit/s upload).

These offerings enable subscribers to access the services described below.

- **Telephony**. All subscribers are provided with a telephone service under which they can make completely free calls from their modem to landline numbers in mainland France (apart from short numbers and special numbers), as well as Reunion Island, Guadeloupe, and 60 or 100 foreign countries depending on the terms of their offer. In addition, certain of the Group's offers include free calls or packaged deals for calls to mobile numbers in mainland France.
- The Group has the broadest **television offering** in the market, comprising over 400 channels (of which 60 to 180 are included in the basic packages), with 30 high definition channels.

In late June 2010, the Group launched Freebox TV Replay – the most comprehensive catch-up TV offering in the market. Through this service users can watch or re-watch programs shown on 34 channels within seven days of their initial broadcast. Freebox TV Replay is offered at no extra charge for channels included in the Free television package, subject to availability.

Also in 2010, having offered subscribers 3D programs for the Football World Cup, in September the Group announced the launch of several 3D channels. This move made Free the first operator in France to broadcast genuine 3D channels (with a total of five at end-2010, including two in the basic package) and reaffirmed its technological edge over its competitors.

Subscribers can also sign up to watch Canal+ channels through their Freebox or AliceBox.

- **Video on demand (VOD)**. Subscribers to the Group's Internet offerings (in unbundled areas and subject to line eligibility) are provided a video on demand service that includes Canalplay, TF1 Vision, cinema-on-demand, M6 VOD and Vodeo.tv. This service enables subscribers to access a catalog of movies at a price of €0.99 per movie 24 hours a day, 7 days a week and view them on their television. The movies – which are ordered using the subscriber's remote control – include DVD player features and may be viewed for a period of 48 hours.

Freebox Revolution – the Group's latest offering – provides subscribers with a cinematographic encyclopedia at the tip of their remote controls, containing the world's second largest database of movies and TV series. Thanks to the Group's partnership with Allociné, subscribers to this offering can use their televisions to access information sheets on nearly 80,000 movies and 7,000 TV series.

- **Subscription-based video on demand (S-VOD)** Subscribers to the Group's Internet offerings (in unbundled areas and subject to line eligibility) can take out a monthly subscription starting at €0.99 for video on demand content. In 2010, Free packaged this service into thirteen offers whereby subscribers have unlimited access to themed content comprising numerous videos and TV series that are regularly updated.

(1) Source: France Télécom/Iliad.

(2) Information concerning the breakdown of revenues between the two business segments is provided in Note 15 to the consolidated financial statements in Section 20.1 of this registration document.

- **HD games.** The Freebox Revolution offering enables subscribers to access games directly via their televisions. Through its partnership with Gameloft – a leading worldwide developer and publisher of downloadable video games – the Group has once again demonstrated its pioneering approach by bringing out the first-ever HD games offer on a triple-play box.

6.2.1.1.1.2 Hosting offers and services provided under the Online, Dedibox and Iliad Entreprises brands

The Hosting business corresponds to the sale of both dedicated and non-dedicated web hosting services, as well as customized outsourcing solutions.

Non-dedicated hosting services proposed under the Online brand are invoiced at a flat annual rate by domain name or by site.

The dedicated server offering marketed under the Dedibox brand is aimed at SMEs and individuals. The services are invoiced on a monthly basis and subscribers can access a high-speed multi-usage platform that is permanently connected to the Internet network. Various formats are offered to subscribers, depending on whether they are seeking hosting solutions for their e-commerce sites, messaging servers, data backups or applications (whether low-resource or resource-hungry).

The Group also has a brand that is entirely devoted to professionals – Iliad Entreprises – which offers customers bespoke communications systems management solutions in order to precisely meet their requirements. These services range from infrastructure relocation to global project management, with operations assistance targeted at specific areas of expertise.

6.2.1.1.1.3 Other Broadband activities

The Group's **Other Broadband activities** mainly generate revenues through the sale of (i) advertising space on Free's portal, (ii) the "Pay-as-you-go" and "50-hour plan" Internet access offerings, (iii) switched traffic to the Traditional Telephony segment and (iv) WiFi cards and related equipment, as well as the preselection offering, migration to the unbundled service and modem renewals. In 2010, Arjel (France's online gaming regulator) licensed the Group's subsidiary Iliad Gaming as an authorized operator in the French market. The revenues generated from the Group's online gambling games and sports betting offerings are included in "Other Broadband activities".

6.2.1.1.2 The Group's manufacturing operations

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

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

The Freebox modem. In 2001, the Iliad Group invented the concept of the "box" – a multi-service modem box offering Internet access as well as telephony (VOIP) and television services (IPTV). Developed by Iliad's in-house teams, the Freebox is an easy-to-install scalable ADSL modem with multiple functions that enables householders to converge their multimedia requirements.

Designed and developed by the Group's research and development teams, the Freebox modem and the Freebox DSLAM include components acquired from third party suppliers and assembled by companies which are not part of the Group.

The Freebox is now in its sixth version and boasts a host of functions, some of which are exclusive to Free. The main Freebox versions that are currently available are shown below, along with their principal functions:

- Freebox V4 (launched in 2004). This box includes ADSL 2+ technology and has a very high theoretical bandwidth (up to 28 Mbit/s) as well as offering access to value-added services such as audiovisual services over ADSL (Mpeg 2 and Mpeg 4 format);

FREEBOX V4



- Freebox HD or V5 (launched in 2006). This version has two boxes (a modem and a TV box) connected together using PLC technology, and also features a 40 GB digital hard disk and WiFi MiMo 802.11n;

FREEBOX V5



- in December 2010, the Group launched its new offering and associated boxes – a modem (the Freebox Server) and a TV box (the Freebox Player). Developed by Freebox S.A.S.' technical teams, this equipment can be used by both ADSL and FTTH subscribers. The modem has numerous connection interfaces (WiFi 802.11n, a DECT base, USB ports, a Switch with 4 Gigabit Ethernet ports, an e-SATA port, audio/stereo input/output, etc.) and has been designed to connect to any terminal, therefore providing subscribers with optimal Internet access. As well as integrating two loudspeakers, this new offering – marketed under the name Freebox Revolution – has a 250 GB NAS hard disk to cover all new multimedia usages and to simplify content sharing between different users and equipment. The offer also includes pre-associated Freeplugs that integrate Power Line Communication (PLC) technology with a view to creating a straightforward and safe link between the Freebox Player and the Freebox Server. The Freebox Player was developed in the aim of simplifying the use of television over the Internet while offering the best of TV. In order to offer subscribers optimal comfort of use it contains an Intel Atom CE4100 processor that combines high-performance, miniaturization and low energy consumption. Thanks to its high-quality smooth performance users can fully reap the benefits of the services available, including TV, VOD, online gaming or the integrated Blu-ray player.

FREEBOX V6



The software used in the Group's boxes is mainly developed in-house by the Group based on open source software such as Linux, which enables the developer community to contribute to creating numerous applications.

6.2.1.1.3 Support services and subscriber relations

The Group's subscribers are provided with technical support and after-sales services through a telephone helpdesk platform run by the Iliad subsidiaries Centrapel, Total Call, Free, ProTelco and Call One BPO. Iliad is currently focusing on strengthening and training its technical and after-sales support teams, developing new systems to optimize the services provided to subscribers, and enhancing subscriber relations. The main objectives set by the Subscriber Relations Department are to improve service quality and subscriber satisfaction rates, effectively manage the number and length of calls as well as repeat calls, enhance the call handling process, strengthen career development measures for staff and apply them consistently across the various subscriber support sites, and be ready to take on new projects. Fostering subscriber loyalty is one of Iliad's key focuses and all of the Group's employees have received training on subscriber retention.

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

The Subscriber Relations Department also provides subscribers with an online support service available through the Free and Alice websites. This service provides answers to user FAQs and allows subscribers to ask the support service specific questions via email or chat. Subscribers also have

access to a virtual consultant (Eva for Free and Benjamin for Alice) and video clips featuring technical tips and advice (installations, troubleshooting, etc.). The support site is available in nine different languages and offers a simplified navigation system for the visually impaired.

The management teams of the call centers implement a strict quality policy based on respect for subscribers. As a result, Iliad – whose call centers have obtained NF Service (AFAQ/Afnor) certification – continually develops new high value-added services which not only benefit subscribers but also help to build the skills of its helpdesk staff. These include extending local support services (through free home visits by technicians organized in rapid time frames), creating laboratories, frequently updating the quality manual and related guidelines, setting up on-site steering committees and operations committees to ensure across-the-board performance and the effective implementation of action plans, carrying out analyses of complaints with the French General Directorate for Competition Policy, Consumer Affairs and Fraud Control (DGCCRF), performing audits and setting benchmarks, operating a national consumer department to deal with and settle any complaints or disputes, contacting subscribers through SMS text messaging, and setting up specific services for outgoing calls.

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

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

6.2.1.2 Traditional Telephony segment

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

6.2.1.2.1 One.Tel

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

6.2.1.2.2 The Iliad Telecom offering

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

6.2.1.2.3 Kedra

Over the past few years, mobile operators have significantly reduced termination charges for landline-to-mobile calls in France, in response to Arcep's study of the relevant mobile call termination market. In light of these new tariffs, the Group entered into direct interconnection agreements with the three mobile telephony operators in France. As a result, Kedra's business has been considerably reduced since January 1, 2007, a trend that continued in 2011.

6.2.1.2.4 Assunet

Assunet provides insurance brokerage services, offering customers and prospects the most advantageous prices in the market for their specific profiles and requirements by comparing the coverage and deductible levels proposed by the main insurance companies.

6.2.2 A NETWORK SERVICING THE GROUP'S INTERNET AND TELEPHONY OPERATIONS

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

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

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

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

- August 2000 – April 2001: interconnection with the digital main switching units and all digital local exchanges in the Paris urban area for the collection of data traffic;
- April 2001 – August 2002: interconnection at a number of digital local exchanges outside Paris and upgrading for routing of voice traffic;
- since September 2002: unbundling of the local loop and expansion of the national network;
- since September 2006: rollout of an FTTH network;
- since February 2010: rollout of a third-generation (3G) mobile communications network.

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

The Group's IP network is now one of France's largest, both in terms of size and data traffic volumes.

Since 2001 the Group has built up a modern telecommunication network by avoiding the use of architectures that although tried and tested are thirty years old and completely unsuitable for new uses (such as unlimited access offerings), and by using a single transport network. Operators generally each use a number of different transport networks – such as ATM, SDH/PDH, Frame-Relay and Ethernet – which require (i) employees specialized in each individual technology, and (ii) different equipment and fiber or DWDM resources to build the various networks. Iliad chose to build a single transport network based on an 802.3 physical layer (Ethernet) with its different available speeds (100 Mbit/s followed by 1 Gigabit and 10 Gigabit). This technology is only used in a point-to-point topology and never in a multipoint topology like for local networks.

As early as in 2001 the Group took the step of rolling out an all-IP voice transport network whereas the other operators had not yet even identified the structure of the new generation networks. Ethernet was chosen as the physical layer for the transport network as it is a simple and robust technology that is very cost-effective for the transport speeds required for IP services.

6.2.2.1 Long-distance transmission infrastructure

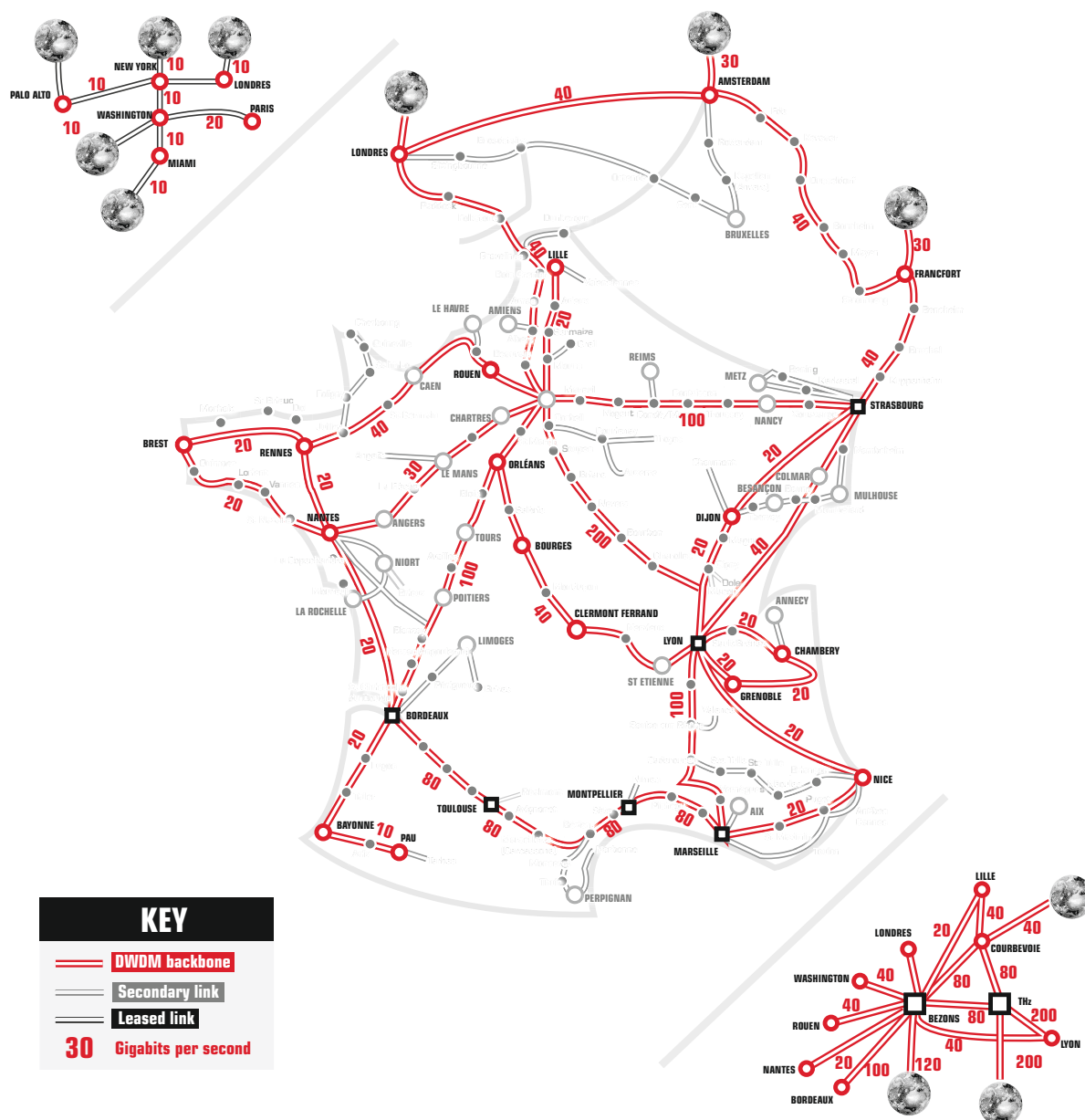
6.2.2.1.1 Long-distance transmission network technology

The Group's long-distance transmission network is entirely built with optical fiber. Its optical communications technology is based on the Dense Wavelength Division Multiplexing (DWDM) technique which enables several wavelengths to be carried on the same optical fiber.

Using the optical transmission equipment set up by the Group, each wave carries a signal at a very high speed (10 Gbits), and 32 different waves can be carried on the same optical fiber. This means that each link has a capacity of several hundred Gbits, which can be considered as practically an "infinite" transmission capacity.

The Group has full control over its transmission capacities as it has built or leased the sections of dark optical fiber it requires (see below) and operates its transmission equipment itself thanks to its investments in multiplexers.

Map showing the Group's network at December 31, 2010



The Group's network comprised some 58,300 linear km of optical fiber at December 31, 2010, compared with 51,800 km at December 31, 2009.

6.2.2.1.2 Ownership of the network

The majority of the network is held pursuant to IRU agreements, Free's preferred method. Under these long-term agreements, the Group has acquired the indefeasible right to use the fibers for a given period, without having to obtain any right-of-way easements. Most of the agreements have been signed with the SFR group and with local authorities. In June 2004, Free signed an agreement with SFR to extend the term of most of these IRU agreements until December 31, 2030.

The sections of the network that are not covered by such agreements are either leased or owned outright, notably in conjunction with joint construction projects undertaken with private operators or local authorities.

6.2.2.2 Network interconnections and unbundling the local loop

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

In order to offer voice telephony services to its subscribers, the Group has signed interconnection agreements with the incumbent landline operator and the three incumbent mobile operators in France based on the reference interconnect offers published by these operators.

The Group has also signed interconnection agreements with the alternative operators Colt, Complete1 and Verizon relating to terminating traffic entering their networks as well as traffic for value-added services collected by these operators. At the same time, these operators have entered into interconnection agreements with the Group concerning terminating traffic entering the Free network for Group subscribers (for non-geographic 087B and 095B numbers and geographic numbers).

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

6.2.2.2.1 Interconnection architecture between the Group's network and the incumbent operator's network

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

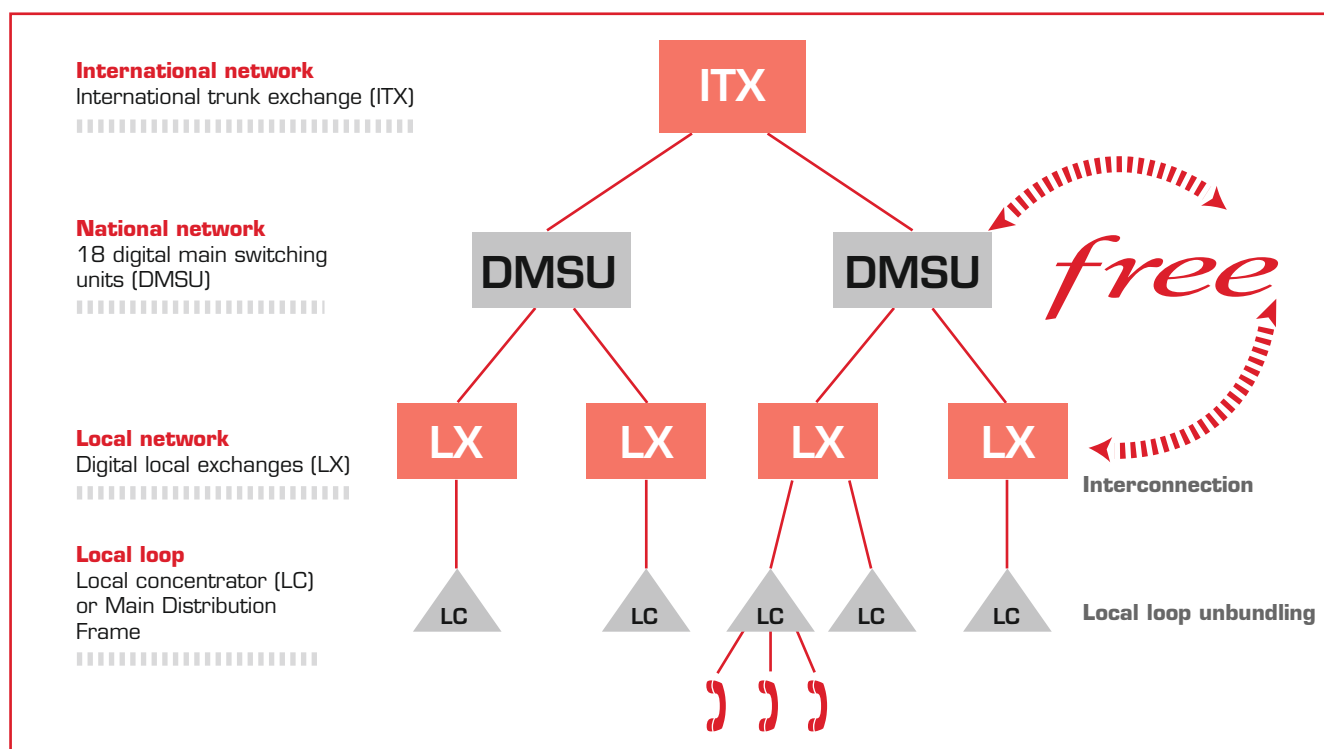
The alternative operator may also connect to the lowest hierarchical level of switches installed on the network, i.e., the digital local exchange, which is the switch closest to the user.

In turn, each user of the incumbent operator's landline telephone services is connected to a digital local exchange by means of a local concentrator.

The Group has been developing its interconnection infrastructure with the incumbent operator's network since August 2000. During that time it has considerably increased the portion of interconnections made at the level of the digital local exchanges and at the end of 2010 the Group's network was directly connected to virtually all of the incumbent operator's digital local exchanges in mainland France.

Type of incumbent operator site	Number of interconnection points between Free and the incumbent operator	Total number of incumbent operator sites
Digital main switching units	18	18
Digital local exchanges	366	394

The diagram below shows the architecture for connections between the POPs in the Group's network and the incumbent operator's digital main switching units and digital local exchanges.



6.2.2.2.2 Local loop unbundling

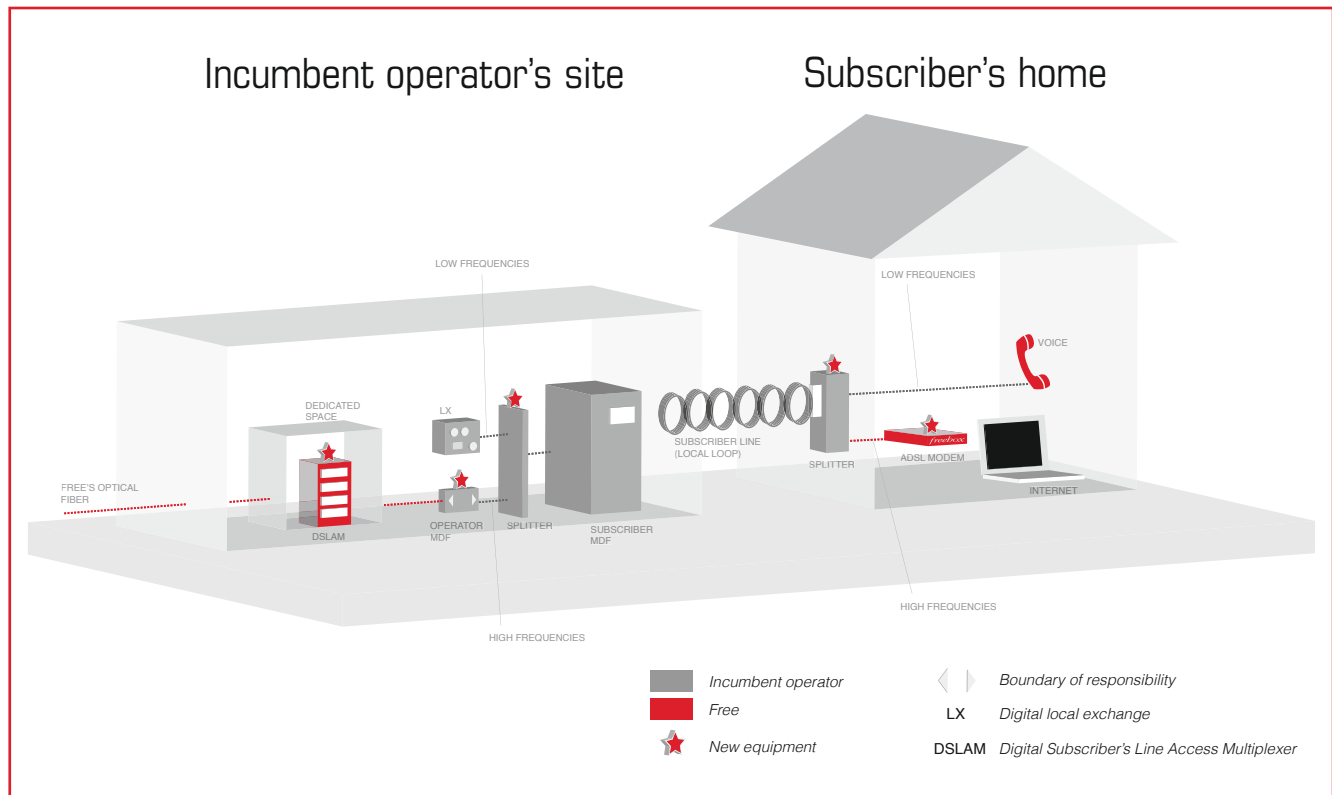
The local loop is the part of the network located between the telephone socket on the subscriber's premises and the main distribution frame (or local concentrator) to which the subscriber's line is connected.

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

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

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

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



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

Local loop unbundling frees an operator from the vast majority of the incumbent operator's network. The recurring charges payable to the incumbent operator relate primarily to the rental of the copper pair, the splitter and the copper tie cable linking the subscriber's modem to the operator's DSLAM.

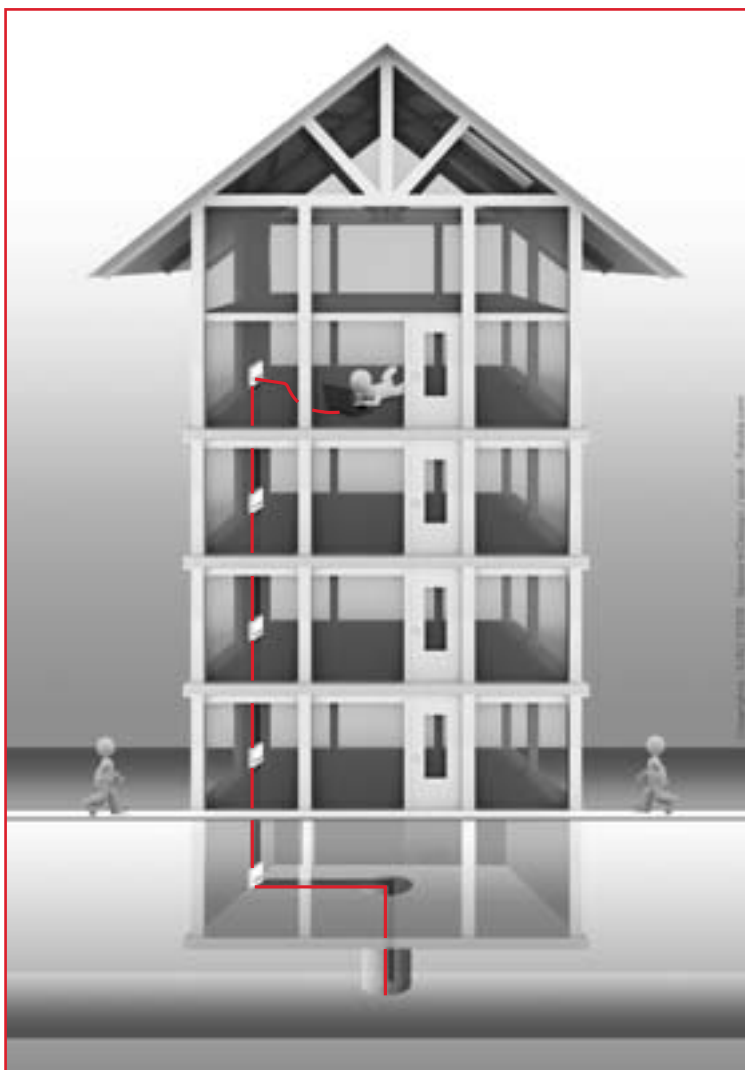
In the case of full unbundling, the alternative operator uses all the frequencies of a particular copper pair. In this case the user no longer pays telephone line rental to the incumbent operator and splitters are no longer necessary.

6.2.2.3 Rollout of an FTTH network in densely populated areas

Optical fiber – which has long been used by telecom operators for long-distance transmission links – has proved to be the fastest, most reliable and powerful transmission technology available. It enables data to be transmitted at the speed of the light signal passing through the fiber and consequently offers speeds of several hundred Mbit/s and even much more. It is the use of this technology that has driven the surge in Internet usage worldwide.

By having an optical fiber network with high upstream and downstream speeds, a variety of multimedia services can actually be used simultaneously.

The Group has chosen to use a point-to-point (P2P) architecture for its FTTH network because this enables each subscriber to have a dedicated fiber link. P2P architecture – which is also used for the copper local telephone loop – provides each subscriber with their own transmission capabilities between their home and the distribution point.



Rolling out an FTTH network consists of four phases:

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

The horizontal rollout phase is being undertaken either by the Group's own teams (mainly in Paris) or by subcontractors, primarily in the regions, and using the incumbent operator's service offering allowing access to its existing cable ducts.

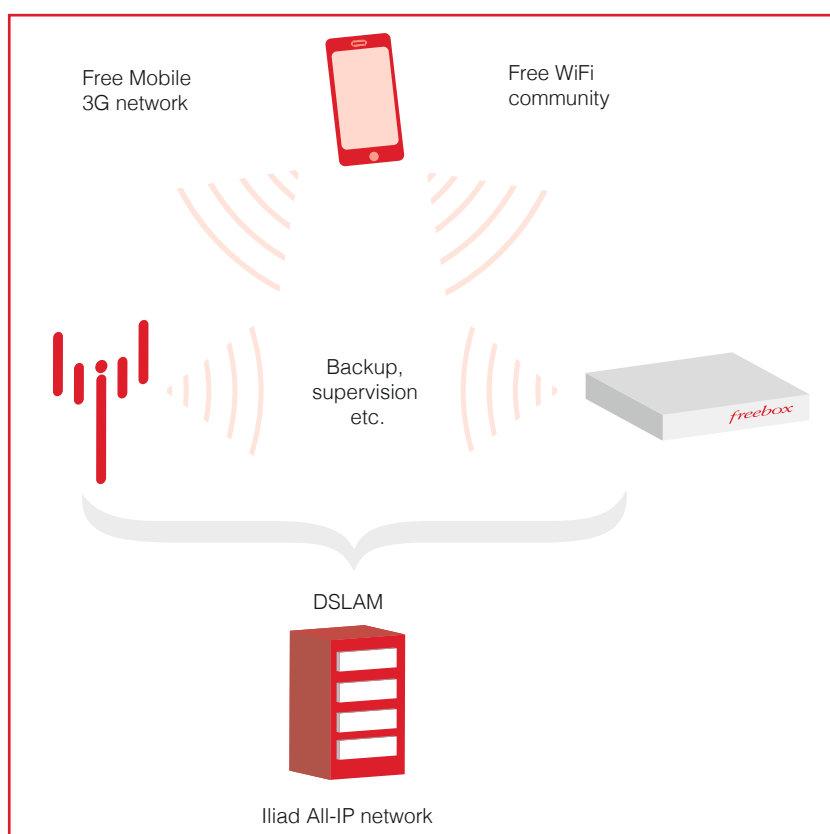
On December 22, 2009, Arcep issued Decision 2009-1106 promoting the sharing between operators of the last drop of optical fiber local loop networks, which will facilitate vertical rollouts. Consequently, Iliad expects the pace of its rollouts to become gradually faster.

6.2.2.4 Rollout of a third-generation mobile communications network

In phase with the approach it adopted for constructing its IP network and developing its landline telephony services, the Group believes that when building a mobile network – even a 3G network – it needs to completely break away from what other operators did several years ago now. Consequently, it intends to draw on the recommended architectures for 4G networks (LTE and Wimax).

The 3G network must be able to meet the requirements of tomorrow (mobile Internet) as well as to fit seamlessly with the rest of the Group's all-IP network. The Group's overall vision is for its mobile network to be simply a peripheral add-on component to the IP and voice transit network already in place.

As IP technology is already used in a large number of mobile core networks across the world, equipment manufacturers are fully aware of and factor in its restrictions and consequences. In addition, the topology of the Group's IP network and the length of the rings deployed for the national network will not give rise to any significant problems in terms of latency and jitter.



The Free Mobile network is therefore based on the Group's existing network infrastructure, which will enable the mobile network to be rolled out rapidly.

6.2.3 COMPETITIVE ADVANTAGES

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

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

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

Technically sophisticated and attractively priced service offerings

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

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

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

A leading player in local loop unbundling

The Group considers that local loop unbundling lies at the heart of its ability to offer original, sustainable and profitable broadband Internet access services. At December 31, 2010 the Group had 4,021,867 unbundled lines thanks to the installation of approximately 5,607 Freebox DSLAMs in 3,349 facilities located in or alongside the incumbent operator's exchanges. The Group intends to leverage its experience and enlarge the number of unbundled areas in order to offer differentiated services to its subscribers.

Targeted research and development focusing on the consumer market

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

An in-depth understanding of key regulatory issues

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

The ability to build on its experience

As the different parts of the Group's network complement and are integrated with one another, Iliad has been able to build on its experience integrating Alice from 2008 to 2010. During this time the Group generated IT system and network synergies which involved switching Alice subscribers to the Group's network and the unbundling of eligible lines.

Licenses

The Group has held a Wimax license since 2005 and in early 2010 was granted France's fourth 3G mobile communications license. Also in 2010, Arjel (France's online gaming regulator) licensed the Group as an authorized operator in the French market for online gambling games and sports betting services.

An experienced management team with complementary skills

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

6.2.4 STRATEGY

Leveraging the competitive strengths described in Section 6.2.3 of this registration document, the Group's strategy is based on the principles described below.

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

The Group plans to pursue its strategy of winning new ADSL broadband subscribers by combining a competitive pricing policy with a focus on the quality of its services. As part of this approach, on December 14, 2010 the Group launched its Freebox Revolution offering which includes a wide array of innovative services, such as calls to mobile numbers, a Blu-ray player and video games.

This subscriber recruitment policy forms part of the Group's overall strategy to further enhance its profitability.

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

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

By raising the unbundling rate Iliad will achieve the objective of enhancing its underlying offerings. During 2010 the Group continued to extend its network in order to maximize its unbundling rate, which at the year-end stood at 89.2% compared with 85.4% at December 31, 2009.

Promoting the use of optional value-added services

The Group's strategy of profitable growth is underpinned by (i) regularly launching new free or pay-per-use services accessible through the Freebox and (ii) increasing subscribers' use of its existing services. Since its triple play offering was first launched, the Group has added a stream of new services – such as TV over IP, “on-demand” content, a Multi-TV service, and video games – and has made the available value-added services easier to use. For example, in 2010, a catch-up TV offering was launched, which proved highly successful and now includes programs originally broadcast by 34 different channels.

The Group has also integrated the latest technological innovations into the various generations of its ADSL modems in order to increase their user-friendliness, including Power Line Communication (PLC) technology in the plugs on the Freebox HD and the Freebox Revolution, the latest-generation WiFi (802.11n) and a Blu-ray player.

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

Rolling out an FTTH network in areas with high subscriber density

In September 2006, the Group announced that it planned to roll out an optical fiber network (FTTH) in order to provide a direct connection to the homes of its subscribers living in densely populated areas, representing 4 million homes. The aim of this project is to:

- (i) strengthen the Group's strategic positioning in these areas, by setting up its own infrastructure and therefore operating totally independently from the incumbent operator's local loop;
- (ii) meet the demand for increasingly higher broadband speeds in the coming years;
- (iii) migrate existing subscribers to fiber in order to increase the Group's margins in light of the different probability levels achievable for subscribers on the FTTH network compared with subscribers on standard unbundled lines.

Iliad intends to optimize its capital expenditure by focusing on areas with high subscriber density. In mid-September 2007, Free announced the features of its FTTH very high-speed broadband offering (see Section 6.2.1.1.1.1) and the Group intends to continue to roll out this technology in order to increase the number of FTTH-eligible households.

Rolling out a third-generation mobile communications network

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

Since this license was acquired Free Mobile has selected its main service providers for its equipment and implementing the actual rollout, as well as the major lessors for its base transceiver stations, which means that more than 90 companies and 3,000 people are currently working on the Free Mobile project.

In accordance with its commitments to Arcep, Free Mobile is aiming to achieve population coverage levels of 27% by early 2012, 75% by 2015 and 90% by 2018, and to launch its commercial mobile offering in 2012.

Keeping on the lookout for acquisition opportunities to drive growth

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

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

The regulatory framework setting the rate of VAT on triple-play packages was modified at the end of December 2010. As from January 1, 2010, these packages will no longer be subject to 5.5% VAT for a portion of the package and will be subject to a general rate of 19.6%.

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

6.4.1 DEPENDENCE ON PATENTS AND SOFTWARE LICENSES

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

6.4.2 DEPENDENCE ON SUPPLY, INDUSTRIAL, COMMERCIAL OR FINANCIAL AGREEMENTS

Network operated by the Group

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

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

Furthermore, the Group believes that the IRU agreements reduce the risk of Group liability for damage caused by the fibers of its network. It does acknowledge, however, that certain sections of the network which are laid on publicly owned land may be subject to certain restrictions related to the use and occupancy of public property. Finally, in accordance with the provisions of the IRU agreements signed with SFR, Iliad and SFR are committed

to jointly financing the construction of a new fiber route in the event of physical problems (such as a power failure caused by natural hazards, civil engineering works, etc.) affecting a section of SFR's optical fiber network that is covered by the IRU agreements.

Modems and Freebox DSLAMs

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

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

6.4.3 DEPENDENCE ON NEW OPERATING PROCESSES

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

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

6.4.4 DEPENDENCE ON THE GROUP'S MAIN CUSTOMERS AND SUPPLIERS

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

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

- contracts for the use of dark optical fibers, allowing the Group to operate its network;
- contracts granting the Group access to the subscriber through interconnection and unbundling agreements entered into primarily with the incumbent operator;
- contracts with optical fiber suppliers as well as with service providers involved in rolling out the optical fiber;
- suppliers of equipment and external service providers selected as part of the rollout of the third-generation network;
- the roaming agreement allowing Free Mobile subscribers to use Orange France's 2G and 3G networks.

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

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

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

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

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

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

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

6.6 REGULATORY SITUATION

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

6.6.1 REGULATION OF ELECTRONIC COMMUNICATIONS NETWORKS AND SERVICES

The regulatory framework for electronic communications

The majority of the regulatory provisions applicable in France to the telecommunications sector are set out in the French Post and Electronic Communications Code (CPCE). At end-2010, the provisions of this Code were primarily based on the following five directives contained in the EU "2002 Telecoms Package":

- directive 2002/21/EC dated March 7, 2002, setting a common regulatory framework for electronic communication networks and services (the "Framework Directive"), as published in the Official Journal of the European Communities (OJEC) on April 24, 2002;
- directive 2002/19/EC dated March 7, 2002, concerning access to, and interconnection of, electronic communications networks and associated facilities (the "Access Directive"), as published in the OJEC on April 24, 2002;
- directive 2002/22/EC dated March 7, 2002 on universal service and users' rights relating to electronic communications networks and services (the "Universal Service Directive"), as published in the OJEC on April 24, 2002;
- directive 2002/20/EC dated March 7, 2002, relating to the authorization of electronic communications networks and services (the "Authorization Directive"), as published in the OJEC on April 24, 2002;
- directive 2002/58/EC dated July 12, 2002, concerning the processing of personal data and the protection of privacy in the electronic communications sector (the "Privacy Directive"), as published in the OJEC on July 31, 2002;
- directive 2002/77/EC dated September 16, 2002, relating to competition in the markets for electronic communications networks and services (the "Competition Directive"), as published in the OJEC on September 17, 2002.

These directives have been supplemented by the following two EU regulations that are directly applicable in all Member States:

- regulation (EC) No. 2887/2000 dated December 18, 2000 on unbundled access to the local loop, which provides that all operators with significant market power must offer unbundled access to their local loop and associated facilities, under transparent, fair and non-discriminatory conditions;
- regulation (EC) No. 717/2007 on roaming charges, amended in 2009 by Regulation (EC) 554/2009 of June 18, 2009. This Regulation provides that all wholesale and retail roaming charges levied by mobile operators are subject to price caps which are set for a period of several years.

In 2009, the European Parliament and Council adopted a new regulation and two directives which slightly amended the 2002 Telecoms Package without significantly changing the overall regulatory framework. These documents, which round out the regulatory framework and provide additional powers to national regulatory authorities (NRAs) and the Commission, were published in the OJCE on December 18, 2009 and are as follows:

- regulation (EC) 1211/2009 dated November 25, 2009 establishing the Body of European Regulators for Electronic Communications (BEREC) and the Office. Rather than operating as a European regulatory agency, the BEREC's role is to act as a forum for cooperation between the NRAs and the Commission. Its responsibilities include developing and relaying guidelines and regulatory best practices to NRAs as well as issuing reports and opinions to the European Commission, Parliament and Council;
- directive 2009/140/EC dated November 25, 2009 (the "Better Regulation Directive") amending the "Framework", "Access" and "Authorization" Directives. This new Directive (i) introduces a last-resort remedy of functional separation to overcome competition problems, (ii) gives the European Commission new power to issue recommendations on draft measures proposed by NRAs, with a view to encouraging the development of consistent regulatory practices, (iii) facilitates access to the radio spectrum by allowing the development of a secondary market for usage rights, and (iv) states that national authorities should have the power to ensure effective use of spectrum and to take action to prevent anti-competitive hoarding by certain operators;
- directive 2009/136/EC dated November 25, 2009 (the "Citizens' Rights Directive"), amending the "Universal Service" and the "Privacy" directives, in order to (i) strengthen the rights of users of electronic communications services, (ii) extend the universal service to broadband, without prejudice to its financing methods, and (iii) ensure the quality of services offered as well as market transparency and fluidity.

In 2010, the main changes to the regulatory framework in France were as follows:

- general regulations:
 - new provisions were introduced concerning operators' disclosure of information on the geographic coverage of their electronic communications services, following the publication of the implementing order for Article D98-6-2 of the French Post and Electronic Communications Code,
 - new provisions also came into force concerning the disclosure of information to the French State and local authorities about infrastructure and networks set up on a national and local level, following the publication of Decree no. 2010-57 dated January 15, 2010 and the implementing order for Article D98-6-3 of the French Post and Electronic Communications Code (except for the provisions of said Article that were cancelled by the *Conseil d'État* on November 10, 2010),
 - the French Parliament adopted the Finance Law for 2011, under which:
 - the reduced rate of value added tax may no longer be applied as from January 1, 2011 when the distribution of television services is included in a packaged offer comprising access to an electronic communications network in exchange for a flat fee (Article 279b *octies* of the French Tax Code),
 - the flat-rate tax due for each base transceiver station as specified in Article 1519 H of the French Tax Code has been halved for new stations for their first three years of taxation,
 - the flat-rate tax due by network companies in accordance with Article 1635-0 *quinquies* of the French Tax Code is applicable to the main distribution frames of the copper local loop as well as to the local concentrators and subscribers' cards for the switched telephony network,
 - entities liable for the flat-rate tax in application of Article 1519 H of the French Tax Code are also liable for an additional contribution equal to 5% of the flat-rate tax, calculated in accordance with Article 1519 H of said Code (Article 235 *ter* Z of the French Tax Code),
 - a 50% reduction may be applied to the tax due by operators of electronic communications networks pursuant to Article 302 *bis* KH of the French Tax Code as determined based on the amount (excluding VAT) of subscriptions and other sums paid by users, when the electronic communications services provided are included in a comprehensive offer that comprises television services;
- regulations concerning mobile telephony:
 - on July 12, 2010, Law 2010-788 was adopted, under which the following environmental-protection obligations were introduced:
 - to provide and recommend the use of an accessory enabling users to reduce the exposure of their heads to radio waves during telephone calls made via a mobile handset designed to be connected to a telephony network available to the public (Article 12 *bis* of the French Post and Electronic Communications Code and Article 184 of Law 2010-788),
 - to disclose to the French National Frequencies Agency and the French Agency for Environmental and Occupational Health and Safety the results of the measurements of electromagnetic fields emitted by equipment used in electronic communications networks.

Asymmetric regulation

The analysis of markets is the cornerstone of the asymmetric regulation framework applicable to operators that occupy a dominant market position. Ex-ante asymmetric regulation is focused on market segments – mainly wholesale markets – in which distortion of competition and dominant market positions have been identified. Arcep is required, under the supervision of the European Commission and on the recommendation of the French competition authorities, to (i) define the relevant markets applicable in France, (ii) analyze the relevant markets and identify companies which have significant market power in these markets, and (iii) decide whether or not to impose on these companies regulatory obligations commensurate with the competition problems identified.

The first and second phases of this analysis were completed at the end of 2007 and 2010 respectively. Descriptions of each market analyzed during these phases, along with a table tracking market developments, can be viewed on Arcep's website at www.arcep.fr, under the section "Major files".

In 2010 Arcep began the third phase of its market analysis, covering the period from 2011 to 2013 and relating at this stage to:

- the regulation of termination of voice calls on mobile networks. On November 2, 2010 Arcep issued Decision 2010-1149 relating to voice call termination services on mobile networks in mainland France and the French overseas territories, stating that Orange France, SFR, Bouygues Telecom, SRR, Orange Caraïbe, Orange Réunion, Digicel, Dauphin Telecom, UTS Caraïbe, Outremer Telecom and SPM Telecom must apply call termination charges that reflect the corresponding costs, and capping these charges at 3 euro cents per minute for Orange France and SFR and 3.4 euro cents per minute for Bouygues Telecom until the summer of 2011. An additional Arcep decision is expected in the first half of 2011, setting the applicable caps for the subsequent periods;

CHANGES IN CALL TERMINATION CHARGES SINCE 2002 (SOURCE: ARCEP)

In € cents	2002	2003	2004	2005	2006	2007	2008	First-half 2009	Second-half 2009	First-half 2010	Second-half 2010
Orange	20.12	17.07	14.94	12.5	9.5	7.5	6.5	6.5	4.5	4.5	3
SFR	20.12	17.07	14.94	12.5	9.5	7.5	6.5	6.5	4.5	4.5	3
Bouygues Telecom	27.49	24.67	17.89	14.79	11.24	9.24	8.5	8.5	6	6	3.4

- the regulation of SMS termination charges on mobile networks. Decision 10-0892 of July 22, 2010 concerning SMS termination services on mobile networks in mainland France and the French overseas territories stated that Orange France, SFR, Bouygues Telecom, Orange Caraïbe, Digicel, Outremer Telecom, Dauphin Telecom, UTS Caraïbe, SPM Telecom, SRR and Orange must apply SMS termination charges that reflect the corresponding costs, and set a sliding scale of maximum charges reaching 1 euro cent per SMS for Orange France, SFR and Bouygues Telecom by the summer of 2012;
- the regulation of wholesale high-speed and very high-speed broadband. The process for reviewing the second market analysis phase was launched by Arcep on July 27, 2010 by way of a public consultation. The issues included in this public consultation were (i) extending the asymmetric regulation system of ducts to aerial infrastructure, (ii) maintaining the existing regulations on passive access to the unbundled copper local loop and extending them to apply to access to the local sub-loop in order to increase the speeds available for subscribers, and (iii) whether bitstream pricing should be cost-oriented. The decision creating the new framework for asymmetric regulation of high and very high-speed broadband is likely to be adopted in the first half of 2011 after consultation with the French competition authorities and the European Commission.

Pending the review of the market analysis, on November 9, 2010 Arcep adopted a decision setting the financial conditions concerning access to local loop civil engineering infrastructure in the incumbent operator's ducts. Arcep believes that this decision will result in a significant decrease in access prices to the incumbent operator's ducts as from 2011, enabling operators to roll out optical fiber networks under more favorable pricing conditions. As mentioned above, Arcep's July 27, 2010 public consultation also envisages extending these conditions to aerial infrastructure.

The Iliad Group is also affected by the regulations applicable to call termination charges on landline networks. Landline operators, including Free S.A.S. are considered as having significant power in the market for the termination of geographic calls on their respective networks, and are subject to obligations relating to access, interconnection, non-discrimination and transparency, as well as an obligation not to engage in excessive pricing. Following the analysis to be completed in Fall 2011, the call termination charges applied by alternative operators will be set at 0.5 euro cents per minute. The Group expects that its interconnection charges invoiced by landline networks will decrease as from the end of 2011. In turn, revenues from call termination charges invoiced to landline operators by the Group will also decrease in the same timeframe.

Symmetric regulation

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

- decision 06-0636 on supplying subscriber lists for the purpose of publishing universal directories;
- decision 07-0213 on routing communications used for value-added services;
- decision 2008-1362 on measuring service quality indicators for landline networks;
- decision 2009-0637 on portability and number retention;
- decisions 2009-1106 and 2010-1312 on access to the terminal section of optical fiber networks;
- decision 2010-1314 on the eligibility of optical fiber networks for grants from the French digital development fund.

For the optical fiber networks located in France's 148 most densely populated cities, Decision 2009-1106 regulates access to the terminal section of networks installed by operators in the risers of buildings. If they so wish, operators can co-invest in networks installed by other operators and can ask to have access to a dedicated fiber. In 2010, Arcep issued a further decision (2010-1232) clarifying the scope of these access rights following a request to settle a dispute between Bouygues Telecom and France Télécom. In this case, Arcep ruled that the operator that had equipped the building was required to accept access requests made after the network had been installed.

Arcep Decision 2010-1312 of December 14, 2010 sets out the terms and conditions for access to very high-speed optical fiber electronic communications lines in those parts of France other than densely populated areas. Under this decision, operators are required to establish shared access points that are sufficiently large to enable other operators to gain access at reasonable prices. It also requires operators rolling out a network to store the active or passive network devices of other operators (such as street units, shelters etc) at these shared access points.

Licenses to use frequencies

Licenses to use radio frequencies have been issued to the following Group subsidiaries:

- IFW for frequencies in the 3.5 GHz band (see Arcep Decision 2003-1294 dated December 9, 2003), for the rollout and operation of a Wimax network;
- Free Mobile for frequencies in the 900 MHz and 2,100 MHz bands (Arcep Decision 2010-0043 dated January 12, 2010), for the rollout and operation of a third-generation mobile communications network.

The 20-year license granted to Free Mobile authorizes it to use dual 5 MHz in the 2.1 GHz band in order to set up and operate a third-generation network. In addition, Free Mobile is authorized to use 5 MHz of spectrum in the 900 MHz band for 3G technologies, once the three other mobile operators make this available. Provision has been made to enable Free Mobile to enter into a 2G roaming agreement with one of the three incumbent mobile operators once Free Mobile has covered more than 25% of the French population via its own network. Free Mobile also has a right of access to the 2G sites of the incumbent mobile operators as soon as the host operators use the sites concerned to roll out their 3G networks.

Free Mobile is required to respect the obligations applicable to all network operators pursuant to Article L. 33-1 of the French Post and Electronic Communications Code. This Code – and particularly Articles D. 98-3 to D. 98-12 – set out the general rights and obligations of all operators, which may be added to by Arcep. Two examples of additional general obligations introduced by Arcep are Decision 2005-1083 concerning access for disabled persons to mobile telecommunications services and Decision 2009-0328 dated April 9, 2009 which sets down the terms and conditions for sharing equipment for 3G mobile networks.

In addition to these general obligations applicable to all mobile operators, Free Mobile's 3G frequency license includes a number of specific obligations, particularly concerning population coverage, service quality and the commercial launch of its network. In connection with its license, Free Mobile has undertaken to:

- roll out a network covering at least 27% of the French population by early 2012, 75% by 2015 and 90% by 2018;
- launch its commercial mobile offering in mainland France by early 2012;
- allow virtual mobile operators access to its mobile network;
- adopt a responsible approach to rolling out the network, in coordination with the relevant local authorities;
- respect the exposure limits set down in Decree 2002-775 of May 3, 2002.

Other regulatory provisions

Interconnection

Regulations governing the interconnection of each licensed operator to the networks of the incumbent operator and of other licensed operators are essential for opening up the market and ensuring the quality of services provided to each operator's subscribers. Interconnection agreements are subject to private law and must be disclosed to Arcep where requested. Arcep has the power to rule on disputes between operators but its decisions may be appealed to the Paris Court of Appeal (*Cour d'Appel*). Any such appeal lodged against an Arcep decision does not suspend the ruling made by Arcep.

Free has entered into interconnection agreements with France's incumbent landline operator and its three incumbent mobile operators. It has also signed interconnection agreements with alternative operators (SFR, Colt, Comptel and Verizon) concerning terminating traffic entering these operators' networks as well as traffic for value added services collected by these operators. By way of Decision 2010-1351 issued on December 14, 2010, Arcep ruled on the dispute between France Télécom and SFR concerning the call origination pricing policy practiced by SFR for calls to value-added numbers. In its decision, Arcep set pricing caps on SFR. It is not excluded that Arcep will impose similar pricing caps on Free in 2011.

Portability

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

Decree 2006-82 of January 27, 2006 extended this number portability obligation to alternative landline operators. Arcep Decision 2009-0637 implementing this Decree was issued on July 23, 2009, and approved by the Minister for Electronic Communications on October 22, 2009. This decision sets out the portability obligations of operators, notably the maximum length of time that a service can be interrupted in the event of a portability request (six hours as from January 1, 2011, and four hours as from January 1, 2012). It also states that as from April 1, 2010 the same level of service must be provided for calls carried to ported numbers as for those carried to non-ported numbers. In order to effectively manage the exchange of information between operators concerning portability requests, in January 2009 the main operators – including Free – set up a dedicated entity called *l'Association de la Portabilité des Numéros Fixes* (APNF). The idea is that all operators dealing with portability issues will ultimately join this association.

Directories and provision of subscriber lists

The Group's services most affected by these provisions are the Minitel version (3617 ANNU) and telephone version of the reverse look-up directory service, ANNU. All operators that connect end-subscribers are required to supply their subscriber lists for the purpose of publishing directories and/or providing information services. Arcep Decision 06-0639 of November 30, 2006 approved by the Minister for Electronic Communications, sets out further details on the conditions for supplying subscriber and user lists for the purpose of publishing universal directories or providing universal information services. The Company has entered into an agreement with the incumbent operator under which the incumbent operator provides access to its databases for the purpose of publishing directories and/or providing information services. The contract provides that the incumbent operator may terminate the agreement in the event of a change in the structure or control of Iliad's capital or Iliad's ownership or management.

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

Contribution to universal service funding

The operator or operators required to guarantee the provision of universal service are designated on the basis of calls for tender. The incumbent operator won all of the tender processes carried out in France and has been designated as the operator responsible for providing the components of the universal service. In accordance with the applicable law, the cost of the universal service is shared between operators *pro rata* to their revenues derived from telecommunications services "excluding revenues from interconnection and access services subject to the agreements defined in paragraph I of Article L. 34-8, and other services provided or billed on behalf of third party operators".

Broadcasting of audiovisual services

The 2002 Telecoms Package provides that the transmission and broadcast of radio and television services must be overseen by the national regulatory authorities. Law 2004-669 dated July 9, 2004 extended the oversight powers of the French broadcasting watchdog, the *Conseil Supérieur de l'Audiovisuel* to cover all radio and television services, and set up a more flexible regulatory framework for the distribution of these services.

In its capacity as a broadcaster of audiovisual services via ADSL, Free is subject to the regulatory “must-carry” provisions which involve two legal requirements: (i) the service provider (of which Free is one) has to carry certain channels, including free-to-air terrestrial channels, and (ii) the must-carry channels have to agree to be carried by the service provider.

Under Law 2007-309, like all television distributors, broadcasters of audiovisual services via ADSL are required to pay contributions to the *Compte de Soutien à l'Industrie de Programmes Audiovisuels* (“COSIP”) calculated based on the revenue generated by broadcasting audiovisual content. In addition, a law reforming the public audiovisual sector has been passed in France, setting a new development framework for public service television channels and creating a regulatory framework for new audiovisual services such as video on demand. This law also introduced a number of taxes to offset the impact of the phased ban on advertising on public channels including a tax on electronic communications operators such as Free. The legality of this tax has been disputed by the European Commission.

6.6.2 REGULATION OF THE CONTENT OF ELECTRONIC COMMUNICATIONS

Content of online services and liability provisions for Internet market players

In French law, the liability provisions applicable to intermediary ISPs are set out in Law 2004-575 dated June 21, 2004 and the French Post and Electronic Communications Code. They include the following:

- providers of online communication services must identify themselves, directly or indirectly. Access and hosting providers are required to keep data that could identify persons having participated in the creation of the content of the services which they provide, in order to be able to pass on such data to the legal authorities, if required;
- hosting providers can only be held civilly liable on the grounds of the activities or information stored at the request of a recipient of these services if they were aware of their unlawful nature or of any facts or circumstances making this unlawful nature obvious, or if, as soon as they became aware of such unlawful nature they did not act promptly to withdraw the data or to prevent access to it;
- access providers cannot be held either civilly or criminally liable for the content to which they provide access, except in circumstances where either they have originated the request for the transmission of the content concerned, or they have selected the recipient of the transmission, or selected and/or modified the transmitted content;
- electronic communications operators are obliged to keep the technical connection data necessary for criminal investigations. They may also keep the technical data required for their invoice payments. Apart from these two specific cases, the operators concerned must delete or render anonymous all data concerning a communication once it is completed.

Copyright and the Internet

Under Law 2009-669 adopted on June 12, 2009 promoting the dissemination and protection of creative works on the Internet a specific “graduated response” system was introduced in the aim of combating illegal downloads. The first stage in this system is an email sent to any Internet subscriber whose connection is used to illegally download a protected work, which informs the subscriber that they have breached the applicable law and warns them that they need to protect their Internet access to ensure it does not happen again.

An independent administrative body – *La Haute Autorité pour la Diffusion des Œuvres et la Protection des Droits sur Internet* (HADOPI) – was created in order to manage and issue these messages, which the operators will be required to forward. On October 29, 2009, an additional law on protecting literary and artistic property was adopted to round out the graduated response system by providing that in the event of repeat offences a judge can levy a fine or even suspend the subscriber's Internet access.

Processing of personal data and protection of individuals

Law 2004-801 of August 6, 2004 on the protection of individuals with respect to the processing of personal data, amending Law 78-17 of January 6, 1978 relating to information technology, computer files and civil liberties, transposed the Framework Directive of October 24, 1995 and certain provisions of the Directive of July 12, 2002 into French law. Law 2004-575 of June 21, 2004 on confidence in the digital economy and Law 2004-669 of July 9, 2004 on electronic communications and audiovisual communication services also transposed certain provisions of the Directive of July 12, 2002 into French law. The main applicable provisions are as follows:

- no personal data may be processed without the consent of the person concerned. However, a limited number of circumstances are defined in which such processing may be lawful, even without the consent of the person concerned;
- the data processor has an obligation to provide information in all situations in which personal data is processed, even if this data has not been collected directly from the person concerned, such as for file transfers;
- any failure to comply with the provisions of Law 2004-801 is subject to severe criminal sanctions. The possible offences and related penalties are set out in Articles 226-16 to 226-24 of the French Criminal Code (*Code pénal*). Such offences are punishable by a fine of up to €300,000 and five years' imprisonment.

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

Intellectual property law and online broadcasting

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

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

Domain names

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

The French courts have now accepted that the use of a term on an Internet site or as a domain name can infringe trademark rights. However, the situation is still uncertain as the scope of the rights relating to trademarks is limited to a particular geographic area or based on the type of products and services covered by the trademark registration, whereas the use of a term on the Internet is inherently not subject to any such restrictions.



ORGANIZATIONAL STRUCTURE

7.1 BRIEF DESCRIPTION
OF THE GROUP

52

7.2 GROUP ORGANIZATION CHART
AT DECEMBER 31, 2010

53

7.1 BRIEF DESCRIPTION OF THE GROUP

An overview of the Group's principal activities is provided in Section 6.2 of this registration document.

The Group's holding structure is Iliad which operates in two areas within the French telecommunications sector: the ANNU reverse look-up directory business, and traditional corporate telephony services provided under the Iliad Telecom name.

As the Group's holding company, Iliad receives dividends from its equity interests as well as amounts rebilled to subsidiaries. These rebillings include (i) the subsidiaries' share of lease payments relating to the premises at 8, rue de la Ville l'Evêque in Paris, (ii) support services for financial, accounting and legal matters, and (iii) interest payable on current account advances (see Section 19 of this registration document for further details).

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

A number of suppliers only wish to work with Iliad, which means that Iliad receives all the invoices issued by these suppliers for services provided to all of the Group's entities. Iliad therefore rebills these amounts to the subsidiaries concerned.

During 2010, a new company was formed: Iliad Gaming – an online gaming and betting operator – set up to provide the public with an online poker and sports betting offering under the ChiliPoker and ChiliPari brands respectively.

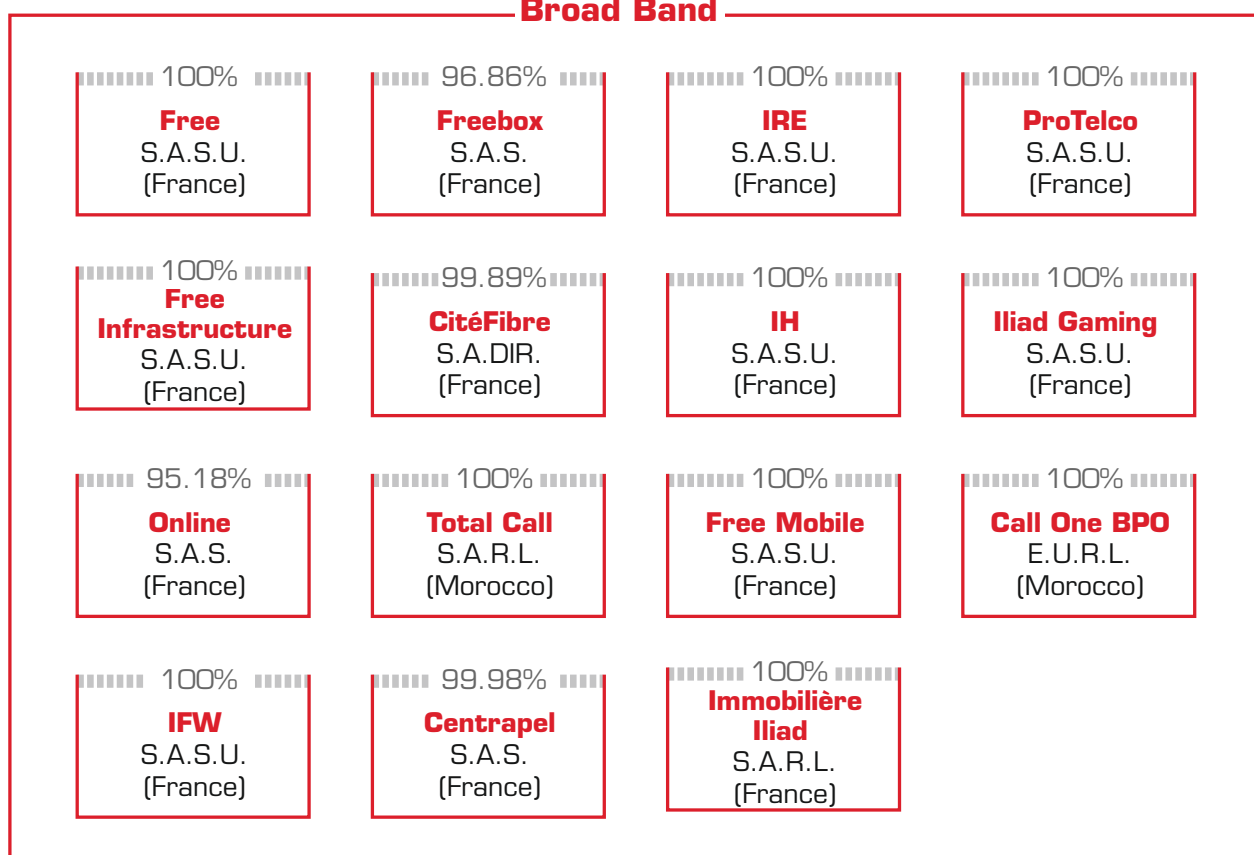
The Group does not have any significant minority shareholders.

7.2 GROUP ORGANIZATION CHART AT DECEMBER 31, 2010

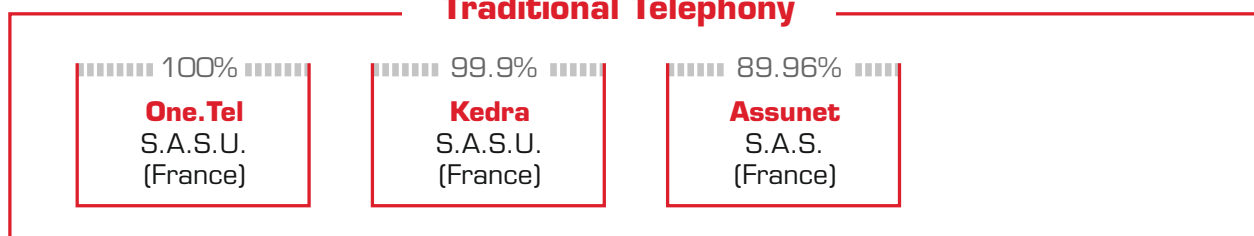
The percentage interests shown below correspond to the Company's ownership interest in the main fully consolidated company at December 31, 2010.

ILIAD S.A.

Broad Band



Traditional Telephony



See Note 35 to the consolidated financial statements (Section 20.1) and Note 2.3.4 to the parent company statements (Section 20.2) for a list of the Group's consolidated companies at December 31, 2010.





8

PROPERTY, PLANT AND EQUIPMENT

8.1 EXISTING OR PLANNED
MATERIAL TANGIBLE
FIXED ASSETS

56

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

56

8.1 EXISTING OR PLANNED MATERIAL TANGIBLE FIXED ASSETS

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

In order to enable its subscribers to use this equipment and the related services, the Group has to have access to the local loop. This entails the payment of fees to the incumbent operator for access to unbundling services (also known as access fees), presented in Section 9.2.3. All of these items (access and logistics fees, modem and DSLAM costs) are capitalized and depreciated over a period of four years as from the date the related assets are brought into service in 2010.

The Group also capitalizes various expenses incurred by the development of its ADSL network (IRU contracts, co-location rooms, civil engineering work and transmission equipment). Information concerning the network owned by the Group is provided in Section 6.2.2 above.

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

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

For further details on the Group's property, plant and equipment see Note 19 to the 2010 consolidated financial statements set out in Section 20.1 of this registration document.

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

The Group considers that its business as an operator of landline and mobile electronic communications networks and a manufacturer of electronic communications equipment does not present a major environmental risk as it does not involve any production processes that seriously harm scarce or non-renewable resources, natural resources (such as water or air), or biodiversity.

In addition to complying with French and EU standards concerning the environment and carbon emissions – which have become increasingly strict – the Group has its own stringent design specifications for the equipment it uses within its network, such as the DSLAMs and Freeboxes.

In its daily relations with its subscribers, the Group takes care to put into practice the recommendations made by the French government as part of its Environmental Round Table process (*Grenelle de l'Environnement*), by (i) reducing the use of hardcopy letters to a minimum and favoring electronic media at all stages of the subscriber relationship (marketing, subscription, management of subscriptions, billing etc.), (ii) using effective payment methods that cut down on paper-based processing, (iii) owning the network-connected equipment, which means that it can be reconditioned and allocated to another subscriber on termination of a subscription, and (iv) putting in place processes aimed at smoothing renewal requests over time and discouraging early renewals.

Although the majority of the components used in the equipment Iliad provides to its subscribers come from Asia and America – which are the only regions that have suppliers able to meet the production volumes required for a mass market – the final assembly is carried out in Europe, in order to be as close as possible to the end market.

The Group uses certain products and components that may give rise to environmental risks, albeit on a small scale. Consequently, in accordance with the specific applicable regulations, the Group sorts these products and components in order to recover any items that can be reconditioned (hard disks, DTT tuners etc), before entrusting them for disposal and destruction to a specialized company that recycles them in accordance with the strict rules applicable to Waste Electrical and Electronic Equipment (WEEE).

The Group also places importance on developing technical platforms that have a long useful life, by using high-performing technical components and upgrading software. In order to meet the requirements expressed by certain subscribers for a basic entry-level offering, rather than developing a specific terminal the Group opted to recondition its old generation equipment (Freebox v4 and HD). In addition, the Group's new-generation equipment launched at the end of 2010 – the Freebox Revolution – represents a significant development in terms of electronic consumption (700 mW in standby mode, which is ten times less than the previous generation).

The specifications applicable for the rollout of the Group's network are extremely demanding regarding the efficiency and effectiveness of network architectures. As a result, the structural frames of the ADSL access equipment (the DSLAMs) are very high density in order to optimize average use per subscriber and minimize the amount of floor space used. Also, when pooling optical fiber access, priority is given to high-capacity shared access points in order to minimize the amount of disruption in each building.

In response to the requirements expressed by local authorities in order to assuage residents' fears, for the rollout of its mobile network wherever possible the Group is using (i) the latest-generation radio equipment which is more efficient than older-generation equipment in terms of size, power and energy consumption, and fits more smoothly into the urban landscape, and (ii) shared access to existing installations. The rollouts are also required to comply with local-level specifications set out in charters drawn up by the local authorities and are subject to regular checks by independent auditors.

At the same time, the Group is seeking to reduce the impact of early renewals of terminals on the mobile market by favoring the re-use of existing terminals for its future mobile network and by developing recycling and reconditioning operations in conjunction with its partners.

The Group records a provision in its financial statements for the costs of recycling waste electrical and electronic equipment.



9

MANAGEMENT REPORT

9.1 ANALYSIS OF THE GROUP'S BUSINESS AND RESULTS 60

9.2 OVERVIEW 60

9.2.1	Breakdown of revenues	61
9.2.2	Operating costs for the Option 1 ADSL service (subscribers on an unbundled line) and the Option 5 ADSL service (subscribers not on an unbundled line).	62
9.2.3	Capital expenditure and depreciation	63

9.3 SIGNIFICANT EVENTS OF THE YEAR 65

Consolidated data	65
Excluding Alice	65
Alice	65

9.4 COMPARISON OF RESULTS FOR 2010 AND 2009 66

9.4.1	Analysis of consolidated results	66
9.4.2	Breakdown of results by segment for 2010 and 2009	69
9.4.3	Cash flows and capital expenditure	70
9.4.4	Consolidated debt	70

9.5 ADDITIONAL INFORMATION 72

9.5.1	Strategic objectives	72
9.5.2	Events after the balance sheet date	72

9.1 ANALYSIS OF THE GROUP'S BUSINESS AND RESULTS

KEY CONSOLIDATED FINANCIAL DATA

<i>In € millions</i>	Year ended December 31, 2010	Year ended December 31, 2009	Year ended December 31, 2008
INCOME STATEMENT			
Revenues	2,038.3	1,954.5	1,565.0
Operating income and expense, net	(1,560.4)	(1,595.1)	(1,362.0)
Profit from ordinary activities	477.9	359.4	203.0
Other operating income and expense, net	61.0	(26.5)	(30.7)
Operating profit	538.9	332.9	172.3
Financial income and expense, net	(49.5)	(49.0)	(19.5)
Corporate income tax	(176.3)	(109.0)	(52.3)
Profit for the period	313.1	175.9	100.4
Ebitda	798.1	661.4	524.7
BALANCE SHEET			
Non-current assets	1,904.4	1,602.9	1,545.0
Current assets	516.2	820.8	695.2
<i>Of which cash and cash equivalents</i>	347.5	633.9	335.7
Assets held for sale	71.6	31.5	16.8
Total assets	2,492.2	2,455.2	2,257.0
Total equity	1,078.3	764.4	597.5
Non-current liabilities	1,016.0	1,140.5	1,227.8
Current liabilities	397.9	550.3	431.7
Total equity and liabilities	2,492.2	2,455.2	2,257.0
CASH FLOWS			
Net cash generated from operating activities	874.9	734.3	474.2
Net cash used in investing activities	(793.7)	(424.2)	(1,159.2)
Net cash generated from (used in) financing activities	(374.1)	(17.1)	799.4
Net change in cash and cash equivalents	(292.9)	293.0	114.4
Cash and cash equivalents at year-end	337.5	630.4	337.4

9.2 OVERVIEW

The Iliad Group (also referred to as the "Group") is a major player in the landline telecommunications market in France, with a market share of 23% in the ADSL broadband segment at December 31, 2010.

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

- **the Broadband segment**, which includes Internet service provider operations (marketed under the Free and Alice brands), hosting services (marketed under the Online, BookMyName, Dedibox and Iliad Entreprises brands), user assistance services (Centrapel, Total Call, Free, ProTelco and Call One BPO), Wimax activities (IFW), mobile telephony activities (Free Mobile), operations related to the rollout of the FTTH (fiber-to-the-home) network (Free Infrastructure, IRE, Immobilière Iliad and Citéfibre), and online gambling games and sports betting (Iliad Gaming);

- **the Traditional Telephony segment**, which includes switched landline telephony (One.Tel and Iliad Telecom), directory services (mainly the ANNU reverse look-up directory accessible by Minitel, telephone, Internet and SMS text messaging) and insurance brokerage operations (Assunet).

ADSL broadband and value-added services, combined within the Broadband segment, represent the dominant source of revenue, while revenues from the Group's other offerings, combined within the Traditional Telephony segment, are declining as planned. In 2010, the Broadband segment represented more than 99% of Group revenues.

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

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

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

Gross profit, which corresponds to revenues less purchases used in production;

Ebitda, which corresponds to profit from ordinary activities before share-based payment expense, depreciation, amortization and provisions for impairment of non-current assets.

9.2.1 BREAKDOWN OF REVENUES

9.2.1.1 Broadband revenues

Offerings and services available under the Free and Alice brands

The Group offers its subscribers the following different Internet access solutions, with a box provided and no installation fees:

- **unlimited broadband via ADSL**. This offering allows subscribers to access the Internet at a speed of at least 2 Mbps and up to 28 Mbps (observed) in areas where the local loop is unbundled, and 22 Mbps in non-unbundled areas (depending on whether a subscriber's line is eligible). Two options are available under this offering:
 - **Option 1** (subscribers on an unbundled line), whereby the Group markets services on its own network (excluding local loop);
 - **Option 5** (subscribers not on an unbundled line), whereby the Group sells on to subscribers a wholesale offer proposed by the incumbent operator.
- **FTTH very high-speed broadband**. This offering – which is available in selected areas chosen by Free – provides subscribers with very high-speed Internet access (100 Mbps download and 50 Mbps upload).

Through these offerings subscribers are provided with the services described below:

- **telephony**. All subscribers are provided with a telephone service under which they can make completely free calls through their modem to landline numbers in mainland France (apart from short numbers and special numbers), as well as Reunion Island, Guadeloupe and 60 or 100 foreign countries depending on the terms of their offer. In addition, certain of the Group's offers include free calls or packaged deals for calls to mobile numbers in mainland France;
- the Group has the broadest **television offering** in the market, comprising over 400 channels (of which 60 to 180 are included in the basic packages) with 30 high definition channels.

In late June 2010, the Group launched Freebox TV Replay – the most comprehensive catch-up TV offering in the market. Through this service users can watch or re-watch programs shown on 34 channels within seven days of their initial broadcast. Freebox TV Replay is offered at no extra charge for channels included in the Free television package, subject to availability.

Also in 2010, having offered subscribers 3D programs for the Football World Cup, in September the Group announced the launch of several 3D channels. This move made Free the first operator in France to broadcast genuine 3D channels (with a total of five at end-2010, including two in the basic package) and reaffirmed its technological edge over its competitors.

Subscribers can also sign up to watch Canal+ channels through their Freebox or AliceBox;

- **video on demand (VOD)**. Subscribers to the Group's Internet offerings (in unbundled areas and subject to line eligibility) are provided a video on demand service that includes Canalplay, TF1 Vision, Cinema-on-demand, M6 VOD and Vodeo.tv. This service enables subscribers to access a catalog of movies at a price of €0.99 per movie 24 hours a day, 7 days a week and view them on their television. The movies – which are ordered using the subscriber's remote control – include DVD player features and may be viewed for a period of 48 hours.

Freebox Revolution – the Group's latest offering – provides subscribers with a cinematographic encyclopedia at the tip of their remote controls, containing the world's second largest database of movies and TV series. Thanks to the Group's partnership with Allociné, subscribers to this offering use their televisions to access information sheets on nearly 80,000 movies and 7,000 TV series;

- **subscription-based video on demand (S-VOD)**. Subscribers to the Group's Internet offerings (in unbundled areas and subject to line eligibility) can take out a monthly subscription starting at €0.99 for video on demand content. In 2010, Free packaged this service into thirteen offers whereby subscribers have unlimited access to themed content comprising numerous videos and TV series that are regularly updated.

- **HD games.** The Freebox Revolution offering enables subscribers to access games directly via their televisions. Through its partnership with Gameloft – a leading worldwide developer and publisher of downloadable video games – the Group has once again demonstrated its pioneering approach by bringing out the first-ever HD games offer on a triple-play box.

Hosting offers and services provided under the Online, Dedibox and Iliad Entreprises brands

The Hosting business corresponds to the sale of both dedicated and non-dedicated web hosting services, as well as customized outsourcing solutions.

Non-dedicated hosting services proposed under the Online brand are invoiced at a flat annual rate by domain name or by site.

The dedicated server offering marketed under the Dedibox brand is aimed at SMEs and individuals. The services are invoiced on a monthly basis and subscribers can access a high-speed multi-usage platform that is permanently connected to the Internet network. Various formats are offered to subscribers, depending on whether they are seeking hosting solutions for their e-commerce sites, messaging servers, data backups or applications (whether low-resource or resource-hungry).

The Group also has a brand that is entirely devoted to professionals – Iliad Entreprises – which offers customers bespoke solutions in communication systems management in order to precisely meet their requirements, offering services ranging from infrastructure relocation to global project management, with operations assistance targeted at specific areas of expertise.

Other Broadband activities

The Group's Other Broadband activities mainly generate revenues through the sale of (i) advertising space on Free's portal, (ii) the "Pay-as-you-go" and "50-hour plan" Internet access offerings, (iii) switched traffic to the Traditional Telephony segment and (iv) WiFi cards and related equipment, as well as the preselection offering, migration to the unbundled service and modem renewals. In 2010, ARJEL (France's online gaming regulator) licensed the Group's newly-created subsidiary Iliad Gaming as an authorized operator in the French market. The revenues generated from the Group's online gambling games and sports betting offerings are included in "Other Broadband activities".

9.2.1.2 Traditional Telephony revenues

Traditional Telephony segment revenues break down as follows:

- revenues generated by **One.Tel** One.Tel's offer is a no-subscription carrier preselection service. By signing up with One.Tel, the subscriber authorizes the company to make a preselection request to the incumbent operator so that all calls made from the designated landline can be transferred to and billed by One.Tel (excluding special numbers). This enables the subscriber to benefit from One.Tel's rates on all local, national and international calls, as well as on calls to mobile phones. This includes the €0.01 per minute offer (including VAT) for all local and national calls. At the end of each month, the total cost of calls is calculated for each subscriber and invoiced for payment within two weeks;
- revenues from **ANNU**, the reverse look-up directory accessible by Minitel, telephone, Internet and SMS text messaging. Minitel access to all services is billed directly by the incumbent operator on the user's telephone bill, and part of the fee is passed on by the incumbent operator to the company running the service. For ANNU, the revenue passed on by the incumbent operator amounts to €36.93 per hour. Revenue payments are received every other month;
- revenues generated by **Assunet** – an insurance broker – from commission on sales of insurance policies to private individuals and Group companies;
- revenues from **Iliad Telecom**'s carrier preselection service for companies.

9.2.2 OPERATING COSTS FOR THE OPTION 1 ADSL SERVICE (SUBSCRIBERS ON AN UNBUNDLED LINE) AND THE OPTION 5 ADSL SERVICE (SUBSCRIBERS NOT ON AN UNBUNDLED LINE).

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

- **Option 1** (subscribers on an unbundled line), whereby Free and Alice offers are carried entirely by the Group's network (excluding local loop). Subscribers can choose between a partially or fully unbundled service. In the case of the partially unbundled service, users subscribe to the broadband offering but continue to pay the telephone line rental to the incumbent operator and can still make and receive telephone calls through that operator. Where subscribers opt for the fully unbundled service, they have no commercial ties with the incumbent operator and do not therefore pay a telephone line rental charge. In this case, all telephone calls transit through the broadband connection.

Under Option 1, direct costs per subscriber and per month, as mentioned in the basic unbundling offer, were as follows at December 31, 2010:

- **operating costs under Option 1 (partial unbundling):**
 - rental of the copper pair and the ADSL splitter: €2.90,
 - other costs (backhaul cables, room rental, optical fiber leasing payments, etc.): €2.10.

- **operating costs under Option 1 (full unbundling):**

- rental of the copper pair: €9.00,
- other costs (backhaul cables, room rental, optical fiber leasing payments, etc.): €2.10;

- **Option 5** (subscribers not on an unbundled line), representing a wholesale offer proposed by the incumbent operator that is sold on to subscribers by Free and Alice.

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

For the DSL Access offer, the monthly subscription fee was set at €8.30 effective from January 1, 2010 and was reduced to €7.30 as from July 1, 2010.

The monthly fee for the DSL Access Only service was €14.90 between January 1 and June 30, 2010 and was cut to €14.15 as from July 1, 2010.

IP transit service costs vary depending on the bit rate used by all Option 5 subscribers. The applicable price terms set on March 1, 2010 were as follows:

- usage fee per Mbps: €30.00;
- access fee: €3.20.

Option 1 gross margin and Ebitda margin are significantly higher than Option 5 margins. The Group's objective is therefore to maximize the proportion of Option 1 subscribers by migrating its Option 5 subscribers to Option 1 or, where technically feasible, by directly offering Option 1 to new subscribers living in an area where the local loop has been unbundled.

9.2.3 CAPITAL EXPENDITURE AND DEPRECIATION

9.2.3.1 Broadband

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

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

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

- during 2010, subscribers were supplied with the HD modems, whose cost remained stable at around €180. Since December 14, 2010, subscribers have also been offered the Freebox Revolution – a latest-generation box that incorporates state-of-the-art technologies such as PLC, 250 Gb NAS, a Blu-ray player, a gyroscopic remote control, a gamepad and loud speakers, all at a cost of around €300;
- fees invoiced by the incumbent operator for access to unbundling services are €50 per subscriber for full unbundling and €60 for partial unbundling.

Access fees as well as logistics, Freebox HD and DSLAM costs were depreciated over a period of four years as from the date they are brought into service in 2010.

In 2010, under Option 5, total capital expenditure is lower as the majority of new subscribers are provided with Freebox version 4 modems, which are already in the process of being depreciated. The main capitalized costs therefore correspond to access fees billed by the incumbent operator, breaking down as follows:

- fees for access to the DSL Access service: €49.00;
- fees for access to the DSL Access Only service: €54.00;
- fees for access to the DSL Access Only service (where operator access was already in place): €17.00.

Capitalized access fees are also depreciated over four years as from the date they are brought into service.

9.2.3.2 Rollout of an FTTH network

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

This network is being rolled out in four phases:

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

The majority of the Group's ON acquisitions are financed through twelve-year leases, with only certain sites purchased in Iliad's own name. At December 31, 2010 the Group had 209 such sites against 109 one year earlier.

Iliad is currently focusing on the horizontal rollout phase, which is being undertaken either by the Group's own teams or by subcontractors and using the incumbent operator's service offering allowing access to its existing cable ducts.

During 2010, the Group (i) continued the rollout drive in Paris to meet its objective of horizontally covering the majority of the city by the year-end, and (ii) stepped up the pace of horizontal rollouts in areas outside Paris, using the incumbent operator's service offering allowing access to its existing cable ducts.

The Group currently has some 3.6 million FTTH plugs that have been rolled out or are in the process of being rolled out in 100 French towns and cities. At end-December 2010, the Group had started its vertical rollout phase under agreements signed by different operators to pool their separate rollout projects. Iliad expects its rollouts within buildings to gather pace in 2011. Consequently, it has signed agreements with over 500,000 households to act as the "building operator" and has access to a base of over one million households that are connected up by Orange and SFR.

9.2.3.3 Rollout of a third-generation mobile communications network

On January 12, 2010, Iliad's subsidiary Free Mobile was authorized to use frequencies in the 2.1 GHz and 900 MHz bands to set up and operate a third-generation mobile communications network in mainland France.

Since this license was acquired – at a price of €242.7 million – Free Mobile has selected its main service providers for both its equipment and for implementing the actual rollout, as well as the major lessors (including TDF) for its base transceiver stations. Free Mobile has already signed numerous contracts relating to this network rollout, with nearly 90 companies, which means that around 3,000 people are currently working on the Free Mobile project.

In accordance with its commitments to ARCEP, Free Mobile is aiming to:

- achieve population coverage levels of at least:
 - 27% by early 2012,
 - 75% by 2015,
 - 90% by 2018.
- launch its first commercial mobile offering in 2012.

In 2010, total capital outlay for the mobile business came to €262 million, including €242.7 million for the license. The aggregate amount of network expenditure forecast for the purposes of rolling out the Group's 3G network is €1 billion and total related cash outflows for 2011 are expected to be between €150 million and €200 million.

9.3 SIGNIFICANT EVENTS OF THE YEAR

CONSOLIDATED DATA

In 2010, consolidated revenues topped the 2 billion mark for the first time ever, climbing 4.3% to €2,038.3 million. The year-on-year increase was attributable to robust growth reported by Free and the dilutive effect on the prior-year figure of consolidating Alice.

Profitability was up significantly in 2010, with Ebitda advancing 20.7% against 2009, fueled by ongoing profitable growth in the Group's historic businesses and a swift turnaround in Alice's financial position.

Profit from ordinary activities rose 33% in 2010, coming in at €477.9 million against €359.4 million the previous year. This increase was driven by both the enhanced profitability achieved as mentioned above, as well as by the fact that the depreciation-to-revenues ratio remained more or less stable year on year.

Consolidated profit for the year ended December 31, 2010 jumped to €313.1 million from €175.9 million, powered by the following factors:

- the above-mentioned sharp increase in consolidated profit from ordinary activities;
- €61 million in net non-recurring income, comprising a combination of (i) exceptional income of €125 million, (ii) €40 million in impairment losses on the Wimax license and (iii) various non-recurring provisions;
- the fact that no further restructuring costs were recorded in relation to the acquisition and integration of Alice.

The rise in consolidated profitability was achieved in tandem with very strong cash **generation by the ADSL business**, with the Group generating €436 million during 2010 (*versus* €328 million in 2009). Consequently, in 2010 consolidated Free Cash Flow was at breakeven, despite the Group's major capital spending projects.

EXCLUDING ALICE

In 2010 the Group continued its growth trajectory while enhancing profitability:

- **organic revenue growth came to 9% between December 31, 2009 and December 31, 2010;**
- **Ebitda margin reached a record high of more than 40%, up 1.1 points between December 31, 2009 and December 31, 2010**, reflecting the positive impact of unbundling operations and tight control over the main expense items.

ALICE

Alice swiftly turned around its financial position in 2010, due to:

- **the full-year favorable impact of measures taken in 2009**, particularly in terms of reducing network and IT expenses and fixed costs;
- **the migration of Alice subscribers in areas covered by Free's network to unbundled offerings**, enabling the Group to maximize gross profit generated from subscriptions.

These factors resulted in **Alice contributing €83.2 million to consolidated Ebitda**, *versus* €23.7 million in 2009. Alice also had an accretive impact on consolidated profit and Free Cash Flow in 2010.

9.4 COMPARISON OF RESULTS FOR 2010 AND 2009

<i>In € millions</i>	Year ended December 31, 2010	Year ended December 31, 2009	% change
Revenues	2,038.3	1,954.5	4.3%
Purchases used in production	(899.5)	(920.3)	-2.3%
Gross profit	1,138.8	1,034.2	10.1%
	55.9%	52.9%	
Payroll costs	(104.4)	(108.6)	-3.9%
External charges	(144.1)	(154.0)	-6.4%
Taxes other than on income	(37.3)	(42.9)	-13.1%
Additions to provisions	(29.0)	(29.3)	-1.0%
Other income and expenses from operations, net	(25.9)	(38.0)	-31.8%
Ebitda	798.1	661.4	20.7%
	39.2%	33.8%	-
Share-based payment expense	(8.1)	(7.3)	11.0%
Depreciation, amortization and provisions for impairment of non-current assets	(312.1)	(294.7)	5.9%
Profit from ordinary activities	477.9	359.4	33.0%
Other operating income and expense, net	61.0	(26.5)	-330.2%
OPERATING PROFIT	538.9	332.9	61.9%
	26.4%	17.0%	-
Financial income and expense, net	(49.5)	(49.0)	1.0%
Corporate income tax	(176.3)	(109.0)	61.7%
Profit/(loss) from discontinued operations	0.0	1.0	-100.0%
PROFIT FOR THE PERIOD	313.1	175.9	78.0%

9.4.1 ANALYSIS OF CONSOLIDATED RESULTS

Consolidated profit surged 78% to €313.1 million in 2010 from €175.9 million in 2009, in line with the Group's targets.

9.4.1.1 Revenues

The table below shows the breakdown of revenues by segment and category for 2010 and 2009, as well as the percentage change between the two periods.

<i>In € millions</i>	Year ended December 31, 2010	Year ended December 31, 2009	% change
Broadband revenues (excluding inter-segment sales)	2,024.9	1,938.3	4.5%
• ISP revenues (ADSL, Pay-as-you-go, dial-up packages)	1,975.9	1,900.9	3.9%
• Hosting and advertising revenues	26.4	24.0	10.0%
• Other revenues	22.6	13.4	68.7%
Inter-segment sales	3.8	5.1	-25.5%
Total Broadband revenues	2,028.7	1,943.4	4.4%
Traditional Telephony revenues (excluding inter-segment sales)	13.4	16.2	-17.3%
Inter-segment sales	27.7	24.0	15.4%
Total Traditional Telephony revenues	41.1	40.2	2.2%
Elimination of inter-segment sales	(31.5)	(29.1)	8.2%
TOTAL CONSOLIDATED REVENUES	2,038.3	1,954.5	4.3%

Consolidated revenues climbed €83.8 million or 4.3% in 2010, topping €2 billion for the first time due to sustained growth in the Broadband segment. Meanwhile, the Traditional Telephony segment's weighting within the consolidated revenue figure has become increasingly lower.

ISP revenues

ISP revenues rose 3.9% from €1,900.9 million to €1,975.9 million, reflecting the combined impacts of:

- 5% organic growth from Free, with the subscriber base up by 191,000 over the period;
- the unfavorable impact on the Alice brand (a negative 16.7% in 2010) caused by the discontinuation of Alice's wholesale business operations and the erosion of its subscriber base.

	Year ended December 31, 2010	Year ended December 31, 2009	Year ended December 31, 2008
Total broadband subscribers	4,534,000	4,456,000	4,225,000
• Free	3,969,000	3,778,000	3,389,000
• Alice	565,000	678,000	836,000
Percentage of unbundled subscribers	89.2%	85.4%	78.7%

- **an increase in the use of value-added services.** Revenues generated by these services in 2010 totaled €489.3 million, *versus* €474.7 million for 2009, representing an increase of more than 3%. This overall rise reflects the combined effects of:
 - a decrease in the weighting of Telephony due to a 23.5% drop in landline call termination charges during the year and the inclusion of new countries in the flat-rate package, and
 - continued growth in the contribution from audiovisual value-added services. During 2010, more than 10 million subscribers signed on for VoD and S-VoD offerings, representing year-on-year growth of almost 18%.

The commercial success of the Free offering and the synergies achieved on the integration of Alice enabled the Group to keep ARPU at above €36 for the fourth quarter of 2010, at €36.1.

In €	Q4 2010 Incl. Alice	Q4 2009 Incl. Alice	Q4 2008 Incl. Alice
ARPU	36.1	36.5	35.9

Hosting and advertising revenues

The marketing of domain names in France, value-added hosting services and the sale of advertising space on the Free and Alice portals generated hosting and advertising revenues of €26.4 million in 2010, up from €24 million in 2009.

Other Broadband revenues

Other Broadband revenues mainly comprise income from the sale of WiFi cards, related equipment and other components. These revenues were up year-on-year but did not significantly contribute to overall Broadband revenues.

Traditional Telephony revenues (excluding inter-segment sales)

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

- the above-described strong rise in Broadband business and its dominant weighing within the Group's operations overall;
- the end of indirect connections;
- to a lesser extent, the lower number of One.Tel subscribers.

Inter-segment sales

The bulk of inter-segment sales consists of billings to the Traditional Telephony segment of telecommunications services provided over the Free network. Total inter-segment sales – which are eliminated in consolidation – amounted to €31.5 million in 2010 *versus* €29.1 million in 2009.

9.4.1.2 Gross profit

Consolidated gross profit came to €1,138.8 million in 2010, up 10.1% on the €1,034.2 million recorded in 2009. As a percentage of revenues, it climbed 3.0 points to 55.9%, spurred by:

- **the positive effect** of the rise in the unbundling rate on the back of strong sales momentum by Free and the launch of over 700 new connection nodes in 2010, which drove up the unbundling rate by 3.8 points. At December 31, 2010 the Group's unbundling rate was 89.2%, well above the original target;
- **a decrease in operating costs;**
- the above-described **growth in audiovisual value-added services;**
- **the successful synergies** put in place for Alice.

9.4.1.3 Payroll costs

Payroll costs excluding employee benefits represented 5.1% of consolidated revenues in 2010.

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

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

9.4.1.4 External charges

The Group's external charges stood at €144.1 million in 2010 against €154 million in 2009. This decrease is mainly attributable to the Group's efforts to gradually bring in-house functions that were outsourced by Alice prior to being integrated into the Group.

9.4.1.5 Taxes other than on income

Taxes other than on income decreased in 2010 to €37.3 million from €42.9 million in 2009. This item mainly comprises the contributions to the COSIP support fund for the audiovisual industry and the tax set up in France for financing the public audiovisual sector.

9.4.1.6 Additions to provisions

Additions to provisions amounted to €29.0 million *versus* €29.3 million in 2009. This decrease was chiefly due to lower provisions recorded for doubtful customer accounts relating to the Alice brand.

9.4.1.7 Other income and expenses from operations, net

This item represented a net expense of €25.9 million, compared with a net expense of €38 million in 2009. The total includes royalties, bad debt writedowns (net of provision reversals) and gains and losses on asset disposals. The sharp year-on-year decrease mainly reflects a reduction in bad debts written off for the Alice brand.

9.4.1.8 Ebitda

Consolidated Ebitda climbed 20.7% to €798.1 million. The Ebitda margin came to 39.2%, up 5.4 points on the 33.8% recorded in 2009. This strong increase was attributable to:

- the above-described rise in gross profit;
- the absorption of fixed costs by business growth; and
- an €83.2 million contribution to consolidated Ebitda by Alice, outstripping targets.

9.4.1.9 Operating profit

Operating profit surged 61.9% to €538.9 million in 2010 from €332.9 million the previous year, propelled by:

- the above-described increase in Ebitda;
- the fact that the depreciation-to-revenues ratio remained more or less stable, representing 15.3% in 2010 *versus* 15.1% in 2009, as the cost of the Freeboxes was kept at €180 during the period;
- the fact that no further restructuring costs were recorded for Alice.

9.4.1.10 Profit for the period

Thanks to the steep rise in operating profit, and taking into account non-recurring items, the Group ended 2010 with €313.1 million in profit, representing a 78% jump compared to the €175.9 million profit figure for 2009.

9.4.2 BREAKDOWN OF RESULTS BY SEGMENT FOR 2010 AND 2009

Consolidated revenues and operating expenses disclosed in the financial statements do not match the sum of the segment revenues and expenses set out below, due to the elimination of inter-segment transactions.

The following table shows the results of the Broadband segment which now accounts for 99% of the Group's revenues and operating profit.

<i>In € millions</i>	Year ended December 31, 2010	Year ended December 31, 2009	% change
Revenues	2,028.7	1,943.4	4.4%
Purchases used in production	(899.5)	(919.8)	-2.2%
Gross profit	1,129.2	1,023.6	
	55.7%	52.7%	10.3%
Payroll costs	(99.1)	(104.1)	-4.8%
External charges	(140.2)	(149.3)	-6.1%
Taxes other than on income	(36.8)	(42.4)	-13.2%
Additions to provisions	(28.6)	(28.9)	-1.0%
Other income and expenses from operations, net	(25.7)	(37.8)	-32.0%
Ebitda	798.8	661.1	
	39.4%	34.0%	20.8%
Share-based payment expense	(6.9)	(6.0)	15.0%
Depreciation, amortization and provisions for impairment of non-current assets	(311.9)	(294.6)	5.9%
Profit from ordinary activities	480.0	360.5	33.1%
Other operating income and expense, net	50.6	(26.5)	-
OPERATING PROFIT	530.6	334.0	58.9%

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

<i>In € millions</i>	Year ended December 31, 2010	Year ended December 31, 2009	% change
Revenues	41.1	40.2	2.2%
Gross profit	39.3	36.8	6.8%
Ebitda	(0.7)	0.2	-
Profit/(loss) from ordinary activities	(2.0)	(1.1)	-
Other operating income and expense, net	10.4	0.0	-
Operating profit/(loss)	8.4	(1.1)	-

9.4.3 CASH FLOWS AND CAPITAL EXPENDITURE

The Group's cash flow and liquidity position were mainly affected by the following factors in 2010:

- a near-33% increase in Free Cash Flow generated by the ADSL business, to €436 million;
- €262 million in cash outflows recorded in connection with the rollout of the mobile network;
- a balanced Free Cash Flow;
- an extension to the Group's sources of liquidity, as a result of (i) refinancing the €1,200 million syndicated loan by setting up a new €1,400 million syndicated credit facility, and (ii) setting up a €150 million loan from the European Investment Bank.

<i>In € millions</i>	Year ended December 31, 2010	Year ended December 31, 2009
Net cash generated from operating activities	874.9	734.3
Net cash used in investing activities	(793.7)	(424.2)
Net cash used in financing activities	(374.1)	(17.1)
Net change in cash and cash equivalents	(292.9)	293.0
Cash and cash equivalents at year-end	337.5	630.4

Net cash generated from operating activities:

Net cash generated from operating activities totaled €874.9 million in 2010 (including non-recurring income of €125 million), compared with €734.3 million (including €144 million in non-recurring income) in 2009.

Net cash used in investing activities:

Net cash used in investing activities rose sharply to €793.7 million in 2010 from €424.2 million in 2009, reflecting the Group's policy of proactively investing in growth projects, including the following:

- ADSL-related capital expenditure (including network expenditure due to increased unbundling and subscriber-related expenditure for modems and other connection expenses), which came to €326 million compared with €308 million in 2009. This slight rise was due to building up Freebox Revolution inventories in the last quarter of 2010, representing €50 million, in order to be able to fill orders for this new box as from January 3, 2011;
- a 73% year-on-year increase in FTTH-related capital expenditure excluding finance leases, which totaled €194 million on account of the faster pace of horizontal rollouts carried out by the Group. In 2010, expenditures under finance leases as part of the FTTH project amounted to €50 million;
- the acquisition of the 3G mobile license for €242.7 million, and some €20 million in other mobile-related capital expenditure undertaken in 2010 – an amount which was contained thanks to favorable conditions negotiated with suppliers.

Net change in cash and cash equivalents:

The € 292.9 million net decrease in cash and cash equivalents was primarily attributable to the fact that the Group repaid €325 million worth of bank borrowings in order to optimize its gross debt structure when it refinanced its €1,200 million syndicated loan.

9.4.4 CONSOLIDATED DEBT

As far as Iliad is aware, the Group is not subject to any liquidity risk as a result of acceleration clauses contained in loan agreements entered into by Group companies or as a result of any breaches of financial covenants (ratios, targets, etc.).

At December 31, 2010 the Group had gross debt of €1,036.2 million and net debt of €691.3 million. Despite the acquisition of the 3G mobile license for more than €240 million during the year, Iliad still has one of the lowest debt levels among European telecom operators, with a leverage ratio of 0.87x at December 31, 2010 versus 1.01x at the previous year-end.

The Group's gross debt primarily comprised the following at end-2010:

“Océane” bonds

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

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 interest rate on this credit facility is based on Euribor plus a margin that can vary depending on the Group's leverage ratio.

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.

At December 31, 2010 all of the covenants on the Group's credit facilities were respected.

Finance lease commitments

The Group uses finance leases to finance (i) the purchase of premises required to develop its FTTH network and (ii) a portion of its technical equipment.

At December 31, 2010, the Group's total obligations under finance leases amounted to €95.6 million, up €43 million on December 31, 2009.

9.5 ADDITIONAL INFORMATION

9.5.1 STRATEGIC OBJECTIVES

In light of its strong 2010 results the Group intends to continue to implement its strategy of achieving profitable growth and has set itself the following objectives:

(a) operational objectives:

- as part of the rollout of its FTTH network, the Group:
 - expects to have around 100,000 FTTH subscribers by end-2011, and
 - is standing by its objective of covering 4 million homes horizontally by end-2012.
- as part of its mobile telephony project the Group's objectives are:
 - to cover 27% of the French population by January 2012, and
 - to launch a commercial offering in early 2012.
- to reach a subscriber unbundling rate above 90% in the medium term,
- to attain a 24%-25% share of the Broadband market in the long term.

(b) financial objectives:

- to achieve Free Cash Flow from ADSL operations in excess of €1.1 billion between 2010 and 2012 (including Alice),
- to double Group revenues by 2015.

9.5.2 EVENTS AFTER THE BALANCE SHEET DATE

In accordance with the terms of the UMTS licenses, 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.



10

CAPITAL RESOURCES

The main information on cash flows, debt and equity is provided in Section 9 of this registration document, notably in Sections 9.4.3, 9.4.4 and 9.4.5.

At December 31, 2010, the Group's leverage ratio (net debt to Ebitda) was 0.87x.

Further information on capital resources is provided in Section 4.3.2 of this registration document as well as in Section 20.1, in Notes 25 and 28 to the consolidated financial statements.





11

RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

11.1 RESEARCH AND DEVELOPMENT 76

11.2 INTELLECTUAL PROPERTY 76

11.2.1 Patents 76

11.2.2 Trademarks 76

11.1 RESEARCH AND DEVELOPMENT

Iliad S.A. does not directly incur any research and development costs directly as Freebox, Free, Free Infrastructure and Free Mobile bear these costs for the Group as a whole. They include expenses incurred for (i) designing new products, (ii) adapting existing products to the Internet, (iii) designing ADSL, optical fiber and mobile networks, (iv) research or the creation of databases for new applications, and (v) developing marketing strategies for new products.

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

It was with these two objectives in mind that Freebox S.A.S. developed the Freebox modems and decoders and the Freebox DSLAMs installed by Free. Likewise, Free Infrastructure designs specially adapted equipment that facilitates the rollout of an optical fiber network while respecting the regulations set down by ARCEP, and Free Mobile is developing an all-IP mobile network that requires major development of access hardware and software for the network core.

The Group intends to continue to develop in-house the architecture of the equipment used both in the operation of its network and in the provision of services to its subscribers, as well as software applications based on open source software such as Linux which are used by all Group companies.

The teams in charge of the Group's R&D activities have been combined into the following companies:

- Freebox S.A.S.: 23 employees;
- Free Mobile S.A.S.: 18 employees;
- Free Infrastructure: 2 employees;
- Free S.A.S.: 1 employee;
- Iliad S.A.: 1 employee.

In 2010 the Group spent €6.13 million on R&D (versus €1.8 million in 2009 and €1.6 million in 2008), mainly related to broadband, optical fiber and the mobile network.

The aim of the Group's research and development policy is to develop network architectures and software solutions that are tailored to specific offerings and needs, and to ensure that the corresponding equipment can be easily assembled by third party manufacturers under optimal financial terms.

11.2 INTELLECTUAL PROPERTY

11.2.1 PATENTS

At the date of this registration document, the Group had filed 17 patents in the areas of optical fiber, multimedia distribution flows and data transmission using PLC.

11.2.2 TRADEMARKS

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

See Section 4.4.4 of this registration document for further information on intellectual property.



12

TREND INFORMATION

At the date this registration document was filed, the Group was confident in its profit-making capacity.

Information concerning events after the balance sheet date of December 31, 2010 is presented in Section 9.5.2 of this registration document.





13

PROFIT FORECASTS OR ESTIMATES

The Company does not issue any profit forecasts or estimates.

However, it has issued the following objectives:

(i) operational objectives:

- as part of the rollout of its FTTH network, the Group:
 - expects to have around 100,000 FTTH subscribers by end-2011, and
 - is standing by its objective of covering four million homes horizontally by end-2012.
- as part of its mobile telephony project, the Group's objectives are:
 - to cover 27% of the French population with its own network by January 2012, and
 - to launch a commercial offering in early 2012.
- to reach a subscriber unbundling rate of more than 90% in the medium term,
- to achieve market share of 24-25% in the fixed broadband segment in the long term.

(ii) financial objectives:

- to achieve accumulated Free Cash Flow from ADSL operations in excess of €1.1 billion between 2010 and 2012 (including Alice),
- to double consolidated revenues by 2015.



14

ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

14.1 MEMBERS OF THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

82

- 14.1.1 Organization and operating
procedures of the Board of Directors 82
- 14.1.2 Organization and operating
procedures of senior management 86

14.2 CONVICTIONS, BANKRUPTCY, CONFLICTS OF INTEREST AND OTHER INFORMATION

87

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

88

14.1 MEMBERS OF THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

14.1.1 ORGANIZATION AND OPERATING PROCEDURES OF THE BOARD OF DIRECTORS

14.1.1.1 Members of the Board of Directors

The Company is governed by a Board of Directors which comprises a minimum of three (3) and a maximum of eighteen (18) members.

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

In order to comply with the principles of the December 2008 AFEF – MEDEF Corporate Governance Code and enable directors to be elected on a more frequent basis, at the Annual General Meeting held on June 23, 2009, the Company's shareholders approved the Board's recommendation to reduce directors' terms of office from six to four years and amend the bylaws accordingly.

A director's duties automatically cease at the end of the Annual General Meeting called to approve the financial statements for the previous year and held during the year in which the director's term of office expires.

The Board of Directors is currently looking into the possibility of changing the duration of directors' terms of office again when new directors are elected, with a view to encouraging a smoother re-election process.

The table below sets out the names of the members of the Board of Directors at December 31, 2010, the date on which they were first elected and the expiration date of their current term of office. It also shows the main positions they hold outside the Group, as well as any positions they have held in administrative, management or supervisory bodies of French and foreign companies outside the Group during the past five years.

Name	Date first elected	Expiration of current term ⁽¹⁾	Main positions and directorships held outside the Group ⁽²⁾	Positions and directorships that have expired in the past five years ⁽³⁾
Chairman of the Board of Directors				
Cyril Poidatz	12/12/2003	2012	N/A	N/A
Chief Executive Officer and a director				
Maxime Lombardini	05/29/2007	2010	N/A	N/A
Senior Vice-President and a director				
Xavier Niel	12/12/2003	2012	<ul style="list-style-type: none"> • Director of Ateame • Legal Manager of Elysées Capital • Chairman of Atelier 37 S.A.S. • Legal Manager of Sons • Member of the Supervisory Board of Le Monde S.A. • Member of the Supervisory Board of Editrice du Monde S.A. • Chairman of NJJ Holding S.A.S. • Chairman of NJJ Capital S.A.S. • Chairman of NJJ Immobilier S.A.S. • Chairman of NJJ Market S.A.S. • Chairman of Kima Ventures S.A.S. 	N/A
Antoine Levavasseur	05/27/2005	2012	N/A	N/A
Thomas Reynaud ⁽⁴⁾	05/29/2008	2011	N/A	N/A

(1) Each term of office expires at the close of the Annual General Meeting called to approve the financial statements for the year stated.

(2) Companies marked with an asterisk are quoted on the Euronext Paris regulated market.

(3) In companies other than Group subsidiaries.

(4) On March 18, 2010, Ilia's Board of Directors approved the recommendation of the Chief Executive Officer and appointed M. Thomas Reynaud as a Senior Vice President of the Company.

Name	Date first elected	Expiration of current term ⁽¹⁾	Main positions and directorships held outside the Group ⁽²⁾	Positions and directorships that have expired in the past five years ⁽³⁾
Directors				
Olivier Rosenfeld	12/12/2003	2012	<ul style="list-style-type: none"> • Legal Manager of Levary S.P.R.L. • Member of the Supervisory Board of LowendalMassai S.A. • Member of the Supervisory Board of Iway Holdings S.A.S. • Director of Open ERP S.A. • Director of Eutelsat Communication S.A.* 	N/A
Independent directors				
Alain Weill	12/12/2003	2012	<ul style="list-style-type: none"> • Chairman and CEO of NextRadio TV S.A. • Chairman of BFM TV S.A.S.U. • Chairman of RMC S.A.M. • Chairman of RMC Régie S.A.S.U. • Chairman of RMC Sport S.A.S.U. • Chairman of Business FM S.A.S.U. • Chairman of News Participations S.A.S. • Chairman of WMC S.A.S.U. • Chairman of Groupe 01 S.A.S.U. • Chairman of 01 Régie S.A.S.U. • Chairman of Pôle Electro S.A.S.U. • Chairman of Group Tests Holding S.A.S.U. • Chairman of BFM Business TV S.A.S.U. • Chairman of CBFM S.A.S.U. • Chairman of Next Development 1 S.A.S.U. • Chairman of Next Development 2 S.A.S.U. • Chairman of Next Development 3 S.A.S.U. • Chairman of Next Development 4 S.A.S.U. • Permanent representative of RMC on the Board of Directors of Médiamétrie S.A. 	<ul style="list-style-type: none"> • Chairman of Internext S.A.S. • Legal Manager of GT LABS S.A.R.L. • Chairman of Seliser • Chairman and CEO of Cadre Online • Chairman of La Tribune Holding S.A.S. • Chairman of La Tribune Régie S.A.S.U. • Chairman of La Tribune Desfossés S.A.S.U. • Chairman of Paris Portage S.A.S.
Pierre Pringuet	07/25/2007	2012	<ul style="list-style-type: none"> • Chief Executive Officer and a director of Pernod Ricard S.A.* • Director of Cap Gemini S.A. 	N/A
Marie-Christine Levet	05/29/2008	2011	N/A	N/A
Orla Noonan	06/23/2009	2012	<p>French companies</p> <ul style="list-style-type: none"> • Chairman of Knightly Investments S.A.S. • Director of Groupe AB S.A.S. • Director of Elig Media S.A. <p>Foreign companies</p> <ul style="list-style-type: none"> • Director of BTV Belgium • Director of WB Television Belgium • Director of RTL 9 Luxembourg • Director of AB Luxembourg Luxembourg 	<p>French companies</p> <ul style="list-style-type: none"> • Chairman of NT1 S.A.S. • Director of Groupe AB renamed Holding Omega Participations S.A.S. • Chairman of AB1 S.A.S. • Chairman of AB Productions S.A.S. • Chairman and CEO of ABNT S.A. • Director of Raphaël Films • Permanent representative on the Supervisory Board of AB SAT <p>Foreign companies</p> <ul style="list-style-type: none"> • Director of Capital Media Group Limited USA • Director of Télé Monte-Carlo Monaco
Virginie Calmels	06/23/2009	2012	<ul style="list-style-type: none"> • Chairman of Endemol Fiction S.A.S. • Chairman and CEO of Endemol France S.A.S. • Chairman of Endemol Productions S.A.S. • Chairman of Mark Burnett Production S.A.S. 	<ul style="list-style-type: none"> • Chairman of Case Productions • Chairman of Usual Productions • Chairman of Seca Productions • Chairman of Nao • Chairman of DV Prod • Chairman of Endemol Jeux • Chairman of Tête de Prod • Chairman of Orevi • Chairman of Endemol Fiction

(1) Each term of office expires at the close of the Annual General Meeting called to approve the financial statements for the year stated.

(2) Companies marked with an asterisk are quoted on the Euronext Paris regulated market.

(3) In companies other than Group subsidiaries.

Maxime Lombardini's term of office will end at the close of the Annual General Meeting called to approve the financial statements for the year ended December 31, 2010. At its April 4, 2011 meeting the Board decided to recommend to shareholders at the Annual General Meeting that they re-elect Mr Lombardini as a director for a further four-year term.

Each year, the Board of Directors reviews the situation of each director in terms of the independence criteria set out in the AFEP – MEDEF Corporate Governance Code. The Board of Directors' internal rules define the criteria that a director must fulfill in order to be considered independent, which comply with the principles of the AFEP – MEDEF Code. A director is deemed to be independent when he or she has no relationship of any kind with the Company, its group or the management of either that is such as to color his or her judgment. At its meeting on March 7, 2011, the Board examined on a case-by-case basis the situation of each of its eleven members and noted that the Board comprised the following five independent directors: M. Alain Weill, Ms. Marie-Christine Levet, M. Pierre Pringuet, Ms. Orla Noonan, and Ms. Virginie Calmels.

14.1.1.2 Biographies of the directors

Cyril Poidatz

Aged 49, French nationality

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

Maxime Lombardini

Aged 45, French nationality

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

Xavier Niel

Aged 44, French nationality

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

Antoine Levavasseur

Aged 34, French nationality

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

Thomas Reynaud

Aged 37, French nationality

Thomas Reynaud is a graduate of HEC business school and New York University. He joined Iliad in the summer of 2007 as Head of Business Development and a member of the Management Committee before becoming Chief Financial Officer of the Group on January 1, 2008. He was appointed Senior Vice-President of Iliad on March 18, 2010. Prior to joining Iliad, Mr Reynaud held the position of Managing Director in charge of the Telecoms, Media and Technology sector at Société Générale. During the ten years he spent with the bank, he worked in both the Paris and New York offices, in the Debt then Equity Capital Markets departments, leading numerous transactions in connection with IPOs, privatizations and equity and debt offerings. He has acted as advisor to the Iliad Group since 2003, notably for the Group's IPO in 2004 and convertible bond issue in 2006.

Olivier Rosenfeld

Aged 40, Belgian nationality

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

Alain Weill

Aged 50, French nationality

Alain Weill holds a degree in economics and an MBA from the HEC business school. Between 1985 and 1989 he was Network Director for NRJ S.A., then Chief Executive Officer of Quarare (Sodexho Group). In 1990, he joined the management team of Compagnie Luxembourgeoise de Télédiffusion (CLT), then became Chairman and Chief Executive Officer of the network, a subsidiary of CLT and the Spanish group SER. In 1992, he was appointed to the senior management team of the NRJ Group, followed by NRJ Régies in 1995, where he has served as Deputy Chairman of the Management Board since 1997. He has served as Chairman of NextRadio TV since November 8, 2000, and is also Chairman of RMC, RMC Régie, BFM, BFM TV, Groupe O1 and BFM Business.

Pierre Pringuet

Aged 61, French nationality

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

Marie-Christine Levet

Aged 44, French nationality

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

Orla Noonan

Aged 41, Irish nationality

A graduate of HEC business school and Trinity College Dublin, Orla Noonan has been a director and General Secretary of the AB Group since 1999 and is currently responsible for managing all of the AB Group's financial and regulatory affairs. Orla Noonan began her career with the investment bank Salomon Brothers in London, where she participated in several M&A transactions, particularly in the media and telecoms sector. She then joined the AB Group in 1996, working first on IPOs in New York and Paris and then on external growth transactions such as the acquisitions of the television channels RTL9 and TMC. She was Chairman of the NT1 television channel from the launch of DTT in 2005 until it was sold to TF1 in 2010.

Virginie Calmels

Aged 40, French nationality

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

The members of the Board of Directors can be contacted through the Company's head office.

14.1.2 ORGANIZATION AND OPERATING PROCEDURES OF SENIOR MANAGEMENT

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

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

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

On the recommendation of the Chief Executive Officer, the Board of Directors may appoint one or more individuals holding the title of Senior Vice-President to assist the Chief Executive Officer. The maximum number of Senior Vice-Presidents is five.

The Board of Directors, in agreement with the Chief Executive Officer, determines the scope and duration of the powers granted to Senior Vice-Presidents. Senior Vice-Presidents have the same powers as the Chief Executive Officer vis-à-vis third parties.

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

Name	Position	Date first appointed	Expiration of current term ⁽¹⁾
Maxime Lombardini	Chief Executive Officer	06/14/2007	2010
Xavier Niel	Senior Vice-President	06/14/2007	2010
Antoine Levavasseur	Senior Vice-President	06/14/2007	2010
Rani Assaf ⁽²⁾	Senior Vice-President	06/14/2007	2010
Thomas Reynaud	Senior Vice-President	05/18/2010	2010

(1) Each term of office expires at the close of the Annual General Meeting called to approve the financial statements for the year stated.

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

At its April 4, 2011 meeting the Board of Directors renewed the terms of office of the Senior Vice-Presidents as well as M. Maxime Lombardini's term of office as a Chief Executive Officer, for four years.

The biographies of the Company's senior managers are provided below.

Maxime Lombardini

See Section 14.1.1.2 above.

Xavier Niel

See Section 14.1.1.2 above.

Antoine Levavasseur

See Section 14.1.1.2 above.

Thomas Reynaud

See Section 14.1.1.2 above.

Rani Assaf

Aged 36, French nationality

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

The Group's senior managers can be contacted through the Company's head office.

14.2 CONVICTIONS, BANKRUPTCY, CONFLICTS OF INTEREST AND OTHER INFORMATION

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

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

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

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

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

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

At the date this registration document was filed, to the best of the Company's knowledge, none of the persons referred to in Section 14.1 above have agreed to any restrictions on the disposal within a certain time period of their holdings in the Company's capital, apart from (i) the thirty-day periods preceding the release of half-yearly and annual results figures and the fifteen-day periods preceding the release of quarterly results figures, (ii) the requirement set out in the bylaws that each director must hold at least one hundred Iliad shares and (iii) the lock-up undertaking entered into by Xavier Niel and described in Section 18.1.1 of this registration document.

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

At February 28, 2011, Iliad's directors and senior managers held the following interests in the Company:

Shareholder	Shares	Percentage of share capital	Percentage of voting rights
Xavier Niel	34,265,720	62.65%	60.57%
Antoine Levavasseur	543,607	0.99%	1.85%
Rani Assaf	942,590	1.72%	3.28%
Cyril Poidatz	690,614	1.26%	2.34%
Olivier Rosenfeld	186,718	0.34%	0.33%
Maxime Lombardini	100	0.00%	0.00%
Alain Weill	6,212	0.01%	0.01%
Pierre Pringuet	2,037	0.00%	0.00%
Thomas Reynaud	150	0.00%	0.00%
Marie-Christine Levet	150	0.00%	0.00%
Virginie Calmels	150	0.00%	0.00%
Orla Noonan	300	0.00%	0.00%
TOTAL	36,638,348	66.98%	68.44%

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

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

15

COMPENSATION AND BENEFITS

15.1 DIRECTORS' AND OFFICERS' COMPENSATION

90

15.1.1 Compensation policy for members of the Board of Directors

90

15.1.2 Compensation policy for executive corporate officers

91

15.2 AGREEMENTS ENTERED INTO BY THE COMPANY OR MEMBERS OF THE GROUP WITH THE COMPANY'S CORPORATE OFFICERS OR PRINCIPAL SHAREHOLDERS

95

15.3 LOANS AND GUARANTEES GRANTED TO CORPORATE OFFICERS

95

15.1 DIRECTORS' AND OFFICERS' COMPENSATION

15.1.1 COMPENSATION POLICY FOR MEMBERS OF THE BOARD OF DIRECTORS

The Board of Directors' internal rules specify the provisions applied by the Board concerning compensation payable to its members. Under these rules, directors are allocated directors' fees, whose amounts are approved by shareholders at the Annual General Meeting and whose allocation is decided by the Board based on recommendations put forward by the Compensation Committee.

In the fifth resolution of the Annual General Meeting held on May 25, 2010, the Company's shareholders set the aggregate amount of directors' fees at €100,000 and the Board allocated this sum equally between its five independent, non-executive directors.

The following table shows the amounts of directors' fees paid in 2009 and 2010.

Director	Amount paid in 2010 (in €)	Amount paid in 2009 (in €)
Olivier Rosenfeld		
Directors' fees	N/A	N/A
Other compensation	N/A	N/A
Alain Weill		
Directors' fees	20,000	17,500
Other compensation	N/A	N/A
Pierre Pringuet		
Directors' fees	20,000	17,500
Other compensation	N/A	N/A
Marie-Christine Levet		
Directors' fees	20,000	17,500
Other compensation	N/A	N/A
Orla Noonan		
Directors' fees	20,000	10,000
Other compensation	N/A	N/A
Virginie Calmels		
Directors' fees	20,000	10,000
Other compensation	N/A	N/A
Antoinette Willard ⁽¹⁾		
Directors' fees	N/A	7,500
Other compensation	N/A	N/A

(1) Ms. Antoinette Willard's term of office expired at the close of the Annual General Meeting of June 23, 2009.

At its April 4, 2011 meeting, the Board of Directors decided to recommend to shareholders at the Annual General Meeting to be held on May 24, 2011 that they set the aggregate amount of directors' fees payable for 2011 at €100,000.

In order to comply with the recommendations of the AFEP – MEDEF Corporate Governance Code, the Compensation Committee has recommended to the Board of Directors that the amount of directors' fees allocated to individual directors should include a fixed portion and a variable portion in order to reflect each director's actual attendance at Board meetings as well as their contribution to the work carried out by the Board and its committees.

15.1.2 COMPENSATION POLICY FOR EXECUTIVE CORPORATE OFFICERS

The Board of Directors is responsible for the compensation policy concerning the Company's executive corporate officers and has confirmed its intention to ensure transparency in this regard by complying with the AFEP – MEDEF Code.

During the year and until December 14, 2010, the Board performed the responsibilities generally carried out by a Compensation Committee. As from that date, executive corporate officers' compensation policy was determined by the Compensation Committee, in the presence of the independent directors. The executive corporate officers concerned were not entitled to vote when their individual compensation packages were being discussed.

The Board's objective is to provide executive corporate officers with competitive compensation packages that increase annually at a steady rate.

Decisions concerning salary increases and payment methods are straightforward and clear. Executive corporate officers who are members of the Board do not receive directors' fees. The overall aim of the compensation policy put in place within the Company is to regularly reward executive corporate officers' medium- and long-term loyalty.

During the year, the Board continued its drive to implement a clear and transparent compensation policy, in line with the corporate governance principles set out in the AFEP – MEDEF Code. Accordingly, at its December 14, 2010 meeting, the Board decided to set up a Compensation Committee tasked with analyzing the components of executive corporate officers' compensation packages.

15.1.2.1 Summary table of compensation, stock options and performance shares awarded to the Group's executive corporate officers in 2009 and 2010

The following table sets out the compensation, stock options and performance shares awarded to executive corporate officers in 2009 and 2010.

	2010	2009
Cyril Poidatz		
Compensation payable for the year	154,800	148,800
Value of stock options granted	N/A	N/A
Value of Free Mobile ⁽¹⁾ shares granted during the year	0.63	N/A
TOTAL	1,308,639	148,800
Maxime Lombardini		
Compensation payable for the year	384,000	372,000
Value of stock options granted	N/A	N/A
Value of Free Mobile ⁽¹⁾ shares granted during the year	0.63	N/A
TOTAL	1,999,374	372,000
Xavier Niel		
Compensation payable for the year	173,040	173,040
Value of stock options granted	N/A	N/A
Value of Free Mobile ⁽¹⁾ shares granted during the year	N/A	N/A
TOTAL	173,040	173,040
Antoine Levavasseur		
Compensation payable for the year	172,800	162,600
Value of stock options granted	N/A	N/A
Value of Free Mobile ⁽¹⁾ shares granted during the year	0.63	N/A
TOTAL	1,326,639	162,600
Rani Assaf		
Compensation payable for the year	154,800	146,760
Value of stock options granted	N/A	N/A
Value of Free Mobile ⁽¹⁾ shares granted during the year	0.63	N/A
TOTAL	1,308,639	146,760
Thomas Reynaud ⁽²⁾		
Compensation payable for the year	384,000	372,000
Value of stock options granted	N/A	N/A
Value of Free Mobile ⁽¹⁾ shares granted during the year	0.63	N/A
TOTAL	1,999,374	372,000

(1) The unit value, rounded to the nearest euro cent, corresponds to the valuation at the grant date as recorded in the consolidated financial statements (IFRS).

(2) M. Thomas Reynaud was appointed as a Senior Vice-President on March 18, 2010.

15.1.2.2 Individual compensation paid to executive corporate officers in 2009 and 2010

FIXED AND VARIABLE COMPENSATION AND BENEFITS IN KIND PAID TO EXECUTIVE CORPORATE OFFICERS IN 2010

	Fixed portion ⁽¹⁾	Variable portion	Exceptional compensation	Directors' fees	Benefits in kind	Total
Cyril Poidatz – Chairman of the Board of Directors	154,800	N/A	N/A	N/A	N/A	154,800
Maxime Lombardini – Director/Chief Executive Officer	384,000	N/A	N/A	N/A	N/A	384,000
Xavier Niel – Director/Senior Vice-President	173,040	N/A	N/A	N/A	N/A	173,040
Antoine Levavasseur – Director/Senior Vice-President	172,800	N/A	N/A	N/A	N/A	172,800
Thomas Reynaud – Director/Senior Vice-President	384,000	N/A	N/A	N/A	N/A	384,000
Rani Assaf – Senior Vice-President	154,800	N/A	N/A	N/A	N/A	154,800

(1) The amount shown corresponds to the sum due and actually paid.

FIXED AND VARIABLE COMPENSATION AND BENEFITS IN KIND PAID TO EXECUTIVE CORPORATE OFFICERS IN 2009

	Fixed portion ⁽¹⁾	Variable portion	Exceptional compensation	Directors' fees	Benefits in kind	Total
Cyril Poidatz – Chairman of the Board of Directors	148,800	N/A	N/A	N/A	N/A	148,800
Maxime Lombardini – Director/Chief Executive Officer	372,000	N/A	N/A	N/A	N/A	372,000
Xavier Niel – Director/Senior Vice-President	173,040	N/A	N/A	N/A	N/A	173,040
Antoine Levavasseur – Director/Senior Vice-President	162,600	N/A	N/A	N/A	N/A	162,600
Rani Assaf – Senior Vice-President	146,760	N/A	N/A	N/A	N/A	146,760

(1) The amount shown corresponds to the sum due and actually paid.

15.1.2.3 Stock option and share grant policy for executive corporate officers

For many years the Company has regularly granted stock options under attractive or competitive conditions. The objective of this overall policy is to fairly reward the Group's executives, while at the same time extending the scope of beneficiaries to include all employees who make a significant contribution to enhancing and developing the Group's business. As part of this initiative, a share grant policy was implemented by Free Mobile in favor of certain directors and employees within the company.

15.1.2.3.1 Stock options

Stock options granted to corporate officers in 2009 and 2010 by Iliad or any other Group company during their term of office within the Company

Name of beneficiary	Grant date	Valuation of the options based on the method used for the consolidated financial statements	Number of options granted during the year	Exercise price	Exercise period
Cyril Poidatz					
Maxime Lombardini					
Xavier Niel					
Antoine Levavasseur					
Rani Assaf					
Thomas Reynaud					

No stock options were granted to corporate officers in either 2009 or 2010

Historical information on stock option grants is provided in Section 21.1.4.1 of this registration document.

In accordance with the provisions of Article L. 225-185 of the French Commercial Code concerning stock options granted to corporate officers, the Board of Directors has set the number of shares that said beneficiaries are required to hold in registered form following exercise of their options, until they leave their position as corporate officer. To the Company's knowledge, none of the options received by the executive corporate officers are hedged.

Information on stock options granted to the ten employees of the Group who hold the largest number of options (other than corporate officers) is provided in Section 17.2.3 of this registration document.

Stock options exercised by executive corporate officers in 2010

Name of beneficiary	Grant date	Number of options exercised during the year	Exercise price
Cyril Poidatz	12/20/2005	20,307	48.44
Antoine Levavasseur	12/20/2005	20,307	48.44

15.1.2.3.2 Performance share grants

PERFORMANCE SHARES GRANTED TO EXECUTIVE CORPORATE OFFICERS IN 2009 AND 2010 BY ILIAD OR ANY OTHER GROUP COMPANY DURING THEIR TERM OF OFFICE WITHIN THE COMPANY

Performance shares granted to executive corporate officers in 2009 and 2010

Shareholder-approved performance shares granted during the year to corporate officers by Iliad or any other Group company	Plan number and date	Number of shares granted during the year	Valuation of performance shares based on method used for the consolidated financial statements	Vesting date	End of lock-up period	Performance conditions
Cyril Poidatz						
Maxime Lombardini						
Xavier Niel						
Antoine Levavasseur						
Rani Assaf						
Thomas Reynaud						

No performance shares were granted to corporate officers in 2009 and 2010 by Iliad

Performance shares which became available for corporate officers in 2010

Performance shares which became available for corporate officers	Plan number and date	Number of shares that became available during the year	Vesting conditions
Cyril Poidatz			
Maxime Lombardini			
Xavier Niel			
Antoine Levavasseur			
Rani Assaf			
Thomas Reynaud			

N/A

SHARES GRANTED FREE OF CONSIDERATION TO CORPORATE OFFICERS BY FREE MOBILE DURING THEIR TERMS OF OFFICE WITHIN THE COMPANY

A stock option grant for certain corporate officers of the Company was carried out by Free Mobile, a controlled entity within the meaning of the provisions of Article L. 233-16 of the French Commercial Code.

At its meeting of May 3, 2010, the Company's Board of Directors authorized the implementation of an incentive plan for certain employees and officers by means of a share grant plan, within the limit of 5% of the share capital of Free Mobile.

Pursuant to this authorization, and following the decision of the sole shareholder of Free Mobile, 4.6% of the share capital of Free Mobile was allocated to 16 employees and officers following decisions of the Chairman in May and December 2010. These plans also provide for an optional liquidity clause in Iliad shares, whose price will be fixed by an external expert.

The corporate officers of Free Mobile who were granted shares under these plans are listed below.

Shares granted free of consideration to executive corporate officers in 2010 by Free Mobile

Shareholder-approved share grants during the year to corporate officers by Iliad or any other Group company	Plan number and date	Number of shares granted during the year	Valuation of shares based on method used for the consolidated financial statements	Vesting date	End of lock-up date
Cyril Poidatz	05/12/2010	1,825,694	0.63	05/12/2010	05/13/2014
Maxime Lombardini	05/12/2010	2,555,971	0.63	05/12/2010	05/13/2014
Xavier Niel	N/A	N/A	N/A	N/A	N/A
Antoine Levavasseur	05/12/2010	1,825,694	0.63	05/12/2010	05/13/2014
Rani Assaf	05/12/2010	1,825,694	0.63	05/12/2010	05/13/2014
Thomas Reynaud	05/12/2010	2,555,971	0.63	05/12/2010	05/13/2014
TOTAL	N/A	10,589,024	N/A	N/A	N/A

In accordance with the provisions of Article L. 225-197-1 paragraph 4 of the French Commercial Code concerning shares granted free to corporate officers, at the grant date the Board of Directors must either (i) set the number of options that beneficiaries must hold in nominative form until they leave their position as corporate officer, or (ii) decide that the options cannot be sold by the beneficiaries until the expiration of their term as corporate officer.

Consequently, under the May 12, 2010 plan, following the decision of the Chairman at that date, each corporate officer is required to hold at least 5% of the shares in registered form following exercise of their options, until they leave their position as corporate officer.

15.1.2.4 Commitments given to corporate officers
Employment contracts held by corporate officers

	Employment contract		Defined benefit pension plan		Compensation or benefits due or payable for termination or change of position		No-compete indemnities	
	Yes	No	Yes	No	Yes	No	Yes	No
Corporate office								
Cyril Poidatz								
Chairman of the Board of Directors		x		x		x		x
Maxime Lombardini								
Chief Executive Officer		x		x	x			x

The AFEP – MEDEF Corporate Governance Code for listed companies, which the Company uses as its benchmark for corporate governance issues, recommends that when a senior executive is appointed as a corporate officer, or on renewal of the term as corporate officer, his or her employment contract should be terminated by resignation or by contractual agreement.

At its April 4, 2011 meeting, the Board of Directors decided to renew the term of office of Maxime Lombardini as Chief Executive Officer for a period of four years. Since this date, Maxime Lombardini no longer has an employment contract with the Group.

Also at its April 4, 2011 meeting, the Board of Directors decided, on the recommendation of the Compensation Committee, to set the compensation of Maxime Lombardini, which is composed solely of a fixed portion of €384,000. This compensation relates wholly to his office as Chief Executive Officer of the Company.

In order to comply with the recommendations of the AFEF – MEDEF Corporate Governance Code and the provisions of Article L. 225-42-1 of the French Commercial Code, and based on the recommendation of the Compensation Committee, the Board of Directors decided to put in place termination indemnities for the Chief Executive Officer, subject to performance conditions.

In accordance with applicable law, this commitment is subject to the approval of the Shareholders' Meeting of May 24, 2011.

The payment of this compensation, set at 1.5 times the annual total compensation due in respect of the office of Chief Executive Officer, is subject to the achievement of at least three of the following five performance conditions, set out by the Board of Directors in the conditions required by applicable law at the date on which his or her duties as Chief Executive Officer terminate, it being noted that these performance conditions shall be measured excluding the impact of any regulatory changes:

- positive free cash flow from the ADSL activities;
- Ebitda margin on the landline business maintained at the level recorded in 2010;
- average revenue growth over the period of at least 5%;
- average per annum optical fiber subscriber growth of at least 50,000 subscribers;
- average per annum growth of 15 points in voice coverage of the French population, by the Free Mobile network.

Within the Company there are no:

- specific pension schemes in place for corporate officers;
- leaving bonuses;
- commitments given to corporate officers by the Company that provide for the payment of indemnities and/or benefits relating to or resulting from the termination of their duties within the Company, with the exception of the above-described commitment to Maxime Lombardini;
- indemnities payable to corporate officers under no-compete clauses.

15.2 AGREEMENTS ENTERED INTO BY THE COMPANY OR MEMBERS OF THE GROUP WITH THE COMPANY'S CORPORATE OFFICERS OR PRINCIPAL SHAREHOLDERS

Agreements entered into between Iliad and Thomas Reynaud, Maxime Lombardini, Cyril Poidatz, Rani Assaf and Antione Levavasseur. As part of the incentive plan set up by Free Mobile, at its Meeting on May 3, 2010, the Board of Directors authorized the signing of several agreements between the Company and the abovementioned corporate officers. These agreements are described in the Statutory Auditors' special report on related-party agreements.

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

Current account agreement between Xavier Niel and Iliad (authorized prior to its signature at the February 9, 2005 meeting of the Board of Directors). Xavier Niel's current account had a credit balance of €3,565 at December 31, 2010 and no interest was paid in relation to this account during the year.

15.3 LOANS AND GUARANTEES GRANTED TO CORPORATE OFFICERS

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



16

FUNCTIONING OF THE COMPANY'S ADMINISTRATIVE AND MANAGEMENT BODIES

16.1 ORGANIZATION OF THE COMPANY'S ADMINISTRATIVE AND MANAGEMENT BODIES 98

16.1.1 Organization of the Board of Directors 98

16.1.2 Senior management (Article 19 of the bylaws) 101

16.2 SERVICE CONTRACTS ENTERED INTO BETWEEN THE COMPANY AND MEMBERS OF THE COMPANY'S ADMINISTRATIVE AND MANAGEMENT BODIES 102

16.3 CORPORATE GOVERNANCE BODIES 102

16.3.1 Committees of the Board of Directors 102

16.3.2 Senior management committees 103

16.4 INTERNAL CONTROL 104

16.4.1 Report on the conditions governing the preparation and organization of the work of the Board of Directors and internal control procedures 104

16.4.2 Statutory Auditors' report on the report prepared by the Chairman of the Board of Directors on internal control 104

In accordance with the provisions of article L. 225-37 of French Commercial Code, the Company confirm to use the AFEP – MEDEF Corporate Governance Code, which is available on MEDEF's website, as its basis of reference.

The report prepared by the Chairman of the Board of Directors on the conditions governing the preparation and organization of the work of the Board of Directors and internal control and risk management procedures put in place by Iliad, in accordance with article L. 225-37 of the French Commercial Code is presented in Appendix A of this registration document. This report has been approved by the Board of Directors on April 4, 2011.

16.1 ORGANIZATION OF THE COMPANY'S ADMINISTRATIVE AND MANAGEMENT BODIES

As required by law, the Company is managed either by the Chairman of the Board of Directors, who then has the title of Chairman and Chief Executive Officer, or by another person appointed by the Board of Directors with the title of Chief Executive Officer. The Board of Directors selects one of these two options for managing the Company.

On December 12, 2003, the Board of Directors decided to segregate the functions of Chairman of the Board and the Chief Executive Officer, with a view to ensuring (i) a clear separation between executive powers and the role of the Board of Directors and (ii) transparent relations with the markets and shareholders. This organizational structure enhances the Board's operational effectiveness, as it means that one person is exclusively dedicated to acting as its Chairman and strengthens the Board's oversight role with respect to the Company's management.

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

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

16.1.1 ORGANIZATION OF THE BOARD OF DIRECTORS

16.1.1.1 Membership structure of the Board and female representation on the Board

Membership structure of the Board

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

Each director must own at least one hundred (100) shares in the Company. If a director does not own the required number of shares on the date of his appointment, or if his shareholding decreases below that threshold during his term, he will be deemed to have resigned if the situation is not remedied within six months (article 14 of the Company's bylaws and article 1.1 of the Directors' Code of Conduct).

The Board of Directors must be made up of directors selected for their expertise and experience in the Company's areas of business, as well as for their integrity. It includes independent directors as defined below.

At the date this registration document was filed, the Company's Board of Directors comprised eleven members, whose individual details are provided in Section 14.1 above. Independent directors made up 45.45% of the Board's members, corresponding to a higher proportion than the third recommended in the AFEP – MEDEF Corporate Governance Code.

Female representation on the Board

With a view to having a balanced structure – particularly in terms of gender equality – 27.3% of the Board's members are women. This complies with the objective set by the AFEP and MEDEF in their recommendation issued on April 19, 2010, and is in line with Law 2011-103 dated January 27, 2011 aimed at increasing the proportion of women in corporate boardrooms and improving equality in the workplace.

Iliad's Board of Directors does not include any members elected by employees, but a works council representative is invited to attend Board meetings in a consultative capacity.

16.1.1.2 Directors' terms of office (Article 16 of the bylaws)

Since June 23, 2009, directors hold office for a four-year term. This follows the decision taken by shareholders at the June 23, 2009 Annual General Meeting to approve the Board's recommendation to reduce directors' terms of office from six to four years and amend the bylaws accordingly. The purpose of this change was to comply with the principles of the AFEP – MEDEF Corporate Governance Code and enable shareholders to elect directors on a more frequent basis.

A director's duties cease at the end of the Annual General Meeting called to approve the financial statements for the previous year and held during the year in which the director's term of office expires.

Outgoing directors may be re-elected without restriction.

The Board of Directors is currently looking into the possibility of changing the duration of directors' terms of office again when new directors are elected, with a view to encouraging a smoother re-election process.

16.1.1.3 Independent directors

The April 23, 2009 version of the Board of Directors' internal rules sets out the criteria that a director must fulfill in order to be considered independent. These criteria comply with the principles set out in the December 2008 AFEP – MEDEF Corporate Governance Code. A director is deemed to be independent when he or she has no relationship of any kind with the Company, its group or the management of either that is such as to color his or her judgment.

These criteria provide that in order to be considered independent, a director:

- cannot be an employee of the Company, hold a management position within the Company, or be an employee or director of the parent company or of one of its consolidated subsidiaries, either currently or during the previous five years;
- cannot be a corporate officer (within the meaning of COB recommendation 2002-01) of a company in which the Company holds, either directly or indirectly, a directorship, or in which a directorship is held by an employee of the Company designated as such or by a current or former (going back five years) corporate officer of the Company;
- cannot be a customer, supplier, investment banker or a commercial banker which is material for the Company or the Group or for which the Company or the Group represents a material proportion of the entity's activity;
- cannot have close family ties with a corporate officer;
- cannot have been an auditor of the Company during the past five years;
- cannot have been a director of the Company for more than twelve years;
- cannot represent a significant shareholder of the Company, taking into account that:
 - (i) a shareholder who owns over 10% of the Company's capital or voting rights is considered significant, and
 - (ii) below this threshold, the Board of Directors systematically reviews whether the director is independent, taking into account the composition of the Company's share capital and any potential conflicts of interest.

At its meeting on March 7, 2011, the Board examined on a case-by-case basis the situation of each of its eleven members and noted that the Board comprised the following five independent directors: M. Alain Weill, M. Pierre Pringuet, Ms. Marie-Christine Levet, Ms. Orla Noonan and Ms. Virginie Calmels.

Independent directors represent 45.45% of the Board's members, in excess of the third recommended in the AFEP – MEDEF Code. Consequently, the Board can carry out its duties with the required level of independence and objectivity and can ensure that its meetings are conducted effectively while taking into account the interests of all of the Company's shareholders.

16.1.1.4 Operating procedures of the Board of Directors

Internal rules of the Board of Directors and Directors' Code of Conduct

The operations of the Company's Board of Directors are governed by a set of internal rules endorsed at the Board meeting of December 12, 2003 and amended at the Board meetings of March 9, 2005, October 25, 2006, April 23, 2009 and March 7, 2011. The provisions of the Board's internal rules add to the requirements set down in the applicable laws and regulations and the Company's bylaws.

The Board of Directors' internal rules specify the operating procedures for both the Board and the Board Committees. The members of the Board Committees are directors and are tasked with helping the Board prepare its work. The internal rules also include an appendix containing a Code of Conduct which sets out the duties and obligations of directors in compliance with the principles of the AFEP – MEDEF Corporate Governance Code, particularly those concerning professional diligence, confidentiality, conflicts of interest and insider trading.

The Board of Directors' internal rules implement article 223-22 of the General Regulations of the AMF concerning the obligation of directors to report transactions involving the Company's securities to the AMF on an individual basis, and the Company's responsibility to inform the public of those trades on its website within five trading days from receipt of such reports.

The Directors' Code of Conduct, which is appended to the Board's internal rules and is given to each director when they take up their directorship, prohibits directors from trading in the securities of the Company if, as a result of their duties, they possess information that is not yet in the public domain. In addition, in accordance with recommendation 2010-07 issued by the AMF on November 3, 2010, directors are prohibited from trading in the Company's securities during certain "blackout" periods, corresponding to (i) the fifteen calendar days preceding the release of Iliad's quarterly results figures and (ii) the thirty calendar days preceding the release of its interim and annual results.

Powers of the Board of Directors

The Board of Directors is responsible for defining and implementing the Company's strategies.

Except for the powers directly vested in shareholders and within the scope of the corporate purpose, the Board is responsible for dealing with all matters related to the efficient running of the Company and for making all related decisions.

Actions by the Board are binding on the Company with respect to third parties, even when they fall outside the scope of the corporate purpose, unless the Company can prove that the third party was aware that such an action exceeded said scope, or in view of the circumstances could not have been unaware thereof. Publication of the bylaws does not, in itself, constitute such proof.

The Board of Directors performs all controls and procedures that it deems appropriate.

Information provided to directors

Prior to every meeting, Board members receive a pack containing information about items on the agenda, in order to help them prepare for the meeting and make fully informed decisions. The Chairman also regularly provides the Board's members with any significant information concerning the Company.

Each director has a duty to request from the Chairman any information that they consider would be useful for performing their role. Where such information is requested it must be provided within a reasonable timeframe.

Board members are bound by a strict duty of confidentiality with respect to non-public information acquired in connection with their role as a director.

Board meetings

The Board of Directors meets as often as is required in the Company's interests, on notice from the Chairman. If the Board has not met for over two months, directors representing at least one-third of the Board's members may call a meeting, specifying the agenda.

The Chief Executive Officer may also request that the Chairman convene a Board meeting to consider a specific agenda.

Requests made pursuant to the preceding two paragraphs are binding on the Chairman.

Notice of meeting may be given by any written means, including by letter, fax, telex or electronic transmission. The meeting must be called at least two days prior to it being held, except in an emergency, in which case it must be called no later than the day preceding the meeting, by any means. In all circumstances, a meeting may be called verbally without notice if all the Board members so agree.

The Board of Directors draws up a schedule for future Board meetings which is approved by the directors. Additional and/or special meetings are called if there are any issues that need to be urgently addressed.

Work conducted by the Board of Directors in 2010

In 2010 the Board of Directors made decisions regarding all major strategic, economic and financial matters affecting the Company and the Group and ensured that these decisions were implemented. It also approved the annual and interim financial statements, prepared the Annual General Meeting, defined Iliad's financial communications policy, assessed the independence of directors, drew up and approved the Compensation Committee's operating rules and appointed its members, allocated directors' fees, approved the report of the Chairman of the Board on the conditions governing the preparation and organization of the work of the Board of Directors and internal control procedures, authorized the signature of certain agreements (refinancing the syndicated loan for €1.4 billion, a credit facility set up by the European Investment Bank [EIB]).

At each of its meetings the Board also devoted an agenda item to discussing the Group's business performance.

In 2010, Iliad's Board of Directors met eight times, with an average attendance rate of around 90%. Each meeting lasted two hours on average.

Evaluation of the Board of Directors' work

In accordance with best corporate governance practices and in order to comply with the AFEP – MEDEF Code, at its April 23, 2009 meeting, the Board of Directors set up a system for assessing its own performance.

As part of this system, the Board has decided to devote an agenda item each year to (i) evaluating and discussing the Board's organization and work, (ii) verifying that all significant issues have been suitably prepared and discussed, and (iii) assessing its members' contribution to the Board's work. A formal evaluation will be performed every three years with a view to ensuring that the Board's operating procedures are respected and to enable the Board to draw up proposals for improving its organization and efficiency.

On March 7, 2011, the Board launched an in-depth analysis of its membership structure, organization and operating procedures. The analysis took the form of a self-assessment procedure organized by the Chairman of the Board, by sending out a detailed questionnaire and, where appropriate, setting up individual meetings with directors.

The results of this self-assessment showed that the Board was satisfied with its operating procedures and particularly appreciated the presentations given to it by senior management – as well as the ensuing discussions – concerning numerous aspects of the Group's strategy and outlook. Consequently, it can be said that in 2010 the Board was regularly provided with reliable data on the Group's business. It is suggested that the operational reporting based on the Group's business be improved using a table composed of various financial and physical indicators.

16.1.2 SENIOR MANAGEMENT (ARTICLE 19 OF THE BYLAWS)

16.1.2.1 Chief Executive Officer

Appointment – Removal from office

When the Board of Directors opts to separate the duties of Chairman of the Board and Chief Executive Officer, it appoints the Chief Executive Officer and determines his term of office, compensation and any restrictions on his powers.

The Chief Executive Officer may be removed from office at any time by the Board of Directors.

The Chief Executive Officer is subject to the provisions of article L. 225-94-1 of the French Commercial Code concerning concurrent appointments as Chief Executive Officer, member of the Management Board, sole Chief Executive Officer, director, or member of the Supervisory Board of *sociétés anonymes* domiciled in France.

Powers

The Chief Executive Officer has the broadest powers to act on behalf of the Company in all circumstances within the scope of the corporate purpose, and except for those matters which by law may only be dealt with in Shareholders' Meetings or by the Board of Directors.

In accordance with article 3 of the Board of Directors' internal rules, the Chief Executive Officer must ensure that the Board of Directors agrees with any significant transaction falling outside the scope of the Company's stated business strategy.

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

16.1.2.2 Senior Vice-Presidents

On the recommendation of the Chief Executive Officer, the Board of Directors may appoint one or more individuals holding the title of Senior Vice-President to assist the Chief Executive Officer.

The maximum number of Senior Vice-Presidents is five.

The Board of Directors, in agreement with the Chief Executive Officer, determines the scope and duration of the powers granted to Senior Vice-Presidents.

Senior Vice-Presidents have the same powers as the Chief Executive Officer vis-à-vis third parties.

Details of the terms of office of the Chief Executive Officer and the Senior Vice-Presidents are provided in section 14.1.2 above.

16.1.2.3 Operational structure of the Company's senior management team

Since June 2004, the Company's senior management team has been structured around a Management Committee headed by the Chairman of the Board of Directors. The Management Committee is the Group's decision-making body. It meets once a week, and is responsible for tracking weekly reporting schedules, deciding on the Group's strategy and operations in conjunction with the Board, discussing and collectively deciding on key management issues, and setting annual objectives. The meetings are attended by the Chairman of the Board of Directors, the Chief Executive Officer, the Senior Vice-Presidents, the Chief Financial Officer and Head of Business Development and the Head of the Group's Research & Development Department. The senior managers of the Group's main subsidiaries also attend certain meetings. The issues covered also serve as a basis for management presentations given during Board of Directors' meetings.

The Management Committee coordinates relations between the parent company and its subsidiaries, and as such can ensure – under the supervision of senior management – that the Group's operations run smoothly.

16.2 SERVICE CONTRACTS ENTERED INTO BETWEEN THE COMPANY AND MEMBERS OF THE COMPANY'S ADMINISTRATIVE AND MANAGEMENT BODIES

No service contracts have been entered into between the Company and the members of its administrative and management bodies. Agreements entered into between the Company or other Group entities and senior managers are described in Section 15.2 above.

16.3 CORPORATE GOVERNANCE BODIES

16.3.1 COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors may be assisted by specialist committees in performing its duties.

Subject to the membership rules described below, the Board of Directors is authorized to set up an Audit Committee and a Compensation Committee.

These Committees carry out preparatory work to help the Board with its discussions and decisions and report on this work at each Board meeting.

16.3.1.1 The Audit Committee

Without prejudice to the Board of Directors' remit, the Audit Committee is responsible for monitoring the processes used for preparing financial information and for ensuring the efficiency of Iliad's internal control and risk management systems.

Membership structure

The Audit Committee acts under the Board of Directors.

At its August 26, 2009 meeting, the Board adapted the Company's existing Audit Committee in order to comply with the provisions of Law 2008-649 dated July 3, 2008, governmental order 2008-1278 dated December 8, 2008, and the decree issued on December 30, 2008.

The Audit Committee comprises a minimum of three and a maximum of five members appointed by the Board of Directors and selected from among the Board's members. The majority of Audit Committee members must be independent directors as defined above.

At the date this registration document was filed, the Audit Committee's members were as follows:

- Ms. Marie-Christine Levet (independent director and Committee Chairman);
- Ms. Orla Noonan (independent director);
- M. Olivier Rosenfeld.

Two-thirds of the Audit Committee are therefore independent directors and none of its members are executive corporate officers. The Committee's members were selected on the basis of their financial and accounting expertise. They actively participate in the Committee meetings, acting in the interests of all shareholders and exercising their judgment in a completely independent manner.

The Audit Committee's internal rules were approved by the Board of Directors on February 9, 2010.

The Audit Committee draws up a schedule of its proposed meeting dates, which is provided to all of the directors.

Roles and responsibilities

At the date this registration document was filed, the Audit Committee was responsible for:

- examining Iliad's scope of consolidation and analyzing the draft financial statements of the Company and the Group – as well as the related reports – prior to submission to the Board for approval;
- analyzing and ensuring the relevance of the accounting principles, methods and rules used to prepare the financial statements and the various accounting treatments applied, as well as any changes thereto;

- examining and monitoring the procedures applied to produce and process the accounting and financial information used to prepare the financial statements;
- analyzing and assessing the efficiency and effectiveness of the internal control and risk management procedures set up by the Company;
- reviewing and commenting on the draft report of the Chairman of the Board of Directors on the Company's internal control and risk management procedures;
- overseeing tender processes for selecting Statutory Auditors or renewing their terms of office;
- keeping informed of the amount of fees paid to the Statutory Auditors' network by companies controlled by Iliad, for services that are not directly audit-related;
- ensuring the independence of the Statutory Auditors (by verifying fees paid and ensuring that the statutory audit engagement is carried out completely separately from any non-audit related assignments).

Work performed by the Audit Committee

The Audit Committee met three times in 2010 with an attendance rate of 100%, and the necessary accounting and financial documents – especially those required for approving the annual financial statements – were sent to its members prior to each meeting.

During its meetings, the Committee heard the opinions of a Group senior manager, the Chief Financial Officer and the Statutory Auditors on the main accounting options selected by the Group and the major financial transactions that took place during the year.

The Committee reported to the Board of Directors on all of its work performed in 2010.

16.3.1.2 Compensation Committee

In accordance with the Board of Directors' internal rules, the Compensation Committee comprises a minimum of three and a maximum of five members appointed by the Board and selected from among the Board's members. The majority of Compensation Committee members must be independent directors as defined above. Members of the Compensation Committee may be allocated specific compensation by the Board for their work carried out in this capacity.

During 2010, the Company did not have a separate Compensation Committee and the Committee's duties were performed directly by the Board of Directors.

In 2010, an agenda item at a Board meeting was devoted to the compensation of executive and non-executive corporate officers (see Section 15 for further details), in order to discuss the Group's compensation policy for corporate officers in the presence of its independent directors.

At its December 14, 2010 meeting, the Board of Directors decided to set up a specific Compensation Committee comprising the following three members: M. Pierre Pringuet, M. Alain Weill and Ms. Virginie Calmels, who are all independent directors.

At its meeting on January 31, 2011, the Board approved the Compensation Committee's internal rules which were drawn up by the Committee's members, and set out its operating procedures. At the same meeting the Board appointed Ms. Virginie Calmels as Chairman of the Committee.

The Compensation Committee is responsible for:

- studying and making recommendations on (i) the main components of executive corporate officers' compensation packages proposed by the Chairman of the Board and (ii) executive corporate officers' retirement benefits and benefits in kind;
- recommending the general policy for granting stock options and share grants and, more particularly, the terms and conditions applicable for such grants to executive corporate officers;
- putting forward recommendations to the Board concerning the allocation of directors' fees to be submitted for approval at the Annual General Meeting, as well as (i) recommending how the fees should be allocated among the individual directors, taking into account their actual attendance at Board meetings and their contribution to the work of the Board and the Board's Committees, and (ii) proposing the conditions applicable for the reimbursement of expenses to directors;
- approving the information provided to shareholders in the Annual Report regarding (i) corporate officers' compensation, (ii) the policy for granting stock options and/or share grants and, (iii) more generally, the work carried out by the Compensation Committee;
- drawing up, at the request of the Board, any other recommendations concerning compensation.

16.3.2 SENIOR MANAGEMENT COMMITTEES

Several specialist committees reporting to senior management have been set up to apply – or verify the application of – internal guidelines that are reviewed by the Audit Committee.

The main committees – which are made up of operations, accounting and finance staff – are as follows:

- the Information Systems Committee, responsible for ensuring that information systems are managed properly, and for recommending and monitoring developments to be implemented in order to ensure efficient oversight and optimal understanding of the business;
- the Invoicing Committee, in charge of examining the invoicing cycles and analyzing and validating the various components of the Group's revenues; It is also responsible for ensuring that any fraud or embezzlement is detected and does not have a significant impact on the financial statements;
- the Debt Recovery Committee, which monitors receivables and collection procedures in order to ensure that adequate provisions are set aside to cover any risks of non-recovery;
- the Cash Management Committee, which sets the framework for the Group's debt management policy, particularly concerning liquidity, interest rate and currency risks, as well as counterparty risks that may arise on future financial transactions;
- the Operators Committee, which examines purchases from operators in order to assess whether proper internal controls are in place in terms of approvals and accounting treatment. It also examines the Group's main claims, litigation and commitments in this area, to ensure that there are adequate provisions to cover the related risks;
- the Audiovisual Committee, which analyzes the performance of the Group's audiovisual operations and related marketing campaigns. It verifies that business performance is effectively monitored and that the terms and conditions of contracts entered into with content providers, service suppliers and subscribers are respected;
- the Fiber Committee, tasked with ensuring the effective application of the Group's strategy for acquiring premises to house optical nodes (ONs), for the "horizontal" and "vertical" rollouts of the FTTH network, and for connecting subscribers to the network;
- the Mobile Committee, headed by the Chief Executive Officer, in charge of monitoring the progress of the rollout of the Group's network, ongoing negotiations with suppliers, and the levels of financial commitments;
- the Manufacturing/Freebox Committee, in charge of analyzing production plans, manufacturing costs and the main manufacturing risks (costs, leadtimes and quality). It verifies that production cycles are effectively managed and that all necessary measures are taken to meet the Group's targets;
- the Accounting Committee, which sets the framework for the Group's accounts closing procedures and ensures that they are formally documented. It examines the financial statements and checks that accounting standards are properly applied and adequate provisions set aside to cover any risks. It also verifies that the financial statements give a true and fair view of the Group in accordance with the applicable accounting principles. Lastly, it schedules pre-closes, carries out reviews of the accounts and ensures that financial data is effectively shared, which helps strengthen the financial control function.

16.4 INTERNAL CONTROL

16.4.1 REPORT ON THE CONDITIONS GOVERNING THE PREPARATION AND ORGANIZATION OF THE WORK OF THE BOARD OF DIRECTORS AND INTERNAL CONTROL PROCEDURES

The report prepared by the Chairman of the Board of Directors on the conditions governing the preparation and organization of the work of the Board of Directors and internal control and risk management procedures put in place by Iliad, in accordance with article L. 225-37 of the French Commercial Code is presented in Appendix A of this registration document.

This report provides that the Group's internal control procedures and principles are in line with a corporate governance that complies with the AMF's reference framework on internal control systems.

16.4.2 STATUTORY AUDITORS' REPORT ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS ON INTERNAL CONTROL

The Statutory Auditors' report on the report prepared by the Chairman of the Board of Directors on the conditions governing the preparation and organization of the work of the Board of Directors and internal control and risk management procedures is presented in Appendix B of this registration document.

17

EMPLOYEES

17.1 CHANGES IN THE GROUP'S WORKFORCE DURING THE PAST THREE YEARS 106

17.1.1 Breakdown by socio-professional category	106
17.1.2 Breakdown by position	107

17.2 COMPENSATION 107

17.2.1 Compensation policy and working hours	107
17.2.2 Employee profit-sharing	107
17.2.3 Stock-options	108

17.3 EMPLOYEE RELATIONS 108

17.3.1 Company-level agreements	108
17.3.2 Health and safety	108

17.4 TRAINING 109

17.5 CORPORATE SOCIAL RESPONSIBILITY 109

17.1 CHANGES IN THE GROUP'S WORKFORCE DURING THE PAST THREE YEARS

17.1.1 BREAKDOWN BY SOCIO-PROFESSIONAL CATEGORY

	Management	Other	Total
12/31/2008	624	3,574	4,198
12/31/2009	514	3,538	4,052
12/31/2010	580	3,775	4,355

At end-2010, the Group's workforce totaled 4,355, up 7.5% on 2009. This year-on-year increase reflects the following:

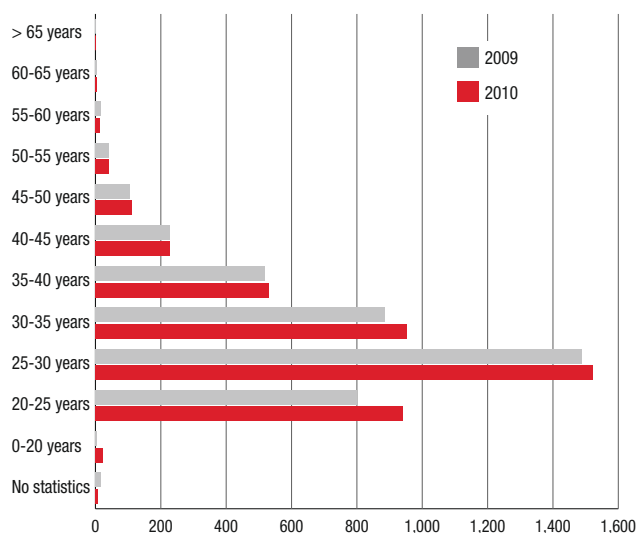
- the recruitment of additional employees to assist with the Group's FTTH and mobile projects;
- ongoing measures to strengthen technical support services and foster loyalty among subscribers, particularly by setting up a home call-out service.

The Group is committed to recruiting employees on open-ended contracts whenever possible and to restricting the use of sub-contractors.

In 2010, Iliad recruited 233 new managers. However, the proportion of this category of employees within the workforce as a whole was on a par with 2009, representing almost 13%.

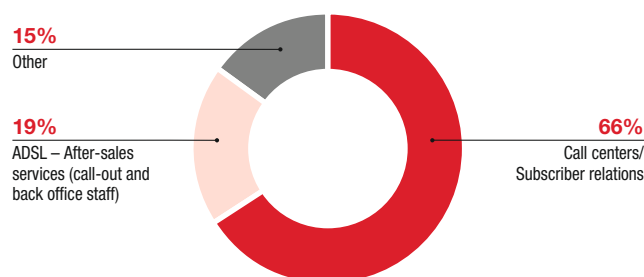
The Group has put in place specific recruitment methods as part of the hiring process for its staff, whose numbers have grown significantly in recent years. For example, for subscriber relations positions, a simulation-based recruitment method is now used, making it easier to identify whether the candidate is the right person for the job. This method involves just one prerequisite – ensuring that the candidate has good customer relations skills and is motivated – as opposed to the standard approach of focusing purely on qualifications, past experience and other items in the resume. This enables the Group to draw from a highly diverse pool of candidates, ranging from young to senior talent.

Overall, the Group strives to promote job opportunities for young people, and at December 31, 2010 more than 75% of its employees were under 35.



The Group's employees represent a total of 41 different nationalities, testifying to the importance Iliad places on cultural diversity and a highly open recruitment policy. This openness is further illustrated by the fact that Free attends numerous employment fairs where it presents the different types of jobs available within its organization.

17.1.2 BREAKDOWN BY POSITION



The Group pays particular attention to the quality of its customer services and almost 85% of its employees work in this area. Customer services encompasses subscriber relations as well as teams of roaming technicians who upkeep the ADSL network and provide after-sales support at subscribers' homes.

Staff mobility and turnover

Since 2009, the Group has sought to boost internal mobility opportunities by ensuring that it offers any job vacancies internally before advertising externally and by making it easier for employees to move between different Group entities.

	Average annual headcount 2009	Average annual headcount 2010	Turnover 2009	Turnover 2010
Total	4,080	4,126	34.2%	26.6%
France	2,381	2,405	37.0%	19.2%
International	1,699	1,721	30.4%	37.0%

The staff turnover rate decreased considerably between 2009 and 2010 thanks to the efforts of the Group's HR department to improve working hours, increase internal mobility, and integrate and partner Alice's employees.

17.2 COMPENSATION

17.2.1 COMPENSATION POLICY AND WORKING HOURS

In 2010 a new agreement was signed as part of the compulsory annual salary negotiations, which enabled the Group to harmonize the compensation policy and working hours concerning Iliad's different call center agents in France.

Also during the year, the bonus system was reorganized and harmonized for all of the Group's sites. This reorganization forms a key component of the Group's strategy of continually enhancing the quality of its subscriber relations and ensuring that the services provided are as effective as possible.

17.2.2 EMPLOYEE PROFIT-SHARING

On December 11, 2009 Iliad decided to put in place a profit-sharing agreement to involve its employees in its financial performance.

The special employee profit-sharing reserve for 2010 came to €368,013.

An employee savings plan has also been set up whereby eligible employees can invest their profit-shares in a number of corporate mutual funds.

17.2.3 STOCK-OPTIONS

The following table sets out the main characteristics of the stock options granted to the ten employees of the Group (other than senior managers) who hold the largest number of options.

Stock-options granted to and exercised by the ten Group employees – other than officers – who received the largest number of stock options	Total number of stock options granted/ exercised	Weighted average price	Plans
Stock options granted during the year to the ten Group employees who were granted the largest number of stock options	87,000	67,67	08/30/2010
Stock options exercised during the year by the ten employees Group employees who exercised the largest number of options	21,373	42,02	01/20/2004 12/20/2005

The main characteristics of the stock options granted by the Company which were outstanding at December 31, 2010 are set out in Section 21.1.4.1 of this registration document.

17.3 EMPLOYEE RELATIONS

17.3.1 COMPANY-LEVEL AGREEMENTS

Several company-level agreements have been signed within ProTelco, notably covering gender equality, the duration and organization of working hours and the employment of disabled workers. An overall agreement on working time was also signed for different French sites offering subscriber relations services.

17.3.2 HEALTH AND SAFETY

In 2010, the Group put in place specific health protection measures for its employees due to the outbreak of swine flu. These included regularly providing employees with information on the risks associated with the disease as well as on the action to take to help prevent it from spreading and general hygiene measures.

Also during the year, the Group set up several pilot initiatives in order to improve the working environment of its employees. These included:

- carrying out a study in conjunction with the Health and Safety Commission and the company medical service concerning the psychosocial risks related to the job of call center agents. A specific training program was subsequently drawn up (which will be rolled out in 2011) with a view to helping local managers to detect symptoms in the Group's employees;
- performing a survey in one of the Group's subsidiaries in liaison with the Health, Safety and Working Conditions Committee (CHSCT), entitled "How do you feel about your job?", which revealed that 87% of the employees from the Group's subscriber assistance teams who replied to the questionnaire said that they were either satisfied or extremely satisfied with their job. This survey will be rolled out to all of the Group's other entities as from 2011.

17.4 TRAINING

Training plays an essential role in the Group's operations, particularly for customer services teams, which represent the majority of the workforce.

A total of 258,981 hours of training were given in 2010 within the various subsidiaries, with almost 75% of the Group's employees following at least one training course during the year. This significant volume of training corresponds to the equivalent of an average 63 hours of training per employee per year.

The amount of training given to Group employees has risen steeply in recent years and is continuing to do so. This reflects three main factors: (i) the Group's redeployment of subscriber relations services to different sites (notably Bordeaux and Marseille which now deal with relations with Free's subscribers), (ii) the launch of the Freebox Revolution, and (iii) the growing number of staff, which has led to a significant amount of introductory training.

	Average monthly headcount 2009	Average monthly headcount 2010	Training hours 2009	Training hours 2010	Number of training hours/average annual headcount 2009	Number of training hours/average annual headcount 2010
France	2,381	2,405	80,349	138,070	33.75	57.41
International	1,699	1,721	54,879	120,911	32.29	70.27
TOTAL	4,080	4,126	135,228	258,981	33.14	62.77

Employees recruited as call center agents are given a two-to-five week introductory course. These courses are recognized by the OPCA (the French organization for collecting training taxes from corporations), which demonstrates the quality of the training provided. In addition, the teams from the Group's knowledge sharing department partner the call center agents in their work on a daily basis with the constant aim of helping them to provide an ever higher-quality service.

Technicians recruited for the Group's home call-out service – which represents a total of 680 employees – are given a three-week introductory course. Throughout their time with the Group they are also trained on the various products available to subscribers.

In addition, a catalogue of the different training courses available as part of the statutory training entitlement has been given to employees in the majority of the Group's entities.

17.5 CORPORATE SOCIAL RESPONSIBILITY

The Group takes steps to implement actions and initiatives with a view to reaching out to the local communities in which it operates. For example, when Centrapel renewed its IT equipment in 2010 it donated some of its older computers to a charity.

In tandem, as part of a partnership with a local youth employment association (*Mission Locale pour l'emploi*), Free offers jobseekers interview simulation exercises in order to help them find employment.

In 2009, Free's site in Marseille was certified as an "Empli'tude" site in recognition of its good employment practices. This regional certification system was drawn up in conjunction with the French National Standards Organization (Afnor) and is based on an assessment of the practical measures taken by companies to:

- promote access to employment for long-term jobseekers and disadvantaged populations ;
- mentor and support employees within the company and ;
- relay both within and outside the company best practices on helping people to integrate into the workforce.

The Group's HR department also offers employees help on issues connected with their employment, such as accommodation and gives them personalized assistance in the area concerned.



18

MAJOR SHAREHOLDERS

18.1 IDENTIFICATION OF SHAREHOLDERS 112

18.1.1 Ownership structure and voting rights 112

18.2 VOTING RIGHTS OF SHAREHOLDERS 113

18.3 SHAREHOLDERS' AGREEMENTS AND UNDERTAKINGS 114

18.3.1 Shareholders' agreements 114

18.3.2 Lock-up undertakings 114

18.3.3 Shareholders acting in concert 114

18.3.4 Measures taken to ensure that control
is not exercised in an abusive manner 114

18.4 ARRANGEMENTS WHICH MAY RESULT IN A CHANGE IN CONTROL OF THE COMPANY 114

18.1 IDENTIFICATION OF SHAREHOLDERS

18.1.1 OWNERSHIP STRUCTURE AND VOTING RIGHTS

Movements in the Company's capital and voting rights were as follows over the past three fiscal years:

Shareholder	12/31/2010			12/31/2009			12/31/2008		
	Number of shares	% capital	% voting rights	Number of shares	% capital	% voting rights	Number of shares	% capital	% voting rights
Xavier Niel ⁽¹⁾	34,965,720	63.93%	61.79%	35,797,050	65.58%	63.34%	35,826,650	65.82%	63.25%
Antoine Levavasseur ⁽¹⁾	552,607	1.01%	1.86%	557,631	1.02%	1.91%	737,324	1.35%	2.44%
Rani Assaf ⁽²⁾	942,590	1.72%	3.28%	942,590	1.73%	3.29%	952,590	1.75%	3.32%
Cyril Poidatz ⁽¹⁾	690,614	1.26%	2.34%	670,307	1.23%	2.30%	650,000	1.19%	2.26%
Olivier Rosenfeld ⁽³⁾	186,718	0.34%	0.33%	246,718	0.45%	0.43%	288,596	0.53%	0.50%
Alain Weill ⁽³⁾	754	NM	NM	1,000	NM	NM	1,000	NM	NM
Maxime Lombardini ⁽¹⁾	100	NM	NM	100	NM	NM	100	NM	NM
Thomas Reynaud ⁽¹⁾	150	NM	NM	150	NM	NM	150	NM	NM
Antoinette Willard ^{(3) (4)}	-	-	-	-	-	-	0	NM	NM
Pierre Pringuet ⁽³⁾	2,037	NM	NM	1,037	NM	NM	1,037	NM	NM
Orla Noonan ⁽³⁾	300	NM	NM	300	NM	NM	-	-	-
Virginie Calmels ⁽³⁾	150	NM	NM	150	NM	NM	-	-	-
Marie-Christine Levét ⁽³⁾	150	NM	NM	150	NM	NM	150	NM	NM
Franck Brunel ^{(2) (5)}	-	-	-	-	-	-	243,800	0.45%	0.67%
Jean-Louis Missika ^{(2) (6)}	-	-	-	-	-	-	250	NM	NM
SUB-TOTAL – SENIOR MANAGERS	37,341,890	68.27%	69.61%	38,217,183	70.02%	71.29%	38,701,647	71.10%	72.46%
Public	17,294,550	31.62%	30.13%	16,302,283	29.87%	28.71%	15,645,835	28.75%	27.54%
FMR LLC ⁽⁷⁾	2,750,647	5.03%	4.78%	-	-	-	-	-	-
Iliad (own shares)	60,300	0.11%	N/A	63,974	0.11%	N/A	83,793	0.15%	N/A
TOTAL	54,696,740	100.00%	100.00%	54,583,440	100.00%	100.00%	54,431,275	100.00%	100.00%

(1) Senior manager and director of the Company.

(2) Shareholder and senior manager of the Company (not a director).

(3) Shareholder and non-executive director of the Company.

(4) Ms Antoinette Willard's term of office as a director expired at the close of the Annual General Meeting held on June 23, 2009. She held 100 shares under a securities lending agreement.

(5) M. Franck Brunel stepped down from his position as Senior Vice-President on December 5, 2008, with effect from December 31, 2008.

(6) M. Jean-Louis Missika stepped down from his position as a director on April 22, 2008 with retroactive effect from April 1, 2008.

(7) On July 26, 2010, FMR LLC disclosed to the AMF that it had increased its interest in the Company to more than 5% of the Company's capital and that at that date it held 5.03% of the capital and 4.78% of the voting rights.

NM: not material.

There were no significant changes in the Company's ownership structure between December 31, 2010 and the date this registration document was filed, apart from the sale of 700,000 Iliad shares – representing 1.3% of the Company's capital and voting rights – carried out by Xavier Niel as part of a private placement on January 11, 2011. Following this placement, M. Niel entered into a lock-up undertaking for a period of 180 days as from the payment and delivery of the transactions.

To the best of the Company's knowledge and based on the documents and disclosures it has received, there are no shareholders other than those listed above who directly or indirectly hold more than 5% of the Company's capital or voting rights.

In accordance with article L. 621-18-2 of the French Monetary and Financial Code, in 2010 the Company disclosed to the AMF that six of its corporate officers and parties related to them had sold a total of 921,301 Iliad shares.

Summary table of trades in Iliad shares carried out by directors and officers in 2010

(Disclosed in compliance with Article 223-26 of the AMF's General Regulations)

Name	Transaction date	Type of transaction	Unit price	Total amount
Pierre Pringuet	01/06/2010	Purchase	€89.03	€89,823.32
Antoine Levavasseur	01/06/2010	Sale	€87.63	€1,779,487.33
Xavier Niel (related parties)	01/08/2010	Sale	€87.28	€2,295,390.36
Xavier Niel (related parties)	01/11/2010	Sale	€86.82	€1,159,163.19
Xavier Niel (related parties)	01/12/2010	Sale	€85.72	€7,744,363.92
Olivier Rosenfeld	01/21/2010	Purchase	€83.49	€417,450.00
Alain Weill	03/04/2010	Sale	€80.73	€78,308.88
Xavier Niel	03/25/2010	Sale	€73.01	€14,602,000.00
Xavier Niel (related parties)	03/25/2010	Sale	€73.01	€36,505,000.00
Olivier Rosenfeld	08/31/2010	Sale	€70.75	€1,061,250.00
Olivier Rosenfeld	09/01/2010	Sale	€74.50	€344,041.00
Olivier Rosenfeld	09/06/2010	Sale	€74.99	€778,546.18
Olivier Rosenfeld	09/17/2010	Sale – call option	€80.00	-
Olivier Rosenfeld	12/10/2010	Sale	€80.00	€7,828.24
Olivier Rosenfeld	12/13/2010	Sale	€80.00	€1,190,371.76
Olivier Rosenfeld	12/14/2010	Sale	€82.90	€1,658,092.13
Antoine Levavasseur	12/20/2010	Exercise of stock options	€48.44	€983,671.08
Antoine Levavasseur (related parties)	12/23/2010	Sale	€83.17	€415,859.50
Cyril Poidatz	12/24/2010	Exercise of stock options	€48.44	€983,671.08
Antoine Levavasseur (related parties)	12/24/2010	Sale	€83.30	€1,999.20

18.2 VOTING RIGHTS OF SHAREHOLDERS

At Ordinary and Extraordinary Shareholders' Meetings, each shareholder has a number of votes equal to the number of shares held, without limitation. However, the Extraordinary Shareholders' Meeting held on December 12, 2003 decided to attribute double voting rights to all fully paid-up shares registered in the name of the same shareholder for at least three years as from the listing of the Company's shares on a regulated market (January 30, 2004).

The Company's major shareholders held the following shares carrying double voting rights at December 31, 2010:

Major shareholders with double voting rights	Number of shares carrying double voting rights
Xavier Niel	500,000
Antoine Levavasseur	517,017
Rani Assaf	942,590
Cyril Poidatz	650,000

In the event of a capital increase by the capitalization of reserves, profits or premiums, or when shares are exchanged as part of a stock split or reverse stock split, the new shares allocated to a shareholder in proportion to existing registered shares carrying double voting rights will also have double voting rights from the date of issue, provided that said new shares are also held in registered form.

Any share converted into bearer form or whose ownership is transferred is stripped of double voting rights, in accordance with article 28-1 of the Company's bylaws. However, registered shares are not stripped of voting rights and the qualifying period continues to run following the transfer of shares included in the estate of a deceased shareholder, or in connection with the settlement of the marital estate or an inter vivos gift to a spouse or relative in the direct line of succession. Any merger or demerger of the Company would have no impact on double voting rights which can be exercised within the new company if the latter's bylaws include such a provision. Double voting rights may only be abolished by an Extraordinary Shareholders' Meeting after prior approval by a special meeting of the shareholders holding those rights.

18.3 SHAREHOLDERS' AGREEMENTS AND UNDERTAKINGS

18.3.1 SHAREHOLDERS' AGREEMENTS

Not applicable.

18.3.2 LOCK-UP UNDERTAKINGS

Not applicable.

18.3.3 SHAREHOLDERS ACTING IN CONCERT

To the best of the Company's knowledge, there are no shareholders acting in concert, other than the Company's senior managers who are also shareholders.

18.3.4 MEASURES TAKEN TO ENSURE THAT CONTROL IS NOT EXERCISED IN AN ABUSIVE MANNER

As described above, the Company is controlled by its founder and majority shareholder. However, the Company considers that there is no risk that control will be exercised in an abusive manner thanks to the measures taken within its corporate governance structures, notably the segregation of the positions of Chairman of the Board and Chief Executive Officer, and by the fact that there are independent directors on the Board of Directors who are also members of the Board Committees.

18.4 ARRANGEMENTS WHICH MAY RESULT IN A CHANGE IN CONTROL OF THE COMPANY

Not applicable.



19

RELATED PARTY TRANSACTIONS

No transactions were carried out in 2010 between the Group and entities or groups of entities that hold direct interests in the Company. Details of transactions effected with the Company's senior managers are provided in Section 15.2 and 15.3 of the registration document. See Notes 30 and 33 to the 2010 consolidated financial statements for information on related party transactions. Details of financial flows within the Group are provided in Section 7.1.



20

FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES

20.1 CONSOLIDATED FINANCIAL STATEMENTS FOR 2010, 2009 AND 2008

118

Consolidated income statement	119
Consolidated statement of comprehensive income	120
Consolidated balance sheet – assets	121
Consolidated balance sheet – equity and liabilities	122
Consolidated statement of changes in equity	123
Consolidated statement of cash flows	124
Statutory auditors' report on the consolidated financial statements	168

20.2 PARENT COMPANY FINANCIAL STATEMENTS FOR 2010

170

20.2.1 Balance sheet – assets	171
20.2.2 Balance sheet – equity and liabilities	172
20.2.3 Income statement	173
20.2.4 Statement of changes in equity	174
20.2.5 Notes to the financial statements	174
Statutory Auditors' report on the financial statements	188

20.3 DIVIDEND POLICY

189

20.3.1 Provisions of the bylaws relating to distributable profit	189
20.3.2 Dividends paid in the past five fiscal years	189

20.4 LITIGATION AND ARBITRATION PROCEEDINGS

190

20.5 SIGNIFICANT CHANGES IN THE COMPANY'S FINANCIAL OR TRADING POSITION

190

20.1 CONSOLIDATED FINANCIAL STATEMENTS FOR 2010, 2009 AND 2008

In accordance with Article 28 of European Commission Regulation (EC) 809/2004, the following information is incorporated by reference in this registration document:

- The consolidated financial statements of the Iliad Group for the year ended December 31, 2009 and the report of the Statutory Auditors thereon, as set out in Section 20.1 of the registration document filed on April 29, 2010.
- The consolidated financial statements of the Iliad Group for the year ended December 31, 2008 and the report of the Statutory Auditors thereon, as set out in Section 20.1 of the registration document filed on April 30, 2009.

DETAILED SUMMARY NOTES

Consolidated income statement	119	NOTE 18 Impairment tests on goodwill and intangible assets	145
Consolidated statement of comprehensive income	120	NOTE 19 Property, plant and equipment	146
Consolidated balance sheet – assets	121	NOTE 20 Other financial assets	147
Consolidated balance sheet – equity and liabilities	122	NOTE 21 Inventories	148
Consolidated statement of changes in equity	123	NOTE 22 Trade and other receivables	149
Consolidated statement of cash flows	124	NOTE 23 Cash and cash equivalents	149
NOTE 1 Accounting principles	125	NOTE 24 Assets held for sale	150
NOTE 2 Scope of consolidation	132	NOTE 25 Equity	150
NOTE 3 Critical accounting estimates and judgments	133	NOTE 26 Stock option plans	151
NOTE 4 Revenues	133	NOTE 27 Provisions	153
NOTE 5 Purchases used in production	133	NOTE 28 Financial liabilities	154
NOTE 6 Human resources data	133	NOTE 29 Trade and other payables	157
NOTE 7 Development costs	134	NOTE 30 Related-party transactions	158
NOTE 8 Other income and expenses from operations	135	NOTE 31 Financial instruments	159
NOTE 9 Depreciation, amortization and provisions	135	NOTE 32 Financial risk management	160
NOTE 10 Other operating income and expense, net	136	NOTE 33 Off balance sheet commitments and contingencies	163
NOTE 11 Financial income and expenses	137	NOTE 34 Events after the balance sheet date	164
NOTE 12 Corporate income tax	137	NOTE 35 List of consolidated companies at December 31, 2010	165
NOTE 13 Basic and diluted earnings per share	138	NOTE 36 List of consolidated companies at December 31, 2009	166
NOTE 14 Notes to the statement of cash flows	139	NOTE 37 Changes in scope of consolidation and percentage control in 2010	167
NOTE 15 Segment information	142		
NOTE 16 Goodwill	144		
NOTE 17 Intangible assets	145		

CONSOLIDATED INCOME STATEMENT

<i>In € thousands</i>	Note	At December 31, 2010	At December 31, 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 213.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>In € thousands</i>	Note	At December 31, 2010	At December 31, 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

<i>In € thousands</i>	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	22	698	1,108
Trade and other receivables	20	167,125	185,024
Other short-term financial assets	23	2,687	16
Cash and cash equivalents		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

<i>In € thousands</i>	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	29	1,785	159
Trade and other payables	28	335,542	362,666
Short-term financial liabilities		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

<i>In € thousands</i>	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
Movements in 2009						
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 S.A.					(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
Movements in 2010						
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 S.A.					(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

<i>In € thousands</i>	Note	31/12/2010	31/12/2009
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 S.A. 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 S.A.S., a simplified joint-stock company (*société par actions simplifiée*) that is wholly owned by Iliad S.A. Iliad Gaming S.A.S. – 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 S.A. 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:

- useful lives and impairment of non-current assets; and
- 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:

<i>In € thousands</i>	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 December 31, 2010	At December 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	Statutory retirement age post 2010 French pension reform	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	12/31/2010	12/31/2009
• 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:

<i>In € thousands</i>	12/31/2010	12/31/2009
• 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:

<i>In € thousands</i>	12/31/2010	12/31/2009
• 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

<i>In € thousands</i>	12/31/2010	12/31/2009
• 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

<i>In € thousands</i>	12/31/2010	12/31/2009
• 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.

<i>In € thousands</i>	12/31/2010	12/31/2009
• Other operating income and expense	60,950	(26,491)
TOTAL	60,950	(26,491)

Comments on the 2010 figure

The €60.9 million in net income recorded under "Other operating income and expense, net" as of December 31, 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 S.A.S. and Free S.A.S. 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:

<i>In € thousands</i>	12/31/2010	12/31/2009
• 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 Océane 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:

<i>In € thousands</i>	12/31/2010	12/31/2009
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.

<i>In € thousands</i>	12/31/2010	12/31/2009
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	12/31/2010	12/31/2009
• 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

<i>In € thousands</i>	12/31/2010	12/31/2009
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	313,161	175,663
Interest expense on Océane 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
• Océane 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 (<i>in €</i>)	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:

- all non-cash transactions;
- deferrals or adjustments concerning past or future cash inflows or outflows related to operations; and
- 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:

<i>In € thousands</i>		Balance at			Changes in		Balance at
As December 31, 2010	Note	January 1, 2010	Net debits	Net credits	Group structure	Other	December 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				

<i>In € thousands</i> 2009	Note	Balance at January 1, 2009	Net debits	Net credits	Changes in Group structure ⁽¹⁾	Other	Balance at December 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:

<i>In € thousands</i>	Note	12/31/2010	12/31/2009
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:

<i>In € thousands</i>	Note	12/31/2010	12/31/2009
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:

<i>In € thousands</i>	Note	12/31/2010	12/31/2009
• 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

<i>In € thousands</i>	Note	Cash and cash equivalents at December 31, 2010	Cash and cash equivalents at December 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.

<i>In € thousands</i>	12/31/2010	12/31/2009
• 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

In € thousands

At December 31, 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

In € thousands

At December 31, 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

In € thousands

At December 31, 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

In € thousands

At December 31, 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

At December 31, 2010	Broadband	Traditional Telephony	Inter-segment	Total
Number of employees at year-end	4,293	62	0	4,355

At December 31, 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

In € thousands

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

In € thousands

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 Océane convertible bonds)***In € thousands*

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

In € thousands

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:

<i>In € thousands</i>	12/31/2010	12/31/2009
Carrying amount at January 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 DECEMBER 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	12/31/2010	12/31/2009
Carrying amount at January 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 DECEMBER 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	12/31/2010	12/31/2009
Net at January 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 DECEMBER 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 Télécom 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:

<i>In € thousands</i>	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:

	At December 31, 2010	At December 31, 2009
<i>In € thousands</i>	Net	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:

<i>In € thousands</i>	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:

<i>In € thousands</i>	12/31/2010	12/31/2009
Net at January 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 DECEMBER 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:

<i>In € thousands</i>	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:

<i>In € thousands</i>	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:

<i>In € thousands</i>	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:

<i>In € thousands</i>	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

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 January 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 December 31, 2010	Number of non-exercisable options outstanding at December 31, 2010
Iliad								
12/12/2003	01/20/2004	16.30	33,371	0	0	5,126	28,245	0
12/12/2003	12/20/2005	48.44	338,178	0	2,292	108,174	227,712	0
05/29/2006	06/14/2007	74.62	162,455	0	0	0	0	162,455
05/29/2006	08/30/2007	68.17	694,759	0	14,459	0	0	680,300
05/29/2008	11/05/2008	53.79	589,400	0	12,000	0	0	577,400
08/30/2010	08/29/2014	67.67	0	183,150	900	0	0	182,250
08/30/2010	08/29/2015	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 January 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 December 31, 2009	Number of non-exercisable options outstanding at December 31, 2009
Iliad								
12/12/2003	01/20/2004	16.30	129,709	0	0	96,338	33,371	0
12/12/2003	12/20/2005	48.44	197,002	0	0	55,827	141,175	0
12/12/2003	12/20/2005	48.44	197,003	0	0	0	0	197,003
05/29/2006	06/14/2007	74.62	162,455	0	0	0	0	162,455
05/29/2006	08/30/2007	68.17	701,331	0	6,572	0	0	694,759
05/29/2008	11/05/2008	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
01/20/2004	Options exercisable since January 20, 2008
12/20/2005	Half of the options exercisable since December 20, 2009 and half since December 20, 2010
06/14/2007	Options exercisable from June 13, 2012
08/30/2007	Options exercisable from August 30, 2012
11/05/2008	Options exercisable from November 5, 2013
08/30/2010	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:

<i>In € thousands</i>	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:

<i>In € thousands</i>	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:

<i>In € thousands</i>	At December 31, 2009	Increases in 2010	Decreases in 2010 (utilizations)	Decreases in 2010 (surplus provisions)	Changes in Group structure	Other movements	At December 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:

<i>In € thousands</i>	At December 31, 2008	Increases in 2009	Decreases in 2009 (utilizations)	Decreases in 2010 (surplus provisions)	Changes in Group structure	Other movements ⁽¹⁾	At December 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:

<i>In € thousands</i>	12/31/2010	12/31/2009
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:

<i>In € thousands</i>	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:

<i>In € thousands</i>	12/31/2010	12/31/2009
Borrowings at January 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 Océane bonds and bond premium	7,307	7,030
Impact of cash flow hedges	(11,093)	5,457
Other	4,344	701
TOTAL BORROWINGS AT DECEMBER 31	1,036,164	1,298,778
* <i>New borrowings excluding borrowings related to finance leases</i>	683,870	105,022

Convertible bonds

In June 2006, Iliad issued 3,754,968 Océane 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 S.A.S. 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:

<i>In € thousands</i>	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:

<i>In € thousands</i>	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:

<i>In € thousands</i>	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.

<i>In € thousands</i>	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:

<i>In € thousands</i>	12/31/2010	12/31/2009
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:

<i>In € thousands</i>	12/31/2010	12/31/2009
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 S.A. and members of the Management Committee.

- Compensation paid to key management personnel in 2010 and 2009 breaks down as follows:

<i>In € thousands</i>	12/31/2010	12/31/2009
• 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

<i>In € thousands</i>	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. Océane bonds)			(13,086)		(663,851)	(676,937)	(676,937)
Short-term financial liabilities (excl. Océane bonds)			(2,601)		(26,322)	(28,923)	(28,923)
Océane 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
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. Océane bonds)			(26,780)		(777,616)	(804,396)	(804,396)
Short-term financial liabilities (excl. Océane bonds)					(171,386)	(171,386)	(171,386)
Océane 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 December 31, 2010 <i>In € thousands</i>	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

<i>In € thousands</i>	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.

<i>In € thousands</i>	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)	Leverage ratio < 2.5	Early repayment	Leverage ratio: 0.84
• €150 million EIB loan (Borrower – Iliad)	Interest cover ratio > 5.1		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**33.1 Lease commitments**

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

<i>In € million</i>	12/31/2010	12/31/2009
• 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.

Type of leased asset <i>In € million</i>	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.

33.2 Network-related commitments**Network investments**

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

Capacity purchases

Type of commitment <i>In € million</i>	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

33.3 Other commitments**33.3.1 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.

33.3.2 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 France signed a national 2G mobile roaming agreement on March 2, 2011.

Free Mobile and Orange France 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 December 31, 2010	Percentage control at December 31, 2009	Percentage ownership at December 31, 2010	Percentage ownership at December 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
Call One 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
Immobilière 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 number	Head office	Percentage control at December 31, 2009	Percentage control at December 31, 2008	Percentage ownership at December 31, 2009	Percentage ownership at December 31, 2008	Consolidation method in 2009
Iliad 8 rue de la Ville l'Evêque 75008 Paris	342 376 332	Paris	100.00%	100.00%	100.00%	100.00%	Full
Assunet 8 rue de la Ville l'Evêque 75008 Paris	421 259 797	Paris	89.96%	89.96%	89.96%	89.96%	Full
Centrapel 8 rue de la Ville l'Evêque 75008 Paris	434 130 860	Paris	99.98%	99.98%	99.98%	99.98%	Full
Citéfibre 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
Immobilière 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 December 31, 2009	Consolidation method at December 31, 2009	Acquisition/ incorporation date	Percentage control at December 31, 2010	Consolidation method at December 31, 2010
Call One BPO	0	N.C.	05/10/2010	100.00%	Full
Iliad Gaming	0	N.C.	05/11/2010	100.00%	Full

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

(Year ended December 31, 2010)

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

ILIAD S.A.

8, rue de la Ville l'Evêque
75008 Paris

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31, 2010, on:

- the audit of the accompanying consolidated financial statements of Iliad;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

I - Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group at December 31, 2010 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

II - Justification of our assessments

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

- Note 3 to the consolidated financial statements describes the significant accounting estimates and judgments made by management. Our work consisted of assessing the data and assumptions on which these accounting estimates were based; reviewing, on a test basis, the calculations performed by the Company; comparing the accounting estimates made in prior periods with actual results; examining management's procedures for approving these estimates; and verifying that the notes to the consolidated financial statements contain the appropriate disclosures as regards the assumptions and options applied by the Company;
- your Company tested goodwill, property, plant and equipment, and intangible assets, in particular intangible assets which have not yet been brought into commercial use, for impairment, in accordance with the methods described in Notes 18 and 19 to the consolidated financial statements. We reviewed the methods used to carry out these impairment tests and to determine the recoverable amount of the cash-generating units. We also examined the underlying documentation and assessed the consistency of the data used and verified that Notes 17, 18 and 19 contained the appropriate disclosures.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III - Specific verification

As required by law and in accordance with professional standards applicable in France, we have also verified the information presented in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-sur-Seine and Paris, March 8, 2011

The Statutory Auditors

PricewaterhouseCoopers Audit

Frédéric Charcosset

Boissière Expertise Audit

Jean-Luc Cohen

20.2 PARENT COMPANY FINANCIAL STATEMENTS FOR 2010

DETAILED SUMMARY NOTES

20.2.1	Balance sheet – assets	171	2.6	Share capital and changes in capital	180
20.2.2	Balance sheet – equity and liabilities	172	2.6.1	Share capital	180
20.2.3	Income statement	173	2.6.2	Form of the shares	180
20.2.4	Statement of changes in equity	174	2.6.3	Changes in Iliad's share capital	180
20.2.5	Notes to the financial statements	174	2.6.4	Ownership structure	180
			2.6.5	Own shares	180
			2.6.6	Stock option plans	180
NOTE 1	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	174	2.7	Provisions for contingencies and charges	181
1.1	General accounting principles	174	2.7.1	Movements in 2010	181
1.2	Exceptions	174	2.7.2	Origin of provisions	181
1.3	Main accounting policies	175	2.8	Other liabilities	182
1.3.1	Property, plant and equipment and intangible assets	175		Issuance of Océane convertible/exchangeable bonds	182
1.3.2	Investments in subsidiaries and affiliates, loans and advances to subsidiaries and affiliates, and other investment securities	175		Other borrowings	183
1.3.3	Receivables	175	NOTE 3	2010 REVIEW OF OPERATIONS	183
1.3.4	Foreign currency transactions	175	3.1	Revenues	183
1.3.5	Provisions for contingencies and charges	175	3.2	Number of employees	183
1.3.6	Convertible bonds	175	3.3	Net financial income	184
1.3.7	Difference between operating and exceptional items	175	3.4	Exceptional items	184
1.3.8	Use of estimates	175	3.5	Directors' and officers' remuneration	184
NOTE 2	NOTES TO THE BALANCE SHEET AT DECEMBER 31, 2010	176	NOTE 4	FINANCIAL ITEMS	185
2.1	Intangible assets	176	4.1	Finance leases	185
2.1.1	Movements in 2010	176	4.2	Financial commitments	185
2.1.2	Trademarks	176	4.2.1	Commitments given by Iliad on behalf of Group companies	185
2.2	Property, plant and equipment	176	4.2.2	Collateralized debt	185
2.2.1	Movements in 2010	176	4.3	Post-employment benefits	185
2.2.2	Analysis of property, plant and equipment	176	4.4	Statutory training entitlement	185
2.3	Long-term investments	176	NOTE 5	OTHER INFORMATION	186
2.3.1	Movements in 2010	176	5.1	Consolidation	186
2.3.2	Investments in subsidiaries and affiliates	177	5.2	Tax-related information	186
2.3.3	Loans and advances to subsidiaries and affiliates	177	5.2.1	Tax group	186
2.3.4	List of subsidiaries and affiliates	177	5.2.2	Deferred taxes	186
2.3.5	Related-party transactions	178	5.2.3	Corporate income tax relating to exceptional items	186
2.4	Depreciation and amortization	178	5.3	Information on the segregation of accounting periods	187
2.5	Other assets	179	5.3.1	Accrued income	187
2.5.1	Analysis of receivables by maturity	179	5.3.2	Accrued expenses	187
2.5.2	Debt issuance costs	179	5.3.3	Deferred income and prepaid expenses	187
2.5.3	Marketable securities	179	5.4	Events after the balance sheet date	187

20.2.1 BALANCE SHEET – ASSETS

<i>In € thousands</i>	Gross	Depr., amort. and provisions	Net at December 31, 2010	Net at December 31, 2009
INTANGIBLE ASSETS				
Start-up costs	0	0	0	0
Research and development costs	0	0	0	0
Concessions, patents and trademarks	51	48	3	6
Business goodwill	0	0	0	0
Other	88	57	31	15
PROPERTY, PLANT AND EQUIPMENT				
Land	119	0	119	119
Buildings	356	304	52	68
Fixtures and fittings	931	810	121	79
Technical equipment	0	0	0	0
Computer equipment	291	185	106	124
Furniture	224	133	91	25
Advances and prepayments	0	0	0	0
LONG-TERM INVESTMENTS				
Investments in subsidiaries and affiliates	982,653	53,977	928,676	610,281
Loans and advances to subsidiaries and affiliates	515,575	7,418	508,157	266,585
Other investment securities	1,753	1,738	15	15
Other loans	3,084	0	3,084	3,038
Other long-term investments	3,802	0	3,802	1,072
TOTAL FIXED ASSETS	1,508,927	64,670	1,444,257	881,427
Inventories	0	0	0	0
Advances and prepayments on orders	0	0	0	0
Trade receivables	3,267	51	3,216	4,667
Receivables from suppliers	0	0	0	0
Employee-related receivables	0	0	0	0
Recoverable corporate income tax	41,459	0	41,459	17,770
Recoverable sales taxes	669	0	669	3,012
Other receivables	7,091	1,220	5,871	14,328
Other advances and prepayments made	0	0	0	0
Marketable securities	321,540	680	320,860	611,461
Cash and cash equivalents	25,226	0	25,226	91
Prepaid expenses	633	0	633	183
TOTAL CURRENT ASSETS	399,885	1,951	397,934	651,512
ACCRUALS				
Deferred charges	22,670	0	22,670	10,598
Conversion losses	0	0	0	0
TOTAL ASSETS	1,931,482	66,621	1,864,861	1,543,537

20.2.2 BALANCE SHEET – EQUITY AND LIABILITIES

<i>In € thousands</i>	At December 31, 2010	At December 31, 2009
Share capital	12,121	12,096
Additional paid-in capital	98,660	93,362
Legal reserve	1,213	1,208
Regulated reserves	0	0
Other reserves	111,788	114,776
Retained earnings	73	0
Interim dividends	0	0
<i>Profit for the year</i>	39,829	17,264
TOTAL EQUITY	263,684	238,706
OTHER EQUITY		
Provisions for contingencies	0	0
Provisions for charges	226	0
TOTAL PROVISIONS	226	0
Convertible bonds	337,912	337,910
Bank borrowings	604,031	898,048
Bank overdrafts	3,459	1,219
Other borrowings	552	405
Current accounts with subsidiaries	620,929	36,297
Trade payables	4,368	13,302
Employee-related payables	300	256
Accrued payroll and other employee-related taxes	399	342
Accrued corporate income tax	0	0
Accrued sales taxes	715	2,296
Other accrued taxes	560	145
Amounts due on fixed assets	6	2
Other liabilities	27,720	14,609
Deferred income	0	0
TOTAL ACCRUALS AND OTHER LIABILITIES	1,600,951	1,304,831
TOTAL EQUITY AND LIABILITIES	1,864,861	1,543,537

20.2.3 INCOME STATEMENT

<i>In € thousands</i>	12/31/2010	12/31/2009
Sales in France	31,916	28,428
Sales outside France	0	0
TOTAL REVENUES	31,916	28,428
Reversals of depreciation, amortization and provisions, expense transfers	12	28
Other revenues	186	118
TOTAL OPERATING INCOME	32,114	28,574
Rebilled purchases	19,700	18,347
Other purchases and external charges	13,037	11,803
Taxes other than on income	381	245
Wages and salaries	3,214	2,743
Payroll taxes	1,593	509
Depreciation and amortization of fixed assets	4,572	3,394
Additions to provisions for impairment of current assets	2	24
Additions to provisions for contingencies and charges	226	0
Other expenses	2,342	200
TOTAL OPERATING EXPENSES	45,067	37,265
NET OPERATING EXPENSE	(12,953)	(8,691)
Interest and other financial income	124,146	59,213
Reversals of provisions	0	25
Net gains on disposals of marketable securities	3,252	7,391
TOTAL FINANCIAL INCOME	127,398	66,629
Interest and other financial expense	48,823	50,290
Additions to provisions	51,283	4,881
Net losses on disposals of marketable securities	1,202	677
TOTAL FINANCIAL EXPENSE	101,308	55,848
NET FINANCIAL INCOME	26,090	10,781
OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS AND TAX	13,137	2,090

<i>In € thousands</i>	12/31/2010	12/31/2009
Exceptional income from operating transactions	12,500	444
Exceptional income from capital transactions	0	1,010
Reversals of provisions	0	275
TOTAL EXCEPTIONAL INCOME	12,500	1,729
Exceptional expense on operating transactions	264	0
Exceptional expense on capital transactions	2	275
Exceptional depreciation, amortization and provision expense	0	0
TOTAL EXCEPTIONAL EXPENSE	266	275
NET EXCEPTIONAL INCOME	12,234	1,454
Corporate income tax	(14,458)	(13,720)
TOTAL INCOME	172,012	96,932
TOTAL EXPENSE	132,183	79,668
PROFIT FOR THE YEAR	39,829	17,264

20.2.4 STATEMENT OF CHANGES IN EQUITY

<i>In € thousands</i>	Share capital	Additional paid-in capital	Retained earnings and other reserves	Profit for the year	Total equity
EQUITY AT DECEMBER 31, 2008	12,062	89,121	130,612	3,881	235,676
Movements in 2009					
• Issuance/cancellation of shares	34				34
• Appropriation of 2008 profit			3,881	(3,881)	0
• Dividends paid			(18,509)	0	(18,509)
• Profit for the year				17,264	17,264
• Other		4,241			4,241
EQUITY AT DECEMBER 31, 2009	12,096	93,362	115,984	17,264	238,706
Movements in 2010					
• Issuance/cancellation of shares	25				25
• Appropriation of 2009 profit			17,264	(17,264)	0
• Dividends paid			(20,174)		(20,174)
• Profit for the year				39,829	39,829
• Other		5,298			5,298
EQUITY AT DECEMBER 31, 2010	12,121	98,660	113,074	39,829	263,684

20.2.5 NOTES TO THE FINANCIAL STATEMENTS

The parent company financial statements and notes thereto have been prepared based on the following data, within the meaning of French Decree 2005-1757 dated December 30, 2005:

- year-end: **December 31, 2010**;
- accounting period: **12 months**;
- previous accounting period: **12 months**;
- total assets at December 31, 2010: **€1,864,861,000**;
- 2010 revenues: **€31,916,000**;
- number of employees at December 31, 2010: **48**.

In application of Articles L. 123-16 and R. 123-200 of the French Commercial Code, the attached notes are presented in the standard format. Certain additional material data has also been provided.

Note: Unless otherwise specified, all amounts in the following notes are stated in thousands of euros.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**1.1 General accounting principles**

The financial statements have been prepared on a going concern basis, in accordance with French law and French generally accepted accounting principles 1999 – including the principle of segregation of accounting periods – applied consistently from one accounting period to the next.

1.2 Exceptions

No exceptions to French generally accepted accounting principles were applied in the preparation of these financial statements.

1.3 Main accounting policies

The main accounting policies applied by the Company are described below.

1.3.1 Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are stated at acquisition cost (including incidental expenses) or production cost.

Depreciation and amortization are calculated by the straight-line method over the following useful lives:

• software	2 years
• trademarks	2/10 years
• buildings	20/30 years
• fixtures and fittings	5/6/8 years
• computer equipment	1/2/4 years
• furniture	6 years

1.3.2 Investments in subsidiaries and affiliates, loans and advances to subsidiaries and affiliates, and other investment securities

Investments in subsidiaries and affiliates, loans and advances to subsidiaries and affiliates, and other investment securities are stated at the lower of cost (excluding incidental expenses) and fair value. Fair value is determined based on the net assets of the company concerned and its projected future earnings.

1.3.3 Receivables

Receivables are stated at nominal value.

A provision is recorded for doubtful accounts based on the estimated risk of non-recovery.

1.3.4 Foreign currency transactions

Income and expenses in foreign currencies are converted at the exchange rate prevailing on the date of the transaction.

Balance sheet items are converted at the year-end rate.

1.3.5 Provisions for contingencies and charges

When Iliad's obligations to third parties known at the balance sheet date are certain or likely to cause an outflow of resources, without at least equivalent consideration, a provision is recorded when the amount can be estimated reliably.

1.3.6 Convertible bonds

The issue price of the Company's Océane bonds is recognized in full on the liabilities side of the balance sheet, under "Convertible bonds". The related debt issuance costs are amortized over the life of the bonds.

1.3.7 Difference between operating and exceptional items

Exceptional income and expense include both exceptional items relating to ordinary activities and extraordinary items.

Exceptional items relating to ordinary activities correspond to items that are unusual in terms of their size or impact or which arise from events that occur rarely.

1.3.8 Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in France involves the use of estimates and assumptions which may have an impact on the reported amounts in the financial statements and accompanying notes. Actual amounts may differ from these estimates.

NOTE 2 NOTES TO THE BALANCE SHEET AT DECEMBER 31, 2010**2.1 Intangible assets****2.1.1 Movements in 2010**

Movements in intangible assets in 2010 can be analyzed as follows:

<i>In € thousands</i>	At January 1, 2010	Acquisitions	Disposals	At December 31, 2010
Software	48	40	0	88
Trademarks	154	0	103	51
TOTAL	202	40	103	139

2.1.2 Trademarks

The Company has registered several trademarks related to its corporate name and businesses.

2.2 Property, plant and equipment**2.2.1 Movements in 2010**

Movements in property, plant and equipment in 2010 can be analyzed as follows:

<i>In € thousands</i>	At January 1, 2010	Acquisitions	Disposals	At December 31, 2010
Land	119	0	0	119
Buildings	356	0	0	356
Fixtures and fittings	856	75	0	931
Computer equipment	256	35	0	291
Furniture	148	76	0	224
TOTAL	1,735	186	0	1,921

2.2.2 Analysis of property, plant and equipment

- **Land and buildings**

The Company owns a building at Rue de Crimée in Paris.

- **Computer equipment**

This item corresponds to purchases of computer equipment.

2.3 Long-term investments**2.3.1 Movements in 2010**

<i>In € thousands</i>	At January 1, 2010	Acquisitions	Disposals	At December 31, 2010
Investments in subsidiaries and affiliates	613,520	369,133	0	982,653
Loans and advances to subsidiaries and affiliates	273,457	260,632	18,514	515,575
Other investment securities	1,753	0	0	1,753
Other loans	3,038	46	0	3,084
Guarantee deposits	1,072	3,019	289	3,802
TOTAL	892,840	632,830	18,803	1,506,867

2.3.2 Investments in subsidiaries and affiliates

The main movements during the year are described below:

- the formation in May 2010 of Iliad Gaming S.A.S., a simplified joint-stock company wholly owned by Iliad that specializes in online gambling games and sports betting;
- the formation – also in May 2010 – of Call One BPO, a wholly-owned Iliad subsidiary. Call One BPO's corporate purpose is to set up and operate all activities related to call centers and to provide all forms of assistance, support, equipment and maintenance services in the telecommunications segment.

Recapitalization transactions for Iliad subsidiaries

In 2010 the Group invested an aggregate €367,125,000 in recapitalizing a certain number of its subsidiaries.

2.3.3 Loans and advances to subsidiaries and affiliates

Iliad S.A. is responsible for the Group's overall cash management and notably provides financing for the investments in optical fiber made by Free Infrastructure, IRE and Immobilière Iliad.

2.3.4 List of subsidiaries and affiliates

See table below:

	Share capital (In € thousand)	Retained earnings and other reserves (In € thousand)	% ownership	2010 profit/(loss) (In € thousand)	Gross value of shares held (In € thousand)	Net value of shares held (In € thousand)	Loans and advances granted by the Company (In € thousand)	Commitments given (In € thousand)	2010 revenues (In € thousand)	Dividends received during the year (In € thousand)
Assunet S.A.S.	38	32	89.96	529	34	34	0	/	1,307	382
	MAD			MAD					MAD	
Call One BPO ⁽¹⁾	100,000	0	100.00	(279,000)	10	10	762	/	6,404,000	0
Ceotrapel S.A.S.	38	(433)	99.98	155	38	38	495	/	16,603	0
Citéfibre S.A.	826	(8,011)	99.89	(362)	2,942	0	7,418	/	7	0
Free S.A.S.	3,442	1,014,437	100.00	389,864	497,298	497,298	0	25,075	2,009,525	90,000
Freebox S.A.S.	50	3,830	96.86	(702)	3,636	3,636	51,312	\$37,700,000	192,952	0
Free Infrastructure S.A.S.	1,000	(473)	100.00	(28,500)	31,378	31,378	335,246	6,500	2,328	0
Free Mobile S.A.S.	365,139	(857)	100.00	(2,524)	365,278	365,278	0	/	85	0
IFW S.A.S.	2,584	2,607	100.00	(2,066)	68,397	17,700	0	/	341	0
IH S.A.S.	39	4	100.00	90	39	39	0	/	1,104	53
Iliad Gaming	1,000	0	100.00	(1,302)	1,000	1,000	939	/	607	0
Immobilière Iliad EURL	1	3,000	100.00	(5,363)	6,520	6,520	95,939	/	32,467	0
IRE S.A.S.	100	(183)	100.00	(5,532)	3,954	3,954	19,507	70,000	6,650	0
Kedra S.A.S.	39	(426)	100.00	387	39	0	0	/	24	0
Online S.A.S.	214	6,194	95.18	2,431	341	341	0	/	15,345	0
One.Tel S.A.S.	2,511	251	100.00	3,133	0	0	0	/	8,189	15,192
ProTelco S.A.S.	37	(29)	100.00	94	37	37	0	5,000	42,445	0
SNDM EURL	2	(397)	100.00	4	297	0	0	/	0	0
	MAD	MAD		MAD					MAD	
Total Call ⁽¹⁾	4,600,000	24,339,000	100.00	(4,731,000)	414	414	432	/	224,167,000	0

(1) MAD: Moroccan dirhams.

2.3.5 Related-party transactions

<i>In € thousands</i>	Debit balances	Credit balances
Loans and advances to subsidiaries and affiliates	515,575	
Trade receivables	2,539	
Business premises deposits received		509
Other borrowings		620,926
Trade payables		151
Other receivables/payables	3,237	25,476
Financial expense	9,026	
Financial income		123,865

2.4 Depreciation and amortization

Movements in depreciation and amortization are broken down in the following table:

<i>In € thousands</i>	Depreciation and amortization at January 1, 2010	Increases	Decreases	Depreciation and amortization at December 31, 2010
Intangible assets				
SUB-TOTAL I	181	27	103	105
Buildings	288	16	0	304
Other property, plant and equipment:				
Fixtures and fittings	777	33	0	810
Furniture, office and computer equipment	255	63	0	318
SUB-TOTAL II	1,320	112	0	1,432
TOTAL (I+II)	1,501	139	103	1,537

2.5 Other assets

2.5.1 Analysis of receivables by maturity

At December 31, 2010

In € thousands

	Gross amount	Due within 1 year	Due beyond 1 year
Fixed assets			
• Loans and advances to subsidiaries and affiliates	515,575	515,575	0
• Other loans	3,084	0	3,084
• Other long-term investments	3,802	0	3,802
Current assets			
• Advances and prepayments	0	0	0
• Trade receivables	3,267	3,267	0
• Doubtful and disputed receivables	0	0	0
• Recoverable payroll and other employee-related taxes	0	0	0
• Employee-related receivables	0	0	0
• Recoverable corporate income tax	41,459	611	40,848
• Recoverable VAT	669	669	0
• Other receivables (including inter-company current accounts)	7,091	7,091	0
• Prepaid expenses	633	633	0
TOTAL	575,580	527,846	47,734

2.5.2 Debt issuance costs

Expenses incurred in relation to issuing or setting up the Group's borrowings are being amortized on a straight-line basis over the life of the borrowings concerned.

Movements in debt issuance costs were as follows in 2010:

In € thousands	Amount
• Debt issuance costs	33,210
• Prior period amortization	(6,107)
• Amortization charge for the year	(4,433)
NET AT DECEMBER 31, 2010	22,670

2.5.3 Marketable securities

Marketable securities break down as follows:

In € thousands	12/31/2010		12/31/2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Certificates of deposit				
Net value	45,000	45,000	0	0
UCITS				
Net value	267,401	267,401	605,142	605,142
Own shares				
Net value	3,479	3,479	3,774	3,774
Treasury instruments				
Net value	4,980	4,980	2,545	2,545
TOTAL, NET	320,860	320,860	611,461	611,461

Iliad's policy is to invest its cash in instruments that qualify as cash equivalents. 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, Iliad 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 (*Autorité des Marchés Financiers* – AMF).

2.6 Share capital and changes in capital

2.6.1 Share capital

The Company's share capital at December 31, 2010 amounted to €12,121,000, divided into 54,696,740 fully paid-up shares, compared with €12,096,000 at December 31, 2009.

2.6.2 Form of the shares

Iliad's shares may be held in either registered or bearer form.

The Company does not have any preferred shares.

2.6.3 Changes in Iliad's share capital

The stock options granted by the Iliad Group on January 20, 2004 have been exercisable by their beneficiaries since January 20, 2008. The first tranche of the options granted on December 20, 2005 have been exercisable since December 20, 2009, with the remainder exercisable as from December 20, 2010.

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

2.6.4 Ownership structure

At December 31, 2010 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

2.6.5 Own shares

Iliad holds 56,800 of its own shares purchased under a buyback program.

2.6.6 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 January 1, 2010	Number of options granted in 2010	Number of options forfeited in 2010	Number of options exercised in 2010	Number of exercisable options outstanding at December 31, 2010	Number of non-exercisable options outstanding at December 31, 2010
12/12/2003	01/20/2004	16.30	33,371	0	0	5,126	28,245	0
12/12/2003	12/20/2005	48.44	338,178	0	2,292	108,174	227,712	0
05/29/2006	06/14/2007	74.62	162,455	0	0	0	0	162,455
05/29/2006	08/30/2007	68.17	694,759	0	14,459	0	0	680,300
05/29/2008	11/05/2008	53.79	589,400	0	12,000	0	0	577,400
08/29/2010	08/29/2014	67.67	0	183,150	900	0	0	182,250
08/29/2010	08/30/2015	67.67	0	427,350	2,100	0	0	425,250

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

Date of plan launch	Exercise terms and conditions
01/20/2004	Options exercisable since January 20, 2008
12/20/2005	Half of the options exercisable since December 20, 2009 and half as from December 20, 2010
06/14/2007	Options exercisable from June 13, 2012
08/30/2007	Options exercisable from August 30, 2012
11/05/2008	Options exercisable from November 5, 2013
08/30/2010	30% of the options exercisable from August 29, 2014 and the remaining 70% exercisable from August 29, 2015

2.7 Provisions for contingencies and charges

2.7.1 Movements in 2010

Movements in provisions for contingencies and charges in 2010 can be analyzed as follows:

In € thousands	At January 1, 2010	Additions	Reversals (utilizations)	Reversals (surplus provisions)	At December 31, 2010
Provisions for contingencies and charges	0	226	0	0	226
TOTAL	0	226	0	0	226

2.7.2 Origin of provisions

Provisions for contingencies and charges

The provisions for contingencies and charges set aside at December 31, 2010 are intended to cover all circumstances that could have an adverse effect on the Company's assets or liabilities. Movements in these provisions during the year concern employee-related disputes and other risks that either arose or were extinguished during the period.

2.8 Other liabilities

None of the Company's payables are significantly aged or unusual.

An analysis of the Company's payables by maturity is provided in the table below.

At December 31, 2010				
<i>In € thousands</i>				
	Gross amount	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years
• Bonds:				
– due within one year at issue date	7,287	7,287	0	0
– due beyond one year at issue date	330,625	0	330,625	0
• Bank borrowings:				
– due within one year at inception of loan	0	0	0	0
– due beyond one year at inception of loan	604,031	4,031	600,000	0
• Bank overdrafts	3,459	3,459	0	0
• Other borrowings	0	0	0	0
• Guarantees and deposits received	552	0	552	0
• Current accounts with subsidiaries	620,929	620,929	0	0
• Trade payables	4,368	4,368	0	0
• Employee-related payables	300	300	0	0
• Accrued payroll and other employee-related taxes	399	399	0	0
• Other accrued taxes:				
– corporate income tax	0	0	0	0
– value-added tax	715	715	0	0
– other	560	560	0	0
• Amounts due on fixed assets	6	6	0	0
• Other liabilities	27,720	27,720	0	0
TOTAL	1,600,951	669,774	931,177	0

Issuance of Océane convertible/exchangeable bonds

On June 21, 2006, Iliad issued 3,265,190 Océane bonds convertible into new shares and/or exchangeable for existing shares, with a total face value of €287.5 million and paying interest at a rate of 2.20%. After the full exercise of the greenshoe option granted to the financial institutions which underwrote the issue, the number of Océane bonds outstanding at June 29, 2006 totaled 3,754,968, representing a total value of €326.3 million net of issuance costs.

The bonds mature on January 1, 2012 and are redeemable at face value, *i.e.*, €88.05 per bond.

The bondholders may hold a General Meeting to decide that all of the bonds must be redeemed in advance of term in certain circumstances, notably if:

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

Other borrowings

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 refinance 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.

A €1,400 million syndicated credit facility

On June 9, 2010, Iliad set up a €1,400 million syndicated credit facility to refinance the €1,200 million loan granted when it acquired Liberty Surf Group in 2008. The 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.

As a protection against interest rate fluctuations, when this credit facility was set up Iliad also purchased swaps converting variable rate interest indexed to the 3-month Euribor to a fixed rate. The swaps hedge part of the Company's variable rate debt with the same maturity as the swaps.

Iliad'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.

NOTE 3 2010 REVIEW OF OPERATIONS

3.1 Revenues

2010 revenues can be analyzed as follows by segment:

• Minitel services	€628,000
• Iliad Telecom services	€2,999,000
• Inter-company re-invoicing	€27,872,000
• Other revenues	€417,000
TOTAL	€31,916,000

All of the Company's revenues are generated in France.

3.2 Number of employees

At December 31, 2010, Iliad S.A. had 48 employees, breaking down as follows by category:

	Men	Women	Total
• Management	25	12	37
• Other	3	8	11
TOTAL	28	20	48

3.3 Net financial income

Net financial income came to €26,090,000 in 2010, breaking down as follows by category:

In € thousands

• Net interest on subsidiaries' current accounts	9,213
• Interest income from loans and other receivables	280
• Income from securities	105,627
• Overdraft charges, interest on borrowings and other financial expenses	(39,797)
• Net gains on disposals of marketable securities	2,051
• Additions to provisions	(51,283)
• Net losses on disposals of own shares	(1)
	26,090

Additions to provisions can be analyzed as follows:

• Additions to provisions for investments in subsidiaries and affiliates	(50,737)
• Additions to provisions for loans and advances to subsidiaries and affiliates	(546)
	(51,283)

The main addition to provisions for investments in subsidiaries and affiliates was a €50,697,000 write-down of the shares in the subsidiary holding the Group's Wimax technology, which was recorded as a result of the announced difficulties with Wimax and the success of competing technologies.

3.4 Exceptional items

Net exceptional income came to €12,234,000 in 2010, breaking down as follows:

In € thousands

• Exceptional income	12,500
• Exceptional expenses	(266)
	12,234

3.5 Directors' and officers' remuneration

The tables below set out aggregate information concerning the remuneration and benefits paid to members of Iliad's administrative and management bodies.

Administrative bodies <i>In €</i>	12/31/2010	12/31/2009
• Salaries, commission and other remuneration (including lump-sum expense allowances), and paid leave	884,640	856,440
• Directors' fees: Exempt from payroll taxes	100,000	90,000
Management bodies <i>In €</i>	12/31/2010	12/31/2009
• Salaries, commission and other remuneration (including lump-sum expense allowances), and paid leave	154,800	146,760
• Benefits-in-kind	0	0

NOTE 4 FINANCIAL ITEMS**4.1 Finance leases**

Iliad had no outstanding finance leases at December 31, 2010.

4.2 Financial commitments

Iliad S.A. has issued a guarantee for premises it uses in Paris.

4.2.1 Commitments given by Iliad on behalf of Group companies

At December 31, 2010, Iliad S.A. had given the following commitments on behalf of Group companies:

Free	€25,075,000
Free Infrastructure	€6,500,000
Freebox	\$31,700,000
IRE	€70,000,000

Iliad S.A had given a joint commitments on behalf of Group Company :

ProTelco and Free Infrastructure	€5,000,000
----------------------------------	------------

4.2.2 Collateralized debt

None of the property belonging to the Company has been used as collateral for any debt.

4.3 Post-employment benefits

Actuarial valuations of post-employment benefit obligations are made using the projected unit credit method, which sees each period of service as giving rise to an additional unit of benefit entitlement.

For each active participant, the benefit likely to be paid is estimated based on the rules defined in the applicable collective bargaining agreement and/or company-level agreement, using personal data projected to the standard age for payment of the benefit. The Company's total obligations toward each participant (total actuarial value of future benefits) are then calculated by multiplying the estimated benefit by an actuarial factor, which takes into account the following:

- assumptions concerning the employee's probability of departure or death before the age of payment of the benefit;
- the discounted value of the benefit at the measurement date.

These obligations are then allocated over each of the past and future years for which rights accrue for beneficiaries under the plan. This allocation can be analyzed as follows:

- the portion of the Group's obligation allocated to years prior to the measurement date (projected benefit obligation) corresponds to obligations for services rendered. The projected benefit obligation represents the Group's obligation existing at the balance sheet date;
- the portion of the Company's obligations allocated to the year following the measurement date (service cost) corresponds to the probable increase in obligations due to the additional year's service that the participant will have provided to the Company at the end of the year.

The individual results of the measurement process are subsequently aggregated to obtain Company-level results.

The Company's obligation in relation to post-employment benefits amounted to €53,000 at December 31, 2010. This obligation was not recognized in the 2010 financial statements.

4.4 Statutory training entitlement

In accordance with French Law 2004-391 of May 4, 2004 relating to professional training, the Company grants its employees an entitlement to at least 20 hours' training per calendar year, which may be carried forward for up to six years. If all or part of the cumulative entitlement is not used within six years, it is capped at 120 hours.

At December 31, 2010 the Company's employees had accumulated a total of 3,701 unused training hours.

Iliad does not record a provision for this statutory training entitlement as it considers that the Company will receive a future benefit from any training given to employees because the underlying aim of the related training courses is to develop employee skills within the Company's businesses. In addition, only a very small number of training requests are lodged by employees who have left the Company or retired early.

NOTE 5 OTHER INFORMATION**5.1 Consolidation**

Iliad S.A. prepares consolidated financial statements in its capacity as the parent company of the Iliad Group.

5.2 Tax-related information**5.2.1 Tax group**

Iliad has set up a tax group which at December 31, 2010 included all of its consolidated companies apart from companies (i) that are less than 95%-owned by Iliad, (ii) that were newly formed in 2010, and (iii) whose registered office is outside France.

The following rules apply within the tax group:

- each company in the tax group, including the parent company, records in its accounts the amount of tax that it would have paid on a stand-alone basis;
- any tax savings relating to tax losses made by members of the tax group are held at the level of the parent company and therefore do not have any impact on profit.

For as long as they remain members of the tax group, subsidiaries may offset their tax losses generated during their membership of the tax group against future taxable income.

Iliad records these tax savings on the liabilities side of its balance sheet under "Other liabilities". They totaled €25,476,000 at December 31, 2010;

- any tax charges or savings relating to adjustments to total earnings, as well as any tax credits for loss-making companies, are recorded at the level of Iliad S.A.;
- no payments in relation to these matters may be due by Iliad when a company leaves the tax group.

5.2.2 Deferred taxes

Items subject to adjustments for the purposes of calculating taxable income will have the following expected impact on taxes in future years:

Type of temporary difference	Amount In € thousands
Deferred tax liabilities	/
TOTAL	/
Total deferred tax liabilities	/
Deferred tax assets	
Government housing levy	5
"Contribution sociale" surtax	18
Fair value adjustments to UCITS	399
TOTAL	422
Total deferred tax assets	422
Tax loss carryforwards of the Company	None
Tax group	
Long-term capital losses	None

5.2.3 Corporate income tax relating to exceptional items

Corporate income tax payable for 2010 amounted to €14,458,000, breaking down as follows:

- corporate income tax relating to ordinary activities: €(18,581,000);
- corporate income tax relating to exceptional items: €4,123,000.

5.3 Information on the segregation of accounting periods

5.3.1 Accrued income

Accrued income included in balance sheet items can be broken down as follows:

<i>In € thousands</i>	
Balance sheet item	Amount
Loans and advances to subsidiaries and affiliates	0
Other long-term investments	0
Trade receivables	130
Other receivables	333
Cash and cash equivalents	35
TOTAL	498

5.3.2 Accrued expenses

Accrued expenses included in balance sheet items can be broken down as follows:

<i>In € thousands</i>	
Balance sheet item	Amount
Convertible bonds	7,287
Other bonds	0
Bank borrowings	4,031
Other borrowings	0
Trade payables	773
Accrued taxes and payroll costs	593
Other liabilities	0
TOTAL	12,684

5.3.3 Deferred income and prepaid expenses

Deferred income and prepaid expenses break down as follows:

<i>In € thousands</i>	Prepaid expenses	Deferred income
Operating expense/income	633	0
Financial expense/income	0	0
Exceptional expense/income	0	0
TOTAL	633	0

5.4 Events after the balance sheet date

Between January 1, 2011 and the date on which the accounts were approved, no events occurred that would be likely to have a material impact on the financial statements for the year ended December 31, 2010.

STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

(Year ended December 31, 2010)

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the financial statements and includes an explanatory paragraph discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Iliad

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

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31, 2010, on:

- the audit of the accompanying financial statements of Iliad;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I - Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company at December 31, 2010 and of the results of its operations for the year then ended in accordance with French accounting principles.

II - Justification of our assessments

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

Note 1.3.2 to the financial statements sets out the accounting rules and methods applied in valuing investments in subsidiaries and affiliates, and loans and advances to subsidiaries and affiliates. As part of our assessment of the accounting rules and principles applied by your Company, we verified the appropriateness of these accounting methods and of the calculation of provisions for impairment.

These assessments were made as part of our audit of the financial statements, taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III - Specific verifications and information

In accordance with professional standards applicable in France, we have also performed the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of Article L. 225-102-1 of the French Commercial Code relating to remuneration and benefits received by corporate officers and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling it or controlled by it. Based on this work, we attest to the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the identity of shareholders and holders of the voting rights has been properly disclosed in the management report.

Neuilly-sur-Seine and Paris, April 5, 2011

The Statutory Auditors

PricewaterhouseCoopers Audit

Frédéric Charcosset

Boissière Expertise Audit

Jean-Luc Cohen

20.3 DIVIDEND POLICY

The Board of Directors determines the dividend policy based on a review of the Company's earnings and financial position and other factors. At the Annual General Meeting to be held on May 24, 2011, the Board will recommend the payment of a €0.40 dividend per share (excluding taxes) for all the shares making up the Company's share capital at that date, and carrying rights to the 2010 dividend.

The Company expects its dividend policy to be consistent with its expansion strategy in 2011. This does not, however, represent any commitment on the Company's part, which may decide to reduce its dividend payment, or not make any dividend payment, depending on its financial results, capital expenditure requirements, and level of debt.

20.3.1 PROVISIONS OF THE BYLAWS RELATING TO DISTRIBUTABLE PROFIT

Distributable profit represents profit for the year, less any losses carried forward from prior years, and any amount to be appropriated to reserves pursuant to applicable law or the Company's bylaws, plus any retained earnings. The Annual General Meeting may appropriate all or part of this amount to any discretionary reserves or to retained earnings.

The Annual General Meeting may also decide to distribute funds drawn from available reserves, expressly indicating the reserve account from which the distributed amounts are to be taken. However, dividends are deducted in priority from distributable profit.

The Annual General Meeting may decide to offer each shareholder the option of receiving all or part of the final dividend or any interim dividends in the form of shares.

Dividends must be paid no later than nine months following the close of the fiscal year unless an extension is authorized by a court of law.

The total dividend payout must take into account all of the shares making up the Company's capital at the dividend date. If at that date (i) the Company holds any of its own shares or (ii) any shares that should have been issued on the exercise of stock options granted by the Board of Directors have not actually been issued, the amount corresponding to the dividends payable on the shares referred to in (i) and (ii) will be allocated to the "Other reserves" account.

Dividends that have not been claimed within five years are time-barred and are remitted to the French State.

20.3.2 DIVIDENDS PAID IN THE PAST FIVE FISCAL YEARS

The Company paid dividends for all of the past five fiscal years (2006, 2007, 2008, 2009 and 2010).

The Annual General Meeting of May 29, 2006 resolved to pay a total dividend of €10,830,310 (€0.20 per share).

The Annual General Meeting of May 29, 2007 resolved to pay a total dividend of €14,620,918.50 (€0.27 per share).

The Annual General Meeting of May 29, 2008 resolved to pay a total dividend of €16,913,905.00 (€0.31 per share).

The Annual General Meeting of June 23, 2009 resolved to pay a total dividend of €18,509,208 (€0.34 per share).

The Annual General Meeting of May 25, 2010 resolved to pay a total dividend of €20,174,551 (€0.37 per share).

For individuals domiciled in France for tax purposes, cash dividends are taken into account when calculating personal income tax. They are eligible for the tax allowance provided for under Article 158.3-2 of the French Tax Code (40% for 2006, 2007 and 2008) subject to the applicable conditions and ceilings set down by law, unless the shareholders concerned opt for the 18% flat-rate withholding tax provided for under Article 117 *quater* of said Code.

20.4 LITIGATION AND ARBITRATION PROCEEDINGS

Apart from the cases described in Section 4 of this registration document, there have been no governmental, legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this registration document, a significant effect on the Company's financial position or profitability and, as far as Iliad is aware, no such proceedings are pending or threatened against the Company.

The aggregate amount of provisions set aside to cover all of the Group's claims and litigation (see Note 27 to the consolidated financial statements in Section 20) corresponds to all of the outflows of resources (excluding any possible reimbursements) that are deemed probable for all types of claims and litigation in which the Group is involved as a result of conducting its business.

20.5 SIGNIFICANT CHANGES IN THE COMPANY'S FINANCIAL OR TRADING POSITION

There were no significant changes in the Company's financial or trading position between December 31, 2010 and the date on which this registration document was filed. Events that may reasonably be expected to affect the Company's business and outlook for 2011 are described in Section 9 (notably Section 9.4.2) and were disclosed by the Company during the presentation of Iliad's 2010 results on March 9, 2011.

21

ADDITIONAL INFORMATION

21.1 SHARE CAPITAL	192	21.2 BYLAWS	197
21.1.1 Amount of share capital	192	21.2.1 Corporate purpose (Article 2 of the bylaws)	197
21.1.2 Shares not representing capital	192	21.2.2 Management of the Company	197
21.1.3 Share buyback programs	192	21.2.3 Rights and obligations attached to shares	197
21.1.4 Potential capital	193	21.2.4 Changes in the rights of shareholders	198
21.1.5 Information about the terms of any acquisition rights or any obligations over authorized but unissued capital or an undertaking to increase the share capital	195	21.2.5 Shareholders' Meetings	198
21.1.6 Information about the share capital of any member of the Group which is under option or agreed conditionally or unconditionally to be put under option and details of such options (including those persons to whom such options relate)	195	21.2.6 Articles of the bylaws that may have an impact on a change in control	199
21.1.7 Changes in the Company's share capital over the past five years	195	21.2.7 Disclosure thresholds (Article 12 of the bylaws)	199
21.1.8 Authorized unissued share capital	196	21.2.8 Specific provisions governing changes in the Company's share capital	200
		21.2.9 Form of shares and identification of shareholders (Article 9 of the bylaws)	200
		21.2.10 Fiscal year	200
		21.3 THE MARKET FOR ILIAD SHARES	200
		21.3.1 General information	200
		21.3.2 Changes in the Iliad share price since January 1, 2010	201
		21.3.3 Transfer Agent	201
		21.4 LIQUIDITY CONTRACT	201

21.1 SHARE CAPITAL

21.1.1 AMOUNT OF SHARE CAPITAL

At the date this registration document was filed, the Company's share capital amounted to €12,120,814.10, divided into 54,696,740 shares, all issued, fully paid up and of the same class. The par value of the shares is not set in the Company's bylaws.

21.1.2 SHARES NOT REPRESENTING CAPITAL

At the date this registration document was filed, the Company had not issued any shares not representing capital.

21.1.3 SHARE BUYBACK PROGRAMS

The sixth resolution of the May 25, 2010 Annual General Meeting authorized the Board of Directors, with authority to delegate under the terms provided by law, to acquire shares representing up to 10% of the Company's capital. This authorization was granted for a period of 18 months and remains in effect until November 24, 2011.

The maximum purchase price under this program is €200 per share.

The objectives of the share buyback program, in decreasing order of priority, are as follows:

- market making for the Company's shares under a liquidity contract that complies with the code of ethics recognized by the French securities regulator (AMF) as an approved market practice;
- to allocate shares to employees and corporate officers of the Company and Group subsidiaries, in accordance with the applicable legislation, including by (i) carrying out share grants as permitted by Articles L. 225-197-1 *et seq.* of the French Commercial Code, or (ii) by granting stock options in accordance with Articles L. 225-177 *et seq.* of said Code, or (iii) as part of a profit-sharing scheme or a Group savings plan in accordance with the applicable legislation, in particular Articles L. 3332-1 *et seq.* of the French Labor Code (*Code du travail*);
- to purchase shares to be held and subsequently used in connection with external growth transactions (as consideration, in exchange for shares in another company, or any other use);
- to allocate shares on the exercise of stock options granted to the Company's employees and corporate officers in accordance with the law;
- to cancel all or some of the shares purchased, subject to adoption of the fourteenth resolution at the May 25, 2010 Extraordinary Shareholders' Meeting;
- to attribute shares on redemption, conversion, exercise or exchange of share equivalents.

The Company carried out the following transactions in connection with the share buyback program during 2010:

	Purchases	Sales
Number of shares	626,771	630,445
Average unweighted transaction price (<i>in €</i>)	75.95	75.99
Total (<i>in €</i>)	47,605,864.55	47,906,701.35

Following the above transactions, the Company held the following Iliad shares at December 31, 2010:

Percentage of capital held directly or indirectly by the Company	0.11%
For the purpose of:	
• market-making	0.045%
• granting stock options	0.065%
Number of shares cancelled in the past 24 months	0
Number of shares held in the portfolio	24,600
Carrying amount of the portfolio (<i>in €</i>)	
Market value of the portfolio (<i>in €</i>) (1)	2,002,440

(1) Based on the Iliad closing share price on December 31, 2010, i.e., €81.40.

At its meeting on April 4, 2011, the Board of Directors decided to recommend to shareholders at the Annual General Meeting to be held on May 24, 2011 that they renew the authorization to implement a share buyback program in accordance with the General Regulations of the AMF, which reflect European Commission Regulation 2273/2003 of December 22, 2003 implementing European Directive 2003/6/EC of January 28, 2003.

21.1.4 POTENTIAL CAPITAL

21.1.4.1 Stock options

The table below sets out information concerning the stock options granted by the Company which were outstanding at December 31, 2010.

	January 20, 2004 plan	December 20, 2005 plan	June 14, 2007 plan	August 8, 2007 plan	August 30, 2007 plan	November 5, 2008 plan	November 5, 2008 plan	August 30, 2010 plan
Date of Shareholders' Meeting	12/12/2003	12/12/2003	05/29/2006	05/29/2006	05/29/2006	05/29/2008	05/29/2008	05/29/2008
Date of Board meeting	01/20/2004	12/20/2005	06/14/2007	08/30/2007	08/30/2007	11/05/2008	11/05/2008	08/30/2010
Total number of shares under option	485,769	541,515 ⁽¹⁾	162,455	162,455	541,505	80,000	516,600	610,500
Total number of beneficiaries	22	84	1	1	95	1	120	160
O/w corporate officers ⁽²⁾	N/A	Cyril Poidatz (40,614)	Maxime Lombardini	Thomas Reynaud	N/A	Maxime Lombardini	Thomas Reynaud (80,000)	N/A
		Olivier Rosenfeld (3) (40,614)						
		Michaël Boukobza (4) (40,614)						
		Antoine Levasseur (40,614)						
Start date of exercise period	01/20/2008	1 st tranche 12/20/2009 2 nd tranche 12/20/2010	06/14/2012	08/30/2012	08/30/2012	11/05/2013	11/05/2013	1 st tranche 08/29/2014 2 nd tranche 08/29/2015
Expiration date	01/19/2014	12/19/2015	06/13/2017	08/29/2017	08/29/2017	11/04/2018	11/04/2018	08/29/2020
Exercise price (in €)	16.30	48.44	74.62	68.17	68.17	53.79	53.79	67.67
Number of options exercised	381,189	164,001	0	0	0	0	0	0
Total number of options canceled or forfeited	76,335	149,802 ⁽⁵⁾	0	0	23,660	0	19,200	3,000
Outstanding options at year-end	28,245	227,712	162,455	162,455	517,845	80,000	497,400	607,500
Dilutive impact	0.05%	0.42%	0.30%	0.30%	0.95%	0.15%	0.91%	1.11%

(1) O/w half exercisable at each exercise date.

(2) At the grant date.

(3) M. Olivier Rosenfeld stepped down from his position as Senior Vice-President on January 3, 2008.

(4) M. Michael Boukobza stepped down from his position as a director and Senior Vice-President on June 14, 2007.

(5) O/w 81,228 options held by former employees or Board members.

At December 31, 2010:

- 3 Group employees held 28,245 options exercisable for the same number of new Iliad shares at a unit price of €16.30;
- 58 Group employees including two corporate officers held 227,712 options exercisable for the same number of new Iliad shares at a unit price of €48.44;
- 1 Group corporate officer held 162,455 options exercisable for the same number of new Iliad shares at a unit price of €74.62;
- 87 Group employees including a corporate officer held 680,300 options exercisable for the same number of new Iliad shares at a unit price of €68.17;
- 109 Group employees – including two corporate officers – held 577,400 options exercisable for the same number of new Iliad shares at a unit price of €53.79.
- 160 Group employees held 607,500 options exercisable for the same number of new Iliad shares at a unit price of €67.67.

21.1.4.2 Océane bonds convertible into new shares and/or exchangeable for existing shares of the Company

On June 29, 2006 the Company issued 3,265,190 convertible/exchangeable bonds governed by Articles L. 228-91 *et seq.* of the French Commercial Code (**Océane** bonds). Following the exercise of the related greenshoe option the number of bonds issued was increased to 3,754,968, representing a total nominal value of €330,624,932.40, or €88.05 per bond. A prospectus relating to the issue was approved by the AMF on June 21, 2006 under number 06-219 and a legal notice was published in the *Bulletin des Annonces Légales Obligatoires* on June 26, 2006.

The Océane bonds bear interest at an annual rate of 2.20% and will be redeemed at par on January 1, 2012, unless they are redeemed in advance at the option of the Company under certain conditions, or at the option of the bondholders in the event of a change of control of the Company within the meaning of Article L. 233-3 of the French Commercial Code. Early redemption of the bonds may also be required in certain other circumstances, notably if (i) the Company does not comply with its obligations relating to the bonds, (ii) the Company or one of its major subsidiaries defaults on the payment of a loan or a loan guarantee representing a total amount of at least €5 million, (iii) the Company or one of its major subsidiaries is required to repay another form of borrowing in advance of term, or (iv) the Company reduces its interest in Free S.A.S. to below 95%.

Each bond is convertible into/exchangeable for one Iliad share at any time up to the seventh working day preceding the redemption or early redemption date, subject to any subsequent adjustments. Where Océane bondholders exercise their rights to receive Iliad shares, the Company may elect to allocate newly issued or existing shares, or a combination of new and existing shares.

The Océane bonds (including interest thereon) constitute direct, general, unconditional, unsubordinated, unsecured debts of the Company. They rank equally at all times among themselves, and with all other present and future unsecured obligations of the Company (other than those that are deemed to be preferred, in accordance with the law). The Company has undertaken that for as long as the Océane bonds remain outstanding it will not grant (i) any mortgages over its existing or future real estate or property rights or (ii) any pledges or other form of collateral over its business or trade receivables, for the benefit of any other bonds without granting the same type of guarantee with the same ranking for the Océane bonds.

The Océane bonds are listed on the Eurolist market of Euronext Paris (ISIN code FR0010350280).

21.1.4.3 Information about the potential dilutive impact on the Company's capital following operations relating to the Company's potential dilutive instruments during the past three fiscal years

Except for the stock options and Océane bonds described respectively in Sections 21.1.4.1 and 21.1.4.2 above (the “**Dilutive Instruments**”) and the items concerning share grants described in Note 26 of Section 20.1, there are no securities that are convertible, redeemable, exchangeable or otherwise exercisable for the Company's shares or voting rights either now or in the future.

Type of Dilutive Instrument	Date of grant or issue	Exercise price (in €)	Expiration date of exercise, exchange or conversion period	Number of new shares issuable	Dilutive impact (%)
Stock options	01/20/2004	16.30	01/19/2014	28,245	0.05%
Stock options	12/20/2005	48.44	12/19/2015	227,712	0.42%
Océane bonds	06/29/2006	N/A	12/21/2011 ⁽¹⁾	3,754,968	6.87%
Stock options	06/14/2007	74.62	06/13/2017	162,455	0.30%
Stock options	08/30/2007	68.17	08/29/2017	162,455	0.30%
Stock options	08/30/2007	68.17	08/29/2017	517,845	0.95%
Stock options	11/05/2008	53.79	11/04/2018	577,400	1.06%
Stock options	08/30/2010	67.67	08/29/2020	182,250	0.33%
Stock options	08/30/2010	67.67	08/29/2020	425,250	0.78%
TOTAL				6,038,580	11.04%

(1) Seventh working day preceding the redemption date, i.e., January 1, 2012, unless the bonds are redeemed in advance.

21.1.5 INFORMATION ABOUT THE TERMS OF ANY ACQUISITION RIGHTS OR ANY OBLIGATIONS OVER AUTHORIZED BUT UNISSUED CAPITAL OR AN UNDERTAKING TO INCREASE THE SHARE CAPITAL

Not applicable.

21.1.6 INFORMATION ABOUT THE SHARE CAPITAL OF ANY MEMBER OF THE GROUP WHICH IS UNDER OPTION OR AGREED CONDITIONALLY OR UNCONDITIONALLY TO BE PUT UNDER OPTION AND DETAILS OF SUCH OPTIONS (INCLUDING THOSE PERSONS TO WHOM SUCH OPTIONS RELATE)

There are no options or conditional or unconditional agreements providing for the share capital of any member of the Group to be placed under option.

21.1.7 CHANGES IN THE COMPANY'S SHARE CAPITAL OVER THE PAST FIVE YEARS

Date of Annual General Meeting or Board Meeting	Transaction	Number of shares issued	Nominal amount of capital increase (in €)	Issue premium (in €)	Aggregate issue premiums (in €)	Total par value of share capital (in €)	Total shares outstanding	Per-share par value (in €)
2006	N/A	0	0	0	84,623,395.86	12,000,000	54,151,550	0.22
2007	N/A	0	0	0	84,623,395.86	12,000,000	54,151,550	0.22
03/10/2008	Capital increase following exercise of stock options	59,517	13,188.97	956,938.13	85,580,333.99	12,013,188.97	54,211,067	0.22
04/23/2009	Capital increase following exercise of stock options	220,208	48,798.09	3,900,592.30	89,120,926.30	12,061,987.06	54,431,275	0.22
03/18/2010	Capital increase following exercise of stock options	152,165	33,719.76	4,240,849.53	93,361,775.83	12,095,706.82	54,583,440	0.22
03/07/2011	Capital increase following exercise of stock options	113,300	25,107.28	5,298,395.08	98,660,170.91	12,120,814.10	54,696,740	0.22

21.1.8 AUTHORIZED UNISSUED SHARE CAPITAL

At the Extraordinary Shareholders' Meetings of May 29, 2008, June 23, 2009 and May 25, 2010 the shareholders authorized the Board of Directors to increase the Company's capital as follows:

					Change in ceilings and/or expiration dates of authorizations submitted for approval at the Annual Shareholders' Meeting of May 24, 2011	
Authorization given to the Board of Directors at the Extraordinary Shareholders' Meeting	Date of the AGM (resolution no.)	Duration (Expiration date)	Maximum nominal amount authorized	In use	Ceiling	Duration (Expiration date)
To increase the Company's capital with pre-emptive subscription rights						
To increase the Company's capital through the issue of shares and/or share equivalents, with pre-emptive subscription rights, giving access to shares or granting rights to the allocation of debt securities	05/25/2010 (7 th resolution)	26 months (07/24/2012)	5,000,000 800,000,000 ⁽²⁾	N/A	5,000,000 1,000,000,000	26 months (07/23/2013)
To increase the Company's capital through capitalization of reserves, profits or premiums	06/23/2009 (26 th resolution)	26 months (08/22/2011)	75,000,000	N/A	75,000,000	26 months (07/23/2013)
To increase the Company's capital without pre-emptive subscription rights						
To increase the Company's capital through the issue of shares and/or share equivalents giving access to shares or granting rights to the allocation of debt securities, without pre-emptive subscription rights and by means of a public offering	05/25/2010 (8 th resolution)	26 months (07/24/2012)	5,000,000 ⁽¹⁾ 800,000,000 ⁽²⁾	N/A	5,000,000 1,000,000,000	26 months (07/23/2013)
To increase the Company's capital through the issue of shares and/or share equivalents giving access to shares or granting rights to the allocation of debt securities, without pre-emptive subscription rights and as part of a private placement	06/23/2009 (24 th resolution)	26 months (05/24/2011)	5,000,000 ⁽¹⁾	N/A	5,000,000 1,000,000,000	26 months (07/23/2013)
To set the issue price of shares to be issued, without pre-emptive subscription rights by means of a public offering	05/25/2010 (9 th resolution)	26 months (07/24/2012)	5,000,000 ⁽¹⁾	N/A		26 months (07/23/2013)
To increase the Company's capital in consideration of in-kind contributions granted to the Company	05/25/2010 (12 th resolution)	26 months (07/24/2012)	1,200,836	N/A	1,212,081	26 months (07/23/2013)
To increase the Company's capital through the issue of shares and/or share equivalents granting access to shares in the event of a public offering with a share exchange component initiated by the Company	05/25/2010 (11 th resolution)	26 months (07/24/2012)	1,500,000 ⁽¹⁾	N/A	1,500,000	26 months (07/23/2013)
To increase the Company's capital with or without pre-emptive subscription rights						
To increase the number of shares to be issued as part of a share capital increase, with or without pre-emptive subscription rights in the event of excess demand	05/25/2010 (10 th resolution) In the event of a public offering	26 months (07/24/2012)	15% of the initial share issue ⁽¹⁾	N/A		
	06/23/2009 (25 th resolution) In the event of a private placement	26 months (05/24/2011)	15% of the initial share issue ⁽¹⁾	N/A	15% of the initial share issue	26 months (07/23/2013)
To increase the reserved capital						
To issue shares reserved for employees of the Group	05/25/2010 (13 th resolution, rejected)	N/A	N/A	N/A	100,000	26 months (11/24/2011)
To issue stock options and grant free shares						
To issue shares for allocation on exercise of stock options	05/29/2008 (17 th resolution)	38 months (07/28/2011)	3,249,093 (corresponding to 6% of the share capital)	3,100,799	3% of the share capital	38 months (07/23/2014)
To grant free shares	05/29/2008 (18 th resolution)	38 months (07/28/2011)	0.5% of the share capital 60.066	N/A	0.5% of the share capital 60.604	38 months (07/23/2014)

(1) This amount is deducted from the ceiling for share and/or share equivalents issued granting access to fixed share capital under the 7th resolution of the Annual General Meeting of May 25, 2010.

(2) This amount is deducted from the fixed ceiling for debt securities of €800,000,000 set by the 7th resolution of the Annual General Meeting of May 25, 2010.

21.2 BYLAWS

21.2.1 CORPORATE PURPOSE (ARTICLE 2 OF THE BYLAWS)

The Company's purpose is to directly or indirectly conduct the following activities in France or any other country:

- to study, implement, maintain, operate, manage and/or market all systems, equipment, networks or services in the fields of telecommunications, the Internet, data processing, telematics and communications, including the installation and operation of electronic communications networks;
- to publish and broadcast all services, programs and information, in particular, to publish and provide telephone and telematics services to the public and broadcast audiovisual communications services by any technical means, including through the press, radio, audio-visual media, video or remote transmission, on magnetic or other media;
- to acquire by any means and manage investments in the capital of any French or foreign company, regardless of its form and purpose, by purchase, subscription of shares or otherwise;
- to acquire, by any means, bonds, founders' shares or other securities issued by such companies;
- to provide any services relating to commercial, financial, accounting and administrative activities;
- to directly or indirectly invest, through contributions from partnerships or otherwise, in any businesses or companies having one or more activities directly or indirectly related to the Company's corporate purpose;
- to invest in any business or company with one or more activities which may be directly or indirectly related to the Company's corporate purpose or to any similar or associated purpose, in particular by creating new companies, or through contributions, mergers, joint ventures, partnerships or consortia;
- and more generally, to conduct any industrial, commercial or financial transactions, or any transactions involving either real estate or securities directly or indirectly related to the Company's corporate purpose or any similar or associated purpose.

21.2.2 MANAGEMENT OF THE COMPANY

21.2.2.1 Board of Directors

The Company is governed by a Board of Directors.

The Board of Directors is responsible for defining the Company's strategies and overseeing their implementation. Except for the powers directly vested in shareholders and within the scope of the corporate purpose, the Board is responsible for dealing with all matters related to the efficient running of the Company and for making all related decisions.

21.2.2.2 Senior Management

As required by law, the Company is managed either by the Chairman of the Board of Directors, who then has the title of Chairman and Chief Executive Officer, or by another person appointed by the Board of Directors with the title of Chief Executive Officer.

The Board of Directors selects one of these two options for managing the Company. The selected management structure must subsequently remain in place for a period of no less than one year.

21.2.3 RIGHTS AND OBLIGATIONS ATTACHED TO SHARES

21.2.3.1 Appropriation of profit (Article 31 of the bylaws)

The Company's income statement shows its profit or loss for the fiscal year after deducting depreciation, amortization and provisions.

At least 5% of profit for the year, less any losses carried forward from prior years, is allocated to the legal reserve until such time as that reserve represents one-tenth of the Company's share capital. Further transfers are made on the same basis if the legal reserve falls to below one-tenth of the Company's share capital for any reason.

Distributable profit represents profit for the year, less any losses carried forward from prior years, and any amount to be appropriated to reserves pursuant to applicable law or the Company's bylaws, plus any retained earnings. Shareholders may appropriate all or part of this amount to any optional reserves or to retained earnings.

Shareholders may also decide to distribute funds drawn from available reserves, expressly indicating the reserve account from which the distributed amounts are to be taken. However, dividends are deducted in priority from distributable profit.

Except in the case of a capital reduction, no distribution may be made to shareholders if the Company's shareholders' equity represents or would represent after the planned distribution less than the sum of its share capital plus any reserves which, under applicable laws or the Company's bylaws, are not available for distribution.

The revaluation reserve may not be distributed, but all or part of it may be incorporated into the Company's share capital.

Any losses are carried forward to be offset against profit in future years.

21.2.3.2 Legal form of securities issued by the Company

The securities issued by the Company may be held in the form of registered or bearer securities, at the holder's choice. Their existence is evidenced by their registration in securities accounts held in the name of the holder for that purpose under the terms and conditions set out by law either by the Company or its appointed custodian in the case of registered securities or by an intermediary authorized for that purpose in the case of bearer securities.

21.2.3.3 Voting rights

Each share entitles its holder to vote at Shareholders' Meetings in accordance with the conditions set down in the applicable laws and regulations as well as in the Company's bylaws.

Unless otherwise agreed and notified to the Company, voting rights attached to shares are exercised by the beneficial owners of the shares at Ordinary Shareholders' Meetings and by the legal owner of the shares at Extraordinary Shareholders' Meetings.

Information relating to double voting rights is set out in Sections 21.2.5.5 and 18.2 of this registration document.

21.2.4 CHANGES IN THE RIGHTS OF SHAREHOLDERS

Any changes in the rights attached to shares are subject to the provisions of the applicable laws governing French joint-stock corporations as there are no specific related provisions in the Company's bylaws.

21.2.5 SHAREHOLDERS' MEETINGS

The collective decisions of the Company's shareholders are made in Shareholders' Meetings, which are classified as ordinary or extraordinary according to the types of decisions they are called to make.

Shareholders' Meetings duly convened and constituted represent all of the Company's shareholders. Their decisions are binding on all shareholders, including those absent, dissenting or disqualified.

21.2.5.1 Notice and conduct of meetings (Article 24 of the bylaws)

Shareholders' Meetings are called by the Board of Directors or, if necessary, by the Statutory Auditors or any person authorized by law.

The meetings take place at the Company's registered office or any other location indicated in the notice of meeting.

They may be held by videoconference or any other means of telecommunications technology, including the Internet, which permits identification of the shareholders under the terms and conditions prescribed by the applicable laws and regulations.

21.2.5.2 Agenda (Article 25 of the bylaws)

The agenda for Shareholders' Meetings is determined by the party calling the meeting.

However, one or more shareholders or the works council may request that proposed resolutions be included in the agenda under the terms and conditions prescribed by the applicable laws and regulations.

The Shareholders' Meeting may not consider matters that are not included in the agenda. However, shareholders are always entitled to remove from office and replace directors, irrespective of whether a related resolution is included in the agenda.

The agenda for a Shareholders' Meeting may not be amended on second call.

21.2.5.3 Access to and representation at Shareholders' Meetings (Article 26 of the bylaws)

- a) Any shareholder may participate in Shareholders' Meetings in person or by proxy, regardless of the number of shares owned, subject to proof of the shareholder's identity.

Where it deems fit, the Board of Directors may provide shareholders with individual named admission cards and require them to produce such cards in order to gain entry to a meeting. Shareholders who wish to attend a meeting in person and have not received their admission card by midnight (CET) on the third working day preceding the meeting in question, will be provided with a certificate evidencing their share ownership.

b) The right to attend Shareholders' Meetings is subject to the following conditions:

- holders of registered shares must ensure that their shares are recorded in the share register held by the Company or its authorized intermediary;
- holders of bearer shares must ensure that their shares are recorded in the bearer share account held by their authorized intermediary, as evidenced by a certificate provided by said intermediary (in physical or electronic form).

These formalities must be completed by midnight (CET) on the third working day preceding the meeting concerned.

c) Any shareholder who cannot attend a meeting in person may choose one of the following three options:

- to be represented by another shareholder or his or her spouse; or
- to cast a postal vote using a form which may be obtained by following instructions provided in the notice of meeting; or
- to send a proxy to the Company without indicating a representative. In this case, the Chairman of the meeting will vote in favor of resolutions presented or approved by the Board of Directors and against all other proposed resolutions. In order to vote otherwise, the shareholder must appoint a representative who agrees to vote as instructed by the shareholder.

21.2.5.4 Meeting officers (*Bureau*) (Article 27 of the bylaws)

Shareholders' Meetings are chaired by the Chairman of the Board of Directors or, in his absence, by a director appointed by the Board for that purpose. Where a meeting is called by the Statutory Auditors or a court-appointed representative, it is chaired by the party calling the meeting. Where necessary, the chair is elected by the shareholders at the meeting concerned.

The role of teller (*scrutateur*) is filled by the two shareholders present who hold the largest number of votes, either in their own right or as proxies, and agree to serve in this capacity.

Those two meeting officers appoint a secretary, who need not be a shareholder.

The meeting officers are responsible for verifying, certifying and signing the attendance register, overseeing deliberations, resolving matters that arise during the meeting, monitoring the voting process, ensuring that it is properly applied, and overseeing the drafting of the minutes.

21.2.5.5 Quorum and voting in Shareholders' Meetings (Article 28 of the bylaws)

Subject to the double voting rights described in Section 18.2 of this registration document, in Ordinary and Extraordinary Shareholders' Meetings, each shareholder has a number of votes equal to the number of shares owned or represented.

French Law 2005-842 of July 26, 2005 concerning the modernization of the economy reduced the quorum required for Shareholders' Meetings of French joint-stock corporations to be validly constituted.

The quorum is calculated based on the total number of shares making up the Company's share capital, less any shares stripped of voting rights, in accordance with the applicable laws and the Company's bylaws.

An Ordinary Shareholders' Meeting cannot validly deliberate on first call unless the shareholders present, represented or casting postal votes hold at least one-fifth of the voting rights. No quorum is required on second call. The Shareholders' Meeting adopts decisions by a majority of the votes cast by shareholders present, represented or casting a postal vote.

An Extraordinary Shareholders' Meeting is not validly constituted unless the shareholders present, represented or casting postal votes hold at least one-quarter of the voting rights on first call and one-fifth on second call. If a quorum is not reached on second call, the second Shareholders' Meeting may be postponed to a later date which must not be more than two months after the initially scheduled date of the Meeting. The Extraordinary Shareholders' Meeting adopts decisions by a two-thirds majority of the votes cast by the shareholders present, represented or casting postal votes. In the event of a capital increase paid up by capitalizing reserves, profits or premiums, the quorum and majority voting rules for Ordinary Shareholders' Meetings apply.

Shareholders who participate in a meeting by videoconference or other means of telecommunications technology that allows shareholders to be identified and complies with the terms and conditions prescribed by the applicable regulations are deemed present for the purpose of calculating the quorum and voting majority.

21.2.6 ARTICLES OF THE BYLAWS THAT MAY HAVE AN IMPACT ON A CHANGE IN CONTROL

Not applicable.

21.2.7 DISCLOSURE THRESHOLDS (ARTICLE 12 OF THE BYLAWS)

Any individual or legal entity, acting alone or in concert, that comes to hold or control, directly or indirectly, a number of shares representing 1% or more of the Company's capital or voting rights must disclose to the Company, within five trading days of the date the threshold was crossed, the total number of shares and voting rights held, as well as the number of securities convertible, redeemable, exchangeable or otherwise exercisable for shares. The disclosure must be made by registered mail, return receipt requested, or by any equivalent method outside France in the case of non-resident shareholders and must state the date the threshold was crossed.

The same disclosure formalities must be carried out whenever the portion of capital or voting rights held increases or decreases by any multiple of 1%.

In the event of failure to comply with these disclosure requirements, the shares in excess of the relevant threshold will be stripped of voting rights for all Shareholders' Meetings held within the two-year period from the date when the omission is remedied, at the request of one or more shareholders holding at least 1% of the Company's capital or voting rights, as evidenced in the minutes of the Shareholders' Meeting.

21.2.8 SPECIFIC PROVISIONS GOVERNING CHANGES IN THE COMPANY'S SHARE CAPITAL

Any changes in the Company's share capital are subject to the provisions of the applicable laws governing French joint-stock corporations as there are no specific related provisions in the Company's bylaws.

21.2.9 FORM OF SHARES AND IDENTIFICATION OF SHAREHOLDERS (ARTICLE 9 OF THE BYLAWS)

Except as provided by law, fully paid shares can take the form of registered or bearer shares, at the option of the shareholder. However, they must be held in registered form until they are fully paid.

The Company is entitled to request at any time, under the terms and conditions provided for in the applicable laws and regulations, that the securities clearing house provide it with the name, address, nationality, date of birth (or, in the case of corporate shareholders, the year of incorporation), of holders of bearer shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares carrying rights to vote at Shareholders' Meetings, as well as the number of shares held by each party and any restrictions applicable to the securities.

After reviewing the information provided by the clearing house, if the Company believes that individuals or legal entities featured on the list may be holding securities on behalf of third parties, it is entitled to request the clearing house, or the listed parties themselves, under the same terms and conditions, whether they are holding the securities on their own account or on behalf of a third party, and if so, to provide the Company with information identifying those third parties. If the identity of the owner(s) of the relevant shares is not disclosed, any vote or proxy issued by the registered intermediary will not be taken into consideration.

21.2.10 FISCAL YEAR

The Company's fiscal year begins on January 1 and ends on December 31 of each calendar year.

21.3 THE MARKET FOR ILIAD SHARES

Iliad's shares have been traded on Eurolist by Euronext™ (segment A) since January 30, 2004.

21.3.1 GENERAL INFORMATION

Number of shares listed at December 31, 2010	54,696,740
Closing price at December 31, 2010	€81.40
52-week high	€89.54
52-week low	€62.00
Market capitalization at December 31, 2010	€4,452.3 million
Average 6-month daily trading volume	89,916
ISIN code	FR0004035913
Stock exchange indices	SBF 120, SBF 80 and SBF 250

21.3.2 CHANGES IN THE ILIAD SHARE PRICE SINCE JANUARY 1, 2010

	Price per share (in €) ⁽¹⁾	
	High	Low
2010		
January	89.54	78.35
February	81.49	73.15
March	80.84	73.50
April	81.30	74.20
May	76.20	66.17
June	69.84	63.42
July	71.45	62.00
August	74.24	65.38
September	76.80	71.56
October	86.09	76.20
November	81.99	76.23
December	84.90	76.57
2011		
January	85.42	75
February	82.00	76.93

(1) Price per share corresponding to the highest and lowest closing price on a trading day.

21.3.3 TRANSFER AGENT

Securities services (management of the Company's share register) and financial services (dividend payments) are provided for Iliad by Société Générale (SBAN/BCT/CLE, 32, rue du Champ de tir, BP 81236, 44312 Nantes Cedex 3, France).

21.4 LIQUIDITY CONTRACT

On June 12, 2007, Iliad entered into a liquidity contract with Exane – BNP Paribas, in accordance with the applicable law and regulations, notably European Commission Regulation no. 2273/2003 dated December 22, 2003 implementing Directive 2003/6/EC of the European Parliament and Council concerning exemptions for buy-back programs and stabilization of financial instruments, as well as Articles L. 225-209 *et seq.* of the French Commercial Code, the General Regulations of the AMF and the decision issued by the AMF on March 22, 2005. This contract also complies with the French Association of Investment Firms' code of ethics approved by the AMF in a decision issued on March 22, 2005 and published in the French legal announcements journal (*Bulletin des Annonces Légales Obligatoires*) on April 1, 2005.

The following transactions were carried out in connection with the liquidity contract in 2010:

	Purchases			Sales		
	Number of shares	Unweighted average price (in €)	Amount (in €)	Number of shares	Unweighted average price (in €)	Amount (in €)
2010						
January	64,266	83.62	5,373,924.85	59,996	83.56	5,013,104.42
February	75,135	77.58	5,829,070.83	67,755	78.01	5,285,542.46
March	84,450	76.24	6,438,457.18	79,572	76.08	6,054,004.36
April	84,537	78.11	6,602,746.44	78,689	78.24	6,156,582.01
May	51,509	72.35	3,726,805.54	48,793	72.57	3,540,765.82
June	45,793	67.08	3,071,842.56	42,781	67.24	2,876,763.15
July	46,615	67.89	3,164,575.90	47,694	67.33	3,211,251.33
August	31,953	67.63	2,161,078.19	42,547	68.86	2,929,850.66
September	29,376	73.77	2,167,190.98	32,280	74.43	2,402,559.59
October	23,572	80.55	1,898,792.09	39,760	80.09	3,184,378.10
November	48,729	79.45	3,871,407.71	42,229	79.55	3,359,495.86
December	40,836	80.81	3,299,972.28	48,349	80.51	3,892,403.61
TOTAL	626,771	75.95	47,605,864.55	630,445	75.99	47,906,701.35



22

MATERIAL CONTRACTS

22.1 FINANCIAL CONTRACTS

204

22.2 OPERATING CONTRACTS

204

22.1 FINANCIAL CONTRACTS

On June 29, 2006 the Company issued 3,265,190 Océane convertible/exchangeable bonds. Following the exercise of the related greenshoe option the number of bonds issued was increased to 3,754,968, representing a total nominal value of €330,624,932.40, or €88.05 per bond. For further details see Section 21.1.4.2 of this registration document, entitled “Océane bonds convertible into new shares and/or exchangeable for existing shares of the Company”.

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 European Investment Bank granted Iliad a loan for a maximum amount of €150 million in order to help finance the rollout of its very high-speed Internet (FTTH) network. None of the loan had been used at December 31, 2010.

22.2 OPERATING CONTRACTS

Through turnkey contracts, Free Infrastructure engages specialist service providers to carry out studies and work relating to the design and construction of a portion of its optical fiber network.

As part of the rollout of its third-generation mobile communications network, on April 9, 2010 Free Mobile entered into a contract with Nokia Siemens Networks for the supply of radio systems and network backbone equipment for the Free Mobile network.

Also in 2010, Free Mobile entered into several occupancy and services contracts with a number of major owners of electronic communications infrastructure for the purpose of installing, hosting and operating Free Mobile's mobile communications equipment.

Within the framework of its rollout, Free Mobile signed contracts with a certain number of subcontractors with the aim of identifying and negotiating high point sites and installing equipment on these sites.

On March 2, 2011, Free Mobile and Orange France signed a 2G and 3G roaming agreement with a view to providing Free Mobile subscribers with roaming services on Orange France's 2G and 3G networks. Orange France will provide the roaming services once Free Mobile has achieved coverage of at least 25% of the French population.

Apart from the contracts listed above, Iliad has not entered into any material contracts other than those executed in the normal course of business.



23

THIRD PARTY INFORMATION, STATEMENTS BY EXPERTS AND DECLARATIONS OF INTERESTS

Not applicable.





24

DOCUMENTS ON DISPLAY

The Company's bylaws, this registration document and other corporate documents made available to shareholders as required by law can be consulted at the Company's registered office.

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





25

INFORMATION ON SHAREHOLDINGS

The Company only has shareholdings in Group companies. These shareholdings are described in Chapter 7 “Organizational Structure”, and their financial impact is described in the notes to the consolidated financial statements included in Chapter 20 of this registration document (“Financial information concerning the Company’s assets and liabilities, financial position and profits and losses”).

See Note 2.3.4 of Section 20.2 of this registration document for a list of the Company’s subsidiaries and affiliates.



GLOSSARY

The glossary below is provided as a supplement and as an aid to understanding this registration document. Some of the definitions below therefore give only a summary of the technical processes described, without providing details as to the functioning of such processes.

Add/Drop Multiplexer (ADM): Equipment on a telecommunications network used for inserting or extracting data packets.

ADM (Add/Drop Multiplexer): See Add/Drop Multiplexer.

ADSL (Asymmetrical Digital Subscriber Line): ADSL is an xDSL technology used for high-speed data transmission, in particular when using a subscriber's conventional telephone line consisting of a pair of copper wires. By using two modems, one installed on the subscriber's premises and the other in a DSLAM located in the main distribution frame, ADSL technology is able to increase network bandwidth considerably and obtain transmission speeds up to 160 times faster than with a conventional analog modem. The principle behind ADSL is that part of the bandwidth is reserved for transporting voice traffic (low frequencies) while another part is used for transporting data (high frequencies) either in the direction of the network backbone (upload) or in the direction of the subscriber (download). The technology is asymmetrical in the sense that the upload bit rate (data sent by the user) is lower than the download rate (data received by the user). For the correct representation of voice traffic (using the low frequency spectrum), splitters located at each end of the line eliminate those parts of the signal which are not needed.

The bandwidth of the line is divided as follows:

0 – 5 kHz	analog telephone line
30 kHz – 130 kHz	narrowband channel towards the network (upload)
30 kHz – 1.1 MHz	broadband channel towards the subscriber (download)

FDM (Frequency Division Multiplexing) is used to separate the various data traffic flows. An echo cancellation system is used for spectrum recovery on the upload and download channels.

Afnic (*Association française pour le nommage Internet en coopération – www.afnic.fr/en*): Afnic is a non-profit organization whose principal function is to establish and implement a naming registry for the .fr (France) and .re (Reunion Island) domains. It has drawn up naming charters which set out its rules for registering domain names in these geographic areas. Members of Afnic include service providers who have been accredited as registrars of domain names in the French domain name areas.

ATM (Asynchronous Transfer Mode): This network technology is used for the simultaneous transmission of data, voice and video. ATM is based on the transmission of signals in short, fixed-length packets. The transmission of these packets is said to be asynchronous because they are transported over different routes and do not necessarily arrive at their destination in the same chronological order as they were sent.

Backbone: Network consisting of a number of very high bandwidth links to which other, smaller networks are connected (including metropolitan networks).

Bandwidth: The transmission capacity of a transmission line. Bandwidth determines the quantity of data (in bits per second) which can be transmitted simultaneously.

Bit: Contraction of “binary digit”. A bit is the smallest unit of data processed by a computer. In a binary system, each bit has a value 0 or 1. Data recorded in digital form is coded in bits. One character (letter or figure) is generally coded as 8 bits (1 byte).

Bit rate: Amount of data passing through a communication channel over a given period of time. The bit rate is measured in bits per second or in multiples thereof (kbits per second = kilobits per second, Mbits per second = megabits per second, Gbits per second = gigabits per second, Tbits per second = terabits per second). The upload bit rate corresponds to the transmission of data from the subscriber to the network and the download bit rate corresponds to data transmitted from the network to the subscriber.

Broadband: The concept of broadband is a relative concept, depending on the capabilities of transmission technology at any given time. At present, broadband is generally accepted as corresponding to a bit rate of at least 512 kbits per second. See also “bit rate”.

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

Broadband subscribers: Subscribers who have signed up for the Group’s ADSL or FTTH offer.

Byte: A set of eight bits. Bytes and their multiples (kilobyte (kB), megabyte (MB), gigabyte (GB), terabyte (TB), etc.) are used to measure the size of electronic files. When such measurements are given in multiples of bytes, it is generally accepted that a kilobyte is equal to 2^{10} , or 1,024, bytes (and not 1,000 bytes), and that a megabyte is equal to 2^{20} bytes (and not 1,000,000 bytes).

Call termination: This operation consists of the routing of calls to subscribers on a particular network. In principle, call termination requires either that the call be made from the network on which the called party is a subscriber or from an interconnected network.

CNIL (Commission Nationale de l’Informatique et des libertés – <http://www.cnil.fr/english/>): The CNIL (National Commission for Information Technology and Freedom) is an independent administrative authority established by Law No. 78-17 of January 6, 1978, known as the “information technology and freedom” (*informatique et libertés*) law. Its principal role is the protection of privacy and of personal or public freedom, and it is responsible for ensuring compliance with the information technology and freedom law.

Co-location facilities or space: A room located in the incumbent operator sites containing equipment belonging to third party operators and used for local loop unbundling. The room is built by the incumbent operator which then rebills the cost of construction to the operators located in the room. The third party operators then rent whatever space they need (one or more racks each occupying a floor area of 600 mm x 600 mm) for their unbundling activities.

Cookie: Information recorded by a server in a text file located on the subscriber’s computer and which can be read by this same server (and by this server alone) at a later time.

Copper pair: Type of cable used for the transmission of electrical signals, consisting of one or more pairs of metal conductors. The two wires forming the pair are braided in order to minimize potential interference between two conductors. By extension, the copper pair also refers to the local loop link between a subscriber and the local concentrator. See also “local loop”.

CSA (Conseil Supérieur de l’Audiovisuel – <http://www.csa.fr/multi/index.php?l=uk>): The CSA is an independent administrative authority established by the Law of January 17, 1989. Its principal role is to guarantee the freedom of audiovisual communications in France in accordance with the provisions of the Law of September 30, 1986, as amended.

Dark optical fiber: Raw optical fiber without the equipment which allows it to be used.

Dedicated facilities or space: A room located in the incumbent operator sites containing equipment belonging to third party operators used for local loop unbundling. Third party operators rent the space (one or more racks each occupying a floor area of 600 mm x 600 mm) necessary for their unbundling activities. See also “co-location facilities or space”.

Dial-up (also called narrowband): Historically this corresponds to the bit rate of a conventional telephone line using the voice frequency spectrum. By way of example, an Internet connection using a conventional telephone line is established at a maximum download rate of 56 kilobits per second (kbps). See also “bit rate”.

Digital: Coding in binary form (0 or 1) of information to be processed by a computer.

Digital local exchange (DLE/LX): Switch on the incumbent operator telephone network to which subscribers are connected by means of local concentrators. The incumbent operator network is organized in a hierarchical fashion, with the digital local exchange being the lowest level in the hierarchy of exchanges installed on the network.

Digital main switching unit (DMSU): the incumbent operator's interconnect point, occupying the highest level in the hierarchy of switches in a trunk exchange area. See also "trunk exchange area".

DNS (Domain Name System): A DNS is a database which registers Internet resources (computer, router, etc.) in the form of a domain name and allocates them a unique IP address. The Internet protocol converts the domain name into the corresponding IP address. Without the DNS, users would have to remember websites or email addresses in the complicated form of the domain's IP address. See also "domain name".

Domain name: A domain name is the unique identifier of an IP address. The DNS (see "DNS – Domain Name System") matches the domain name to the IP address. A domain name consists of a string of characters (from "a" to "z" or "0" to "9", plus "-") corresponding to the name of a trademark, association, company, individual, etc., plus a suffix known as the TLD (see "TLD [Top Level Domain]"), such as ".fr", ".de", ".net", or ".com".

Domain name registration: Domain name registration consists of hosting domain names on a computer with an IP address on behalf of the domain name owners, who are in turn entered in the register relating to their top level domain or TLD. See also "TLD".

DSL (Digital Subscriber Line): See xDSL.

DSLAM (Digital Subscriber Line Access Multiplexer): Equipment installed in the telephone exchange closest to the subscriber which is part of the equipment used to transform a conventional telephone line into an xDSL line. DSLAMs connect several xDSL lines and are connected to the modem on the subscriber's premises *via* the local loop.

DWDM (Dense Wavelength Division Multiplexing): Technology permitting the transmission of a large number of frequencies on the same fiber strand, thereby significantly increasing the bandwidth capacity of the optical fiber.

Ebitda (Earnings Before Interest, Tax, Depreciation and Amortization): Ebitda corresponds to profit from ordinary activities before (i) depreciation, amortization and provisions for impairment of non-current assets and (ii) share-based payment expense.

Eligibility: A telephone line is said to be "eligible" for ADSL when the technical characteristics of the line in terms of signal loss are such that xDSL-type technologies can be used. The length and diameter of the copper pairs (local loop) are the main parameters determining eligibility. Using current technologies, in order to obtain a 512 kbit Internet connection, the subscriber's access point must be located within four kilometers of the DSLAM.

Firewall: Hardware or software device which controls access to all the computers on a network from a single point of entry. The main function of the firewall is to filter the data packets transmitted between the protected network and outside networks. In addition, a firewall can be used to perform advanced security functions such as virus detection, IP address masking on the protected network and the establishment of encryption tunnels subject to authentication.

Free Cash Flow from ADSL operations: represents Ebitda less investments made in connection with property, plant and equipment and intangible assets acquired for the Group's ADSL operations.

FTTH (fiber-to-the-home): Technology used to directly connect subscribers' homes to an optical fiber network. FTTH technology offers significantly faster transmission rates than ADSL, as well as new services, and enables the Group to operate totally independently from the incumbent operator's local loop.

Full unbundling: Full unbundling consists of allowing a third party operator to control the entire local loop (both low and high frequencies).

IEEE 802.11a and 802.11b standards: Radio-telecommunications standards established by the IEEE (Institute of Electrical and Electronic Engineers) describing the characteristics of wireless networks using the 5 GHz and 2.4 GHz frequency bands, respectively. (See also "RLAN – Radio Local Area Network" and "WLAN – Wireless Local Area Network").

Interconnection: The term interconnection refers to the reciprocal services provided by two operators of networks open to the public, permitting all of their users to communicate freely with one another, no matter the type of network or services they use. The term also refers to the provision to a public telephone service provider of access to a public network operator's network. The objective of interconnection is to allow a given operator's subscribers to make telephone calls to the subscribers of all other interconnected operators. Interconnection between the incumbent operator (France Télécom) and third party operators is governed by the provisions of the French Post and Telecommunications Code and is regulated by Arcep.

Internet Service Provider (ISP): Organization or company providing its subscribers with access to the Internet.

IP (Internet Protocol): Telecommunications protocol used on the networks supporting the Internet which divides the data to be transmitted into packets, addresses the various packets, transports them independently of one another and, finally, recreates the packets in their initial form once they reach their destination. This protocol uses a technique known as packet switching. On the Internet, it is associated with a data transmission control protocol (TCP) – hence the term TCP/IP protocol.

IP address: The IP address allows a router using TCP/IP to identify the unique network interface of a machine connected to the Internet. In order to be accessible or to send data packets over the Internet, a machine must have a public IP address, *i.e.*, an address that is known on the Internet. ICANN has overall responsibility for managing IP addressing on a worldwide basis, but delegates responsibility for certain areas to regional and local organizations. An IP address is a sequence of 32 binary digits (see also "bit") grouped into four bytes in the form A.B.C.D where A, B, C and D are numbers between 0 and 255 (this structure corresponds to version 4 of the IP protocol, or IPv4). The problem of limited addressing resources highlighted by the growth of the Internet has led to the development of a new version of the IP protocol (IPv6), based on 128 binary elements, which will gradually be brought into use.

IRU (Indefeasible Right of Use): Special type of agreement, specific to the telecommunications sector, for the provision of optical fibers (or transmission capacity) over a long period.

L. 33-1 license: This license, referring to Article L. 33-1 of the former French Post and Telecommunications Code, is the authorization held by an operator of a telecommunications network open to the public.

L. 34-1 license: This license, referring to Article L. 34-1 of the former French Post and Telecommunications Code, is the authorization held by an undertaking providing a public telephone service.

Leverage ratio: represents the ratio between net debt (short- and long-term financial liabilities less cash and cash equivalents) and Ebitda.

Linux: Linux is a multi-task and multi-user Unix (Uniplexed Information and Computer Service) based operating system. It is a so-called "open source" software system, *i.e.*, it is freely available in source code form and modifiable under the terms of a General Public License (GNU).

Local concentrator: Active telecommunications equipment connected to both the digital local exchange and the copper pairs constituting the local loop. This is the primary active equipment in the incumbent operator network. The function of the local concentrator is to group several subscriber lines into one cable.

Local loop: Physical circuit of the telephone network which connects the termination point of the network on the subscriber's premises (*i.e.*, the subscriber's telephone socket) and the local loop operator's main distribution frame (*i.e.*, generally the incumbent operator's local telephone exchange) which contains a digital switch. The local loop is composed of a pair of braided copper wires.

Main distribution frame (MDF): Establishes a temporary connection between a copper pair (local loop) and any active equipment on the operator's network. It is a vital point of flexibility in the operation of a telecommunications network.

Modem (modulator-demodulator): Device that transforms analog signals into digital signals and vice versa. A modem is required in order to connect to the Internet (where the data exchanged are digital).

MPEG-2: Video signal compression standard, used mainly for DVDs.

MPEG-4: Digital compression standard for new generation audiovisual content. This format is able to broadcast High Definition streaming data and provides enhanced audiovisual quality at low bandwidths.

Multicast: Routing system minimizing the number of data flows from a server to various subscribers by multiplying the data flows only when they are as close as possible to the destination terminals (the subscribers' copper pairs).

Multiplexing: Technique permitting several communication flows to pass through the same channel/transmission bearer. Multiplexing can work in different ways: frequency multiplexing uses different frequencies for the various communications, while time division multiplexing allocates a period of time (known as a slot) to each communication.

Net adds: Represents the difference between total ADSL subscribers at the end of two different periods.

Optical fiber: Transmission medium which routes digital data in the form of modulated light signals. It consists of an extremely thin glass cylinder (the core strand) surrounded by a concentric layer of glass (the sheath). The potential bandwidth that can be passed through an optical fiber in conjunction with the corresponding active equipment is enormous.

Optical node (ON): Site hosting optical local loop equipment bringing together all of the optical local loop interconnection links serving end-subscribers for a given geographic area.

Partial unbundling: Partial unbundling involves providing an operator with access to the incumbent operator's local loop and allowing the operator to use the high (non-voice) frequencies of the frequency spectrum on the copper pair. The incumbent operator continues to use the local loop in order to provide conventional telephone services to the public (using the low frequencies of the local loop). Customers continue to pay the telephone line rental to the incumbent operator.

Peering: Type of interconnection agreement between two IP backbone networks (known as peer networks) for the exchange of Internet traffic destined for their respective networks free of charge. These reciprocal exchanges take place at exchange nodes called peering points.

Ping: Ping is an acronym for Packet Internet Groper, and is a component of the Internet connection protocol which verifies the connections established on the Internet between one or more remote hosts and measures the time data packets require to be transmitted to one computer connected to the Internet and back again. The lower the ping value (*i.e.*, the closer to zero) the faster the network connection.

POP (Point of Presence): Physical site from which the operator can use an interconnection link to connect to the interconnect point of another operator (whether another POP or, in the case of the incumbent operator, a digital main switching unit or a digital local exchange). The POP is located on the operator's network backbone. See also "digital main switching unit".

Portability: Possibility for subscribers to keep their telephone numbers when changing operators and/or geographical location.

Preselection: Carrier selection mechanism allowing a subscriber to automatically route all eligible calls (local, national, international, and calls to mobile phones) so that they are carried by the operator of the subscriber's choice, without having to dial a special prefix.

Primary digital block: Basic unit of measurement of the capacity of interconnection links to the incumbent operator network (telephone traffic and dial-up Internet traffic). It corresponds to a grouping of several communications on the same physical support structure (31 simultaneous communications, *i.e.*, a capacity of 2 Mbits per second).

Public switched telephone network (PSTN): Conventional telephone network which uses switching (a non-permanent link established by line seizure and then dialing). Each call established on the PSTN ties up network resources.

Reference Interconnect Offer: Document describing the technical and pricing terms of the incumbent operator's interconnect offer (or the interconnect offer of any other operator designated as having significant market power pursuant to Article L. 36-7 of the French Post and Telecommunications Code). It informs third party operators of what interconnection services are available and sets out the prices and the technical terms of these services.

Reverse look-up directory: Service allowing users to retrieve the name and address of the owner of a telephone line by searching the corresponding telephone number.

RLAN (Radio Local Area Network): Wireless network. RLANs generally conform to IEEE 802.11 standards.

SDH (Synchronous Digital Hierarchy): Multiplexing technique providing for the secure transmission of different types of data. This technique is used for the transmission of data on conventional telephone networks.

SMS (Short Message Services): Short alphanumeric text messages.

Source code: List of instructions in a computer program in a language capable of being understood by human beings.

Spamming: The bulk mailing of unsolicited electronic messages. These types of messages are generally sent to email lists obtained unconventionally or illegally (for example, through the use of a search engine on public websites or through the sale of email address files without the permission of the owners of such addresses).

Subscriber connection node: A site hosting the incumbent operator's network equipment bringing together all of the interconnection links for its copper local loop for a given geographic area. Subscriber connection nodes provide access to the various services available *via* the copper local loop. Third party operators may access these services through unbundling arrangements in order to directly serve end-subscribers.

Switch: Equipment which routes calls to destinations by establishing a temporary link between two circuits on a telecommunications network (or occasionally by routing information in packet form). Switches are organized in a hierarchical fashion, *i.e.*, the higher the position they occupy in the hierarchy, the more subscribers they serve.

TLD (Top Level Domain): The top level domain name classification, corresponding to a geographic area or a sector of activity, such as ".com", ".org" or ".fr".

Total ADSL subscribers: Represents at the end of a period the total number of subscribers identified by their individual telephone lines who have signed up for Free's ADSL service excluding those for whom a subscription cancellation notice has been registered.

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

Triple Play: A technical service capable of managing bandwidth-intensive voice, data and audiovisual content simultaneously and over long distances.

Trunk exchange (TX): Telephone network switch linking together the digital local exchanges. The incumbent operator network is organized in a hierarchical fashion, with the trunk exchange being the highest level in the hierarchy of national exchanges. Through the digital local exchanges, the trunk exchange serves all subscribers in a given geographic area (called a trunk exchange area). See also "trunk exchange area".

Trunk exchange area: The geographic area covered by a trunk exchange. The incumbent operator's switched network in mainland France is divided into 18 trunk exchange areas, defined by the incumbent operator in its Reference Interconnect Offer and generally corresponding to the administrative regional divisions of France. See also "Trunk exchange (TX)".

Unbundled subscribers: ADSL subscribers who have signed up for Free's ADSL service through a telephone exchange unbundled by Free.

Unbundling: Operation involving the separation of a range of telecommunications services into several distinct units. Unbundling of the local loop (or unbundled access to the incumbent operator's local network) consists of separating the access services provided over the local loop, mainly by separating the high frequencies from the low frequencies of the access network which constitutes the local loop, allowing new operators to use the local network of the incumbent operator and provide services directly to their subscribers.

Universal service: The main element of the public telecommunications service as defined by law, with the intended purpose of providing high quality telephone services to the general public at an affordable price.

Urban area: In the architecture of the incumbent operator network, Ile-de-France is divided into two trunk exchange areas. The urban area corresponds to the former *département* of Seine (Paris, Hauts-de-Seine, Seine-Saint-Denis, and Val de Marne) and the peripheral area covers the Seine-et-Marne, Essonne, Yvelines and Val d'Oise *départements*.


VoIP (Voice over DSL): Transmission of voice traffic (in packets) using ADSL technology, *i.e.*, using the high frequencies of the local loop, as compared to conventional telephony which uses the low frequencies of the local loop.

WLAN (Wireless Local Area Network): A wireless network based on radio telecommunications. An RLAN (see "RLAN [Radio Local Area Network]) is a specific type of WLAN.

xDSL (x Digital Subscriber Line): The family of technologies used to transmit digital data over the copper pair (local loop) at high speeds (such as ADSL, SDSL, VDSL, etc.) See also ADSL.



ANNEXE A



REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS ON THE CONDITIONS GOVERNING THE PREPARATION AND ORGANIZATION OF THE WORK OF THE BOARD OF DIRECTORS AND ON THE RISK MANAGEMENT AND INTERNAL CONTROL PROCEDURES PUT IN PLACE BY ILIAD SA IN ACCORDANCE WITH ARTICLE L. 225-37 OF THE FRENCH COMMERCIAL CODE

To the Shareholders,

ILIAD

8, rue de la Ville l'Evêque
75008 Paris

In addition to the management report prepared by the Board of Directors, the Chairman of the Board of Directors hereby reports to you on the conditions for preparing and organizing the work of the Board, and on the risk management and internal control procedures put in place by Iliad SA (the “**Company**”) during 2010 within the Iliad Group (the “**Group**”), as submitted for approval by the Board.

The Group’s policy is to ensure that the operational procedures of its administrative and management bodies comply with best corporate governance practices as well as with the relevant recommendations and regulations applicable to listed companies.

At its December 10, 2008 meeting, the Board stated that the Company would use the AFEP-MEDEF Corporate Governance Code (the “**Corporate Governance Code**”), which is available on the MEDEF’s website, as its basis of reference, in particular for the preparation of this report. The Board considers that the Company’s corporate governance practices are in line with said Code and that it already applies the Code’s main provisions. Any aspects of the Code that are not applied by the Company are disclosed in this report.

In a press release dated December 19, 2008⁽¹⁾, the Company confirmed that it would use the Corporate Governance Code as its basis of reference for the preparation of this report on risk management and internal control procedures.

(1) Available on the Iliad website.

1 CORPORATE GOVERNANCE

1.1 Governance structure: separation of the duties of Chairman and Chief Executive Officer

On December 12, 2003, the Board of Directors decided to separate the duties of Chairman and Chief Executive Officer with a view to ensuring transparency of corporate governance within the Company.

This separation of duties enables the Board to operate more effectively, as it means that only one person is responsible for chairing the Company, and enables the Board to have greater supervisory authority over Management.

The Company's executive management is therefore carried out under the responsibility of an individual appointed by the Board who holds the title of Chief Executive Officer.

The Chief Executive Officer has the broadest powers to act on behalf of the Company in all circumstances within the scope of the corporate purpose, and except for those matters which by law may only be dealt with in Shareholders' Meetings or by the Board of Directors.

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

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

1.2 The Board of Directors

1.2.1 Organizational structure of the Board of Directors

Powers and remit

The Board of Directors determines the Company's overall business, economic, financial and technological strategies and oversees the implementation thereof by Management.

The Board reviews in advance any transaction falling outside the scope of the Company's stated business strategy or which could significantly affect or change the Company's financial structure or results.

Consequently, the Board is regularly informed of – and may at any time request information on – the Company's operations and results as well as its cash and debt position, and more generally, any commitments given by the Company.

Members of the Board of Directors

Subject to the exceptions provided by law, the Board of Directors comprises a minimum of three and a maximum of eighteen members elected by the shareholders.

Each director must own at least one hundred (100) shares in the Company, corresponding to the threshold that has been deemed appropriate and which will not cause a conflict of interest.

The Board's members are selected for their expertise and experience in the Company's areas of business, as well as for their integrity.

With a view to having a balanced structure – particularly in terms of gender equality – 27.3% of the Board's members are women.

The Board's members are appointed by the shareholders on the recommendation of the Board of Directors.

Report prepared by the Chairman of the Board of Directors on the conditions governing the preparation and organization of the work of the Board of Directors

At the date this report was prepared the Board comprised the following 11 members:

Name	Date first elected	Start date of current term	Expiration date of current term
Chairman of the Board of Directors			
Cyril Poidatz	December 12, 2003	June 23, 2009	December 31, 2012
Chief Executive Officer and a Director			
Maxime Lombardini	May 29, 2007	June 23, 2009	December 31, 2010
Senior Vice-President and a Director			
Xavier Niel	December 12, 2003	June 23, 2009	December 31, 2012
Antoine Levavasseur	May 27, 2005	June 23, 2009	December 31, 2012
Thomas Reynaud	May 29, 2008	June 23, 2009	December 31, 2011
Director			
Olivier Rosenfeld	December 12, 2003	June 23, 2009	December 31, 2012
Independent Director			
Alain Weill	December 12, 2003	June 23, 2009	December 31, 2012
Pierre Pringuet	July 25, 2007	June 23, 2009	December 31, 2012
Marie-Christine Levet	May 29, 2008	June 23, 2009	December 31, 2011
Orla Noonan	June 23, 2009	N/A	December 31, 2012
Virginie Calmels	June 23, 2009	N/A	December 31, 2012

In accordance with the recommendations of the Corporate Governance Code, the Shareholders' Meeting of June 23, 2009, on the recommendation of the Board of Directors, decided to shorten the term of office for all directors from six (6) years to four (4) years.

There is not yet a formal procedure in place for staggering the election of directors. However, when recommending the election of new directors or the renewal of existing directors' terms of office, the Board takes into account the need to provide for a smooth replacement of directors.

Lastly, in accordance with the Corporate Governance Code, neither the Chairman of the Board nor the Chief Executive Officer hold an employment contract with the Company.

Independent Directors

The Company's Board of Directors includes a number of independent directors who meet the independence criteria defined in the Board's internal rules.

The provisions of the Board's internal rules comply with the Corporate Governance Code, which states in particular that directors are considered to be independent when they have no relations with the Company, the Group or Management that could prevent them from independently exercising their judgment.

Accordingly, each year the Board carries out a review of the independence of its members. This entails examining on a case-by-case basis whether the director:

- is an employee of the Company, holds a management position within the Company, or is an employee or director of the parent company or of one of its consolidated subsidiaries, either currently or during the previous five years;
- is a corporate officer of a company in which the Company holds, either directly or indirectly, a directorship, or in which a directorship is held by an employee of the Company designated as such or by a current or former (going back five years) corporate officer of the Company;
- is a customer, supplier, investment banker or a commercial banker which is material for the Company or the Group or for which the Company or the Group represents a material proportion of the entity's activity;
- has close family ties to a corporate officer;
- is or has been an auditor of the Company during the past five years;
- has been a director of the Company for more than twelve years;
- represents a significant shareholder of the Company, taking into account that:

ANNEXE A

Report prepared by the Chairman of the Board of Directors on the conditions governing the preparation and organization of the work of the Board of Directors

- (i) a shareholder who owns over 10% of the Company's capital or voting rights is considered significant, and
- (ii) below this threshold, the Board of Directors systematically reviews whether the director is independent, taking into account the composition of the Company's share capital and any potential conflicts of interest.

The Board of Directors reviews the independence of its members by reference to the criteria set out in the Board's internal rules, as well as the director's specific circumstances. The findings of the review are published in this report.

At its March 7, 2011 meeting, the Board of Directors carried out its annual review of the independence of the following members: M. Alain Weill, M. Pierre Pringuet, Ms. Marie-Christine Levet, Ms. Orla Noonan and Ms. Virginie Calmels.

Independent directors make up 45.4% of the Board's members, corresponding to a higher proportion than the third recommended in the Corporate Governance Code.

Internal rules of the Board of Directors and Directors' Code of Conduct

On December 12, 2003, the Board of Directors adopted a set of internal rules which it amended on February 9, 2005, October 25, 2006, April 23, 2009 and March 7, 2011. These rules, which round out the applicable laws and Company's bylaws, set out the Board's organizational and operational procedures.

The aim of the Board's internal rules is to provide a framework for the management of the Company in line with the latest rules and regulations, and to guarantee compliance with the fundamental principles of corporate governance, notably those contained in the Corporate Governance Code.

The Board of Directors' internal rules specify the operating procedures for both the Board and the Board Committees. The members of the Board Committees are directors and are tasked with helping the Board prepare its work. The internal rules also include an appendix containing a Code of Conduct which describes the duties and obligations of directors in compliance with the principles of the Corporate Governance Code, particularly those concerning professional diligence, confidentiality, conflicts of interest and insider trading.

1.2.2. Operational procedures and work of the Board of Directors

The Chairman of the Board of Directors organizes and oversees the Board's work and reports thereon to the Annual Shareholders' Meeting. He ensures that the Company's management bodies operate effectively and that the directors are able to properly perform their duties.

Meetings of the Board of Directors

The Board of Directors meets as often as is required in the Company's interests, on notice from the Chairman. If the Board has not met for over two months, directors representing at least one-third of the Board's members may call a meeting, specifying the agenda.

Notice of meeting may be given by any written means, including by letter, fax, telex or electronic transmission. The meeting must be called at least two days prior to it being held, except in an emergency, in which case it must be called no later than the day preceding the meeting, by any means. In all circumstances, a meeting may be called verbally without notice if all the Board members so agree.

All of the Board meetings held in 2010 were called by the Chairman.

Frequency and length of Board Meetings and average attendance rate

The Board of Directors draws up a schedule for future Board meetings which is approved by the directors.

At each Board meeting, the Chairman informs the directors of the significant events that have arisen in relation to the Group since the previous meeting.

Board meetings also provide the directors with an opportunity to review and discuss the Company's operations and outlook and make any required amendments to its overall strategy.

Additional and/or special meetings are called if there are any issues that need to be urgently addressed.

In 2010, Iliad's Board of Directors met eight times, with an average attendance rate of around 90%.

Activities of the Board of Directors in 2010

In 2010, the Board of Directors:

- made decisions regarding all major strategic, economic and financial matters affecting the Company and the Group and ensured that these decisions were implemented (notably the rollout of the mobile network and the presentation of new commercial offerings);
- approved the annual and interim financial statements and prepared the Annual Shareholders' Meeting;
- authorized the signature of contracts (the refinancing of the syndicated credit facility in an amount of €1.4 billion and the loan granted by the EIB);
- defined Iliad's financial communications policy;
- assessed the independence of directors;
- appointed the members of the Compensation Committee;
- allocated directors' fees;
- approved the report of the Chairman of the Board on the conditions governing the preparation and organization of the work of the Board of Directors and risk management and internal control procedures.

At each of its meetings the Board also devoted an agenda item to discussing the Group's business performance.

Information provided to Directors

Prior to every meeting, Board members receive a pack containing information about items on the agenda, in order to help them prepare for the meeting and make fully informed decisions. The Chairman also regularly provides the Board's members with any significant information concerning the Company.

Each director has a duty to request from the Chairman any information that they consider would be useful for performing their role. Where such information is requested it must be provided within a reasonable timeframe.

Board members are bound by a strict duty of confidentiality with respect to non-public information acquired in connection with their role as a director.

Venue and participants

Board meetings take place at the Company's registered office, located at 8, rue de la Ville l'Evêque, 75008 Paris, France.

In accordance with Article L. 823-17 of the French Commercial Code (*Code de Commerce*), in 2010 the Statutory Auditors were given notice of and attended the Board meetings devoted to the review and/or approval of the interim and annual financial statements.

Representation

Any director may authorize another director, by any written means, to represent him or her at a Board meeting. No director may have more than one proxy for a given meeting. These provisions apply both to individuals and permanent representatives of corporate directors.

Minutes of meetings

The minutes of Board meetings are drawn up by the Board Secretary after each meeting. The directors receive a draft version on which they may comment, and the Chairman subsequently submits the minutes for their approval at the following Board meeting.

Evaluation of the Board of Directors' work

In accordance with the Corporate Governance Code, at its April 23, 2009 meeting, the Board of Directors decided to introduce an evaluation system pursuant to which each year a specific agenda item is devoted to evaluating and discussing the organization and performance of the Board of Directors' work.

As part of this system, the Board's performance is evaluated by means of a detailed questionnaire sent to each Board member as well as through individual meetings held between directors and the Chairman of the Board where required. The Board then takes any improvement measures that it deems appropriate based on the results of the evaluation process.

On March 7, 2011, the Board undertook an in-depth analysis of its membership structure, organization and operating procedures. The analysis took the form of a self-assessment procedure organized by the Chairman of the Board. The results of this self-assessment showed that the Board was satisfied with its operating procedures and particularly appreciated the presentations given to it by senior management – as well as the ensuing discussions – concerning numerous aspects of the Group's strategy and outlook. Consequently, it can be said that in 2010 the Board was regularly provided with reliable data on the Group's business. One suggestion for improvement that was raised was to enhance the operational reporting data for each Group businesses by using a summary presentation table containing various financial and physical indicators.

1.2.3. Committees of the Board of Directors

The Board of Directors may be assisted by specialist committees in performing its duties.

Subject to the membership rules described below, the Board of Directors is authorized to set up an Audit Committee and a Compensation Committee.

The Audit Committee

The Audit Committee comprises a minimum of three (3) and a maximum of five (5) members appointed by the Board of Directors and selected from among the Board's members. The majority of Audit Committee members must be independent directors as defined above.

At its August 26, 2009 meeting, the Board of Directors (i) set up an Audit Committee within the Company to comply with the provisions of French Law 2008-649 dated July 3, 2008, governmental order 2008-1278 dated December 8, 2008, and the decree issued on December 30, 2008, and (ii) appointed Ms. Marie-Christine Level (independent director) and M. Olivier Rosenfeld, in their capacity as directors, as members of the Audit Committee.

In addition to these appointments, at its October 28, 2009 meeting, the Board of Directors also appointed Orla Noonan (independent director) as a member of the Audit Committee.

On February 9, 2010, the Board approved the Audit Committee's internal rules, which set out its organizational and operating procedures and apply in conjunction with the provisions of the Board's internal rules.

The Audit Committee is currently responsible for:

- examining Iliad's scope of consolidation and analyzing the draft financial statements of the Company and the Group – as well as the related reports – prior to their submission to the Board for approval;
- analyzing and ensuring the relevance of the accounting principles, methods and rules used to prepare the financial statements and the various accounting treatments applied, as well as any changes thereto;

ANNEXE A

Report prepared by the Chairman of the Board of Directors on the conditions governing the preparation and organization of the work of the Board of Directors

- examining and monitoring the procedures applied to produce and process the accounting and financial information used to prepare the financial statements;
- analyzing and assessing the efficiency and effectiveness of the internal control and risk management procedures put in place by the Company;
- reviewing and commenting on the draft report of the Chairman of the Board of Directors on the Company's internal control and risk management procedures;
- overseeing tender processes for selecting Statutory Auditors or renewing their terms of office;
- keeping informed of the amount of fees paid to the Statutory Auditors' network by companies controlled by Iliad, for services that are not directly audit-related;
- ensuring the independence of the Statutory Auditors (by verifying fees paid and ensuring that the statutory audit engagement is carried out completely separately from any non-audit related assignments).

The Audit Committee met three times in 2010, with the meeting dates coinciding with the Company's major financial reporting dates.

The Compensation Committee

The Compensation Committee comprises a minimum of three (3) and a maximum of five (5) members appointed by the Board of Directors and selected from among the Board's members. The majority of Compensation Committee members must be independent directors as defined above. Members of the Compensation Committee may be allocated specific compensation by the Board for their work carried out in this capacity.

During 2010, the Company did not have a separate Compensation Committee and the Committee's duties were performed directly by the Board of Directors.

An agenda item at one of the Board's meetings during the year was devoted to the compensation of executive and non-executive directors, in order to discuss the Group's compensation policy for corporate officers in the presence of its independent directors.

At its December 14, 2010 meeting the Board of Directors decided to set up a specific Compensation Committee comprising the following three members: M. Pierre Pringuet, M. Alain Weil and Ms. Virginie Calmels, who are all independent directors.

At its meeting on January 31, 2011, the Board approved the Compensation Committee's internal rules, which were drawn up by the Committee's members and set out its operating procedures. At the same meeting the Board appointed Ms. Virginie Calmels as Chairman of the Committee.

The Compensation Committee is responsible for:

- studying and making recommendations on (i) the main components of corporate officers' compensation packages proposed by the Chairman of the Board and (ii) corporate officers' retirement benefits and benefits-in-kind;
- recommending the general policy for granting stock options and performance shares and, more particularly, the terms and conditions applicable for such grants to corporate officers;
- putting forward recommendations to the Board concerning the allocation of directors' fees to be submitted for approval at the Annual Shareholders' Meeting, as well as (i) recommending how the fees should be allocated among the individual directors, taking into account their actual attendance at Board meetings and their contribution to the work of the Board and the Board's Committees, and (ii) proposing the conditions applicable for the reimbursement of expenses to directors;
- approving the information provided to shareholders in the Annual Report regarding (i) directors' and officers' compensation, (ii) the policy for granting stock options and/or performance shares and, (iii) more generally, the work carried out by the Compensation Committee;
- drawing up, at the request of the Board, any other recommendations concerning compensation.

The Board of Directors may set up other specialist committees whenever it deems it appropriate.

1.2.4 Organization of senior management structures

Organizational framework and restrictions on the powers of the Chief Executive Officer

Since June 14, 2007, the Company's management has been placed under the responsibility of the Chief Executive Officer, M. Maxime Lombardini.

The Board of Directors has not placed any specific restrictions on the powers of the Chief Executive Officer, who is vested with the broadest powers to act on behalf of the Company in all circumstances.

When M. Maxime Lombardini's term of office as Chief Executive Officer is renewed, in the Board decision taken to re-appoint him restrictions may be placed on his powers.

On the recommendation of the Chief Executive Officer, the Board of Directors may appoint one or more individuals holding the title of Senior Vice-President to assist the Chief Executive Officer.

The maximum number of Senior Vice-Presidents is five.

The Board of Directors, in agreement with the Chief Executive Officer, determines the scope and duration of the powers granted to Senior Vice-Presidents.

Senior Vice-Presidents have the same powers as the Chief Executive Officer vis-à-vis third parties.

The Company's Senior Vice-Presidents are:

- M. Rani Assaf
- M. Antoine Levavasseur
- M. Thomas Reynaud⁽¹⁾
- M. Xavier Niel

The terms of office of the Chief Executive Officer and the Senior Vice-Presidents, which expire at the close of the Annual Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2010, will be renewed at the Board of Directors' meeting to be held on April 4, 2011.

Operational structure of the Company's Senior Management

Since June 2004, the Company's overall management has been carried out under the responsibility of a Management Committee headed by the Chairman of the Board of Directors. The Management Committee is assisted in this task by several specialist committees reporting to Senior Management.

1.3 Compensation paid to directors and officers

Principles and rules approved by the Board of Directors for setting compensation and benefits allocated to directors and officers

The Board of Directors is responsible for setting the compensation of corporate officers and has confirmed its intention to ensure transparency in this regard by complying with the Corporate Governance Code.

The Board's objective is to allocate a competitive overall compensation package to corporate officers with scope for increases in compensation each year, on an ongoing and regular basis.

The Board of Directors sets at its discretion the compensation payable to the Chairman, the Chief Executive Officer and the Senior Vice-Presidents.

Only independent directors who do not hold an employment contract with a Group company are paid directors' fees. The overall amount of these fees is approved by the Company's shareholders and their individual allocation is decided by the Board.

Remuneration of non-executive directors - Directors' fees

At the Shareholders' Meeting held on May 25, 2010 the annual fees to be allocated among the Company's independent directors were set at €100,000. In accordance with this decision, at its June 30, 2010 meeting the Board of Directors resolved to allocate this amount equally among the independent directors who were members of the Board during 2010, in accordance with their attendance rate at Board meetings.

Compensation payable to the Chairman, Chief Executive Officer and Senior Vice-Presidents

The Board of Directors sets the compensation to be paid to the Chairman, Chief Executive Officer and Senior Vice-Presidents. There were no changes to these compensation packages during 2010.

Variable compensation

No variable compensation system has been set up for the Group's senior managers.

Pension plan

There is no specific pension plan in place for the Company's senior managers.

Leaving bonuses

The Company has not given any commitments that provide for the payment of indemnities and/or benefits relating to or resulting from the termination of corporate officers' duties within the Company.

No-compete commitments

No indemnities are payable to corporate officers under no-compete clauses.

Stock option and performance share plans

Stock option plans have been set up as a long-term incentive for senior managers with the aim of encouraging them to create value in the interests of shareholders. In general, all key personnel – including senior managers – are eligible for stock options and individual grants depend on the performance and level of responsibility of each person concerned.

For many years the Company has regularly granted stock options under attractive conditions. The objective of this policy is to fairly reward the Group's executives, while at the same time extending the scope of beneficiaries to include all employees who make a significant contribution to enhancing and developing the Group's business. In 2010 the Board of Directors authorized stock option grants to a number of the Group's employees, excluding corporate officers.

⁽¹⁾ Appointed by the Board of Directors on March 18, 2010.



ANNEXE A

Report prepared by the Chairman of the Board of Directors on the conditions governing the preparation and organization of the work of the Board of Directors

The Group's subsidiary Free Mobile decided to set up an incentive plan in 2010 for a number of the subsidiary's officers and employees, involving performance shares. This plan – which entails granting performance shares representing up to 5% of Free Mobile's capital – was authorized by Iliad's Board of Directors on May 3, 2010.

Following a decision by Free Mobile's sole shareholder, the Chairman used this authorization to set up the performance share plan on May 12, 2010.

In accordance with paragraph 4 of Article L. 225-197-1 II of the French Commercial Code concerning share grants made to corporate officers, the decision to grant the shares had to either (i) state the number of shares that the corporate officers concerned are required to hold in registered form until they leave their position or (ii) prohibit the corporate officers from selling their shares until they leave their position. Consequently, the Chairman's decision setting up the plan on May 12, 2010 stated that each beneficiary corporate officer is required to hold at least 5% of the shares granted to them in registered form until they leave their position with Free Mobile.

Service agreements

Apart from the contracts described in Section 16.2 of this registration document, during the year ended December 31, 2010 no corporate officer was bound to the Company or to any of its subsidiaries by a service contract that provides for the award of any types of benefits. Details of the contracts entered into between the Company and one of its directors – which were duly authorized by the Board as related-party agreements – are provided in the Statutory Auditors' special report in Section 19 of this registration document.

2 INTERNAL CONTROL PROCEDURES

The Group's internal control principles and procedures form part of an overall corporate governance approach that complies with the Reference Framework for internal control systems issued by the *Autorité des Marchés Financiers* (French securities regulator).

2.1 Presentation and organization of the Group

Since June 2003, the Group's senior management team and corporate functions have been located in one building at 8, rue de la Ville l'Evêque, 75008 Paris, which has simplified the tasks of relaying information, and monitoring and harmonizing internal control procedures.

In addition, all of the Group's corporate departments – encompassing finance and accounting, legal affairs, human resources, technology and marketing – are cross-functional and are identical for each Group entity. This structure enables the Group to be managed consistently and makes it easier to perform controls.

2.2 The objectives of internal control

Internal control is a process implemented by management designed to provide reasonable assurance that the Company's objectives are achieved relating to the following areas:

- efficiency and effectiveness of operations;
- safeguarding assets, particularly intellectual property, human and financial resources and the Company's image;
- preventing the risk of fraud;
- reliability and fairness of financial and accounting information; and
- compliance with applicable laws and regulations.

The stated objective of the internal control system is therefore to anticipate and control all the risks arising in the course of the Group's business, particularly in the areas of accounting and finance – including the risks of error and fraud – as well as various operational risks, strategic risks and compliance risks.

An internal control system can only provide reasonable assurance – and not an absolute guarantee – that the Company will achieve its objectives.

The Iliad Group's internal control system is structured around (i) internal rules, which set out regulations to be respected by employees within each Group company, and (ii) procedures and controls inherent to the individual systems of each department.

The Group does not currently have a specific Internal Audit department, but the Finance Department, as well as the accounting and financial control teams and the other departments described above are at the heart of the overall internal control system.

Each Group company reviews its accounting and financial data on a monthly basis.

2.3 Internal control players

The Group's main internal control bodies are as follows:

The Management Committee

The Management Committee is the Group's decision-making body. It meets once a week, and is responsible for tracking weekly reporting schedules, deciding on the Group's strategy and operations in conjunction with the Board, discussing and collectively deciding on key management issues, and setting annual objectives. The meetings are attended by the Chairman of the Board of Directors, the Chief Executive Officer, the Senior Vice-Presidents

and the Head of the Group's Research & Development Department. The senior managers of the Group's main subsidiaries also attend certain meetings. The issues covered also serve as a basis for management presentations given during Board of Directors' meetings.

The Management Committee coordinates relations between the parent company and its subsidiaries, and as such can ensure – under the supervision of Senior Management – that the Group's operations run smoothly.

Senior Management Committees

Several specialist committees reporting to Senior Management have been set up to apply – or verify the application of – internal guidelines that are reviewed by the Audit Committee.

The main committees – which are made up of operations, accounting and finance staff – are as follows:

- The Information Systems Committee, responsible for ensuring that information systems are managed properly, and for recommending and monitoring developments to be implemented in order to ensure efficient oversight and optimal understanding of the business.
- The Invoicing Committee, in charge of examining the invoicing cycles and analyzing and validating the various components of the Group's revenues. It is also responsible for ensuring that any fraud or embezzlement is detected and does not have a significant impact on the financial statements.
- The Debt Recovery Committee, which monitors receivables and collection procedures in order to ensure that adequate provisions are set aside to cover any risks of non-recovery.
- The Cash Management Committee, which sets the framework for the Group's debt management policy, particularly concerning liquidity, interest rate and currency risks, as well as counterparty risks that may arise on future financial transactions.
- The Operators Committee, which examines purchases from operators in order to assess whether proper internal controls are in place in terms of approvals and accounting treatment. It also examines the Group's main claims, litigation and commitments in this area, to ensure that there are adequate provisions to cover the related risks.
- The Audiovisual Committee, which analyzes the performance of the Group's audiovisual operations and related marketing campaigns. It verifies that business performance is effectively monitored and that the terms and conditions of contracts entered into with content providers, service suppliers and subscribers are respected.
- The Fiber Committee, tasked with ensuring the effective application of the Group's strategy for acquiring premises to house optical nodes (ONs), for the "horizontal" and "vertical" rollouts of the FTTH network, and for connecting subscribers to the network.
- The Mobile Committee, chaired by the Group's Chief Executive Officer, which is responsible for monitoring the progress of the mobile network's rollout, as well as supplier negotiations and the level of financial commitments.
- The Manufacturing/Freebox Committee, in charge of analyzing production plans, manufacturing costs and the main manufacturing risks (costs, leadtimes and quality). It verifies that production cycles are effectively managed and that all necessary measures are taken to meet the Group's targets.
- The Accounting Committee, which sets the framework for the Group's accounts closing procedures and ensures that they are formally documented. It examines the financial statements and checks that accounting standards are properly applied and adequate provisions set aside to cover any risks. It also verifies that the financial statements give a true and fair view of the Group in accordance with the applicable accounting principles. Lastly, it schedules pre-closes, carries out reviews of the accounts and ensures that financial data is effectively shared, which helps strengthen the financial control function.

2.4 Control processes for major risks

The Group has set up an internal control system that enables it to manage the risks relating to its business strategy, development and decision-making processes on a daily basis.

The main risks that could impact the Company are identified, assessed and reviewed by Senior Management. A detailed analysis of these risks is provided in Section 4 of this registration document.

Risks relating to the Group's operations and business strategy

In 2000, the Group created a research and development team with a view to safeguarding its capacity to remain technologically innovative. This team reports directly to Senior Management.

In addition, in view of the Group's rapid growth and in order to anticipate recruiting needs – notably within the call center teams – a reporting procedure has been established to measure the volume of calls received and dealt with, and to monitor queuing time. These reporting schedules are relayed regularly to Senior Management.

Senior Management is also regularly provided with technical information concerning the Group's platform and network, as well as recruitment needs (in terms of number of staff and skills), and the financing required in order to develop the Group's technical infrastructure.

Risks relating to the Internet and telecommunications sectors

As the Group is subject to the specific laws and regulations applicable to the telecommunications sector, the Company's compliance department carries out regular controls to ensure that these laws and regulations are respected. Risks relating to the Group's business sectors are principally



ANNEXE A

Report prepared by the Chairman of the Board of Directors on the conditions governing the preparation and organization of the work of the Board of Directors

monitored by an internal team dedicated to tracking regulations within the Internet and telecommunications sectors as well as the financial and legal impact of these regulations on the Group's operations.

In addition, the rollouts of the Group's optical fiber network and third-generation mobile communications network are contingent on obtaining the requisite authorizations (e.g. occupancy of public or private property). Any delay in obtaining such authorizations could slow down these rollouts.

Legal risks related to Internet access

In order to limit the risks relating to the potential liability of Internet access and web hosting service providers, the subscription procedure set up by the Group does not permit any anonymous users on its network. This procedure does not allow a new user to connect online, as new users must wait until they have received a confirmation letter with a username and password before they can connect to the Group's network for the first time.

This procedure, which enables the Group to validate the name and address of each new subscriber, was set up when the network was initially launched and means that the Group has no anonymous users on its network. Consequently, the Group can respond to and assist with any requests concerning the identity of any dubious users in the event of any legal proceedings.

For each new service, the Group takes the precaution of reminding its subscribers and users that they are responsible for the content that they make available to other parties.

Legal risks are monitored by a specific department. In addition, the Group has taken out specific insurance policies to cover the risks arising from its operations.

Security

The Group has set up procedures to guarantee the security and physical integrity of its network.

Control procedures relating to financial communication

The Company is required to keep its shareholders, the financial community and the general public informed about its financial position.

All financial information, including press releases, management reports, and financial statements, is drawn up by the Finance Department and reviewed by Senior Management, including the Chairman of the Board of Directors and, where required, the Chief Executive Officer, the Senior Vice-Presidents, the Audit Committee and the Legal Affairs Department. In addition, this information is regularly submitted to the Company's directors for approval.

In order to restrict the risks relating to erroneous or contradictory information, an internal procedure is used whereby the Group's press officer centralizes all strategic, commercial, financial and technical data that is released outside the Group. The information is supplied directly by management to the press officer. Furthermore, in accordance with the aforementioned procedure, the press officer attends any and all interviews in order to ensure that the information relayed is consistent.

3 FINANCIAL INFORMATION

The following procedures have been set up to implement controls over the Group's financial management and ensure that the accounting data produced is correct.

3.1 Budget process

Each year, the Finance Department – assisted by financial control – draws up a forecast business model for the Group, which is regularly updated. This model is based on the Group's strategic decisions, and approved by management.

3.2 Monthly reporting process

A monthly reporting schedule is drawn up by the Group's financial units. During 2009, financial control tracked the Group's purchases and investments, notably for (i) components used in the Freebox modem, (ii) optical fiber and (iii) the program to extend local loop unbundling. The reports of the financial controller are transmitted to the Finance Department and incorporated into the overall reporting schedule, which contains key data for monitoring the Group's operations and results. This process forms one of the cornerstones of the internal control and financial information system and it is the key tool used by management for tracking, controlling and monitoring the Group's business activity.

The Board of Directors is informed of the latest available indicators during its meetings.

3.3 Accounts-closing process

The Group's Finance Department performs a quarterly close for each Group company.

The Group's organizational structure, based on a single Finance Department for all of the Group's companies and the use of a common accounting manual, enables consistent use of accounting policies and methods.

In addition, the Group's Finance Department tasks an external certified public accountant with reviewing the statutory accounts of each entity on at least a quarterly basis.

Half-yearly consolidated financial data are presented to the Board of Directors.

3.4 Specific procedures relating to the preparation and processing of accounting and financial information

The internal control procedures in force within the Group relating to the major operating functions are as follows:

Sales: the revenue of each Group company is controlled by the Finance Department in conjunction with the operating teams concerned, by carrying out tests on sales movements, valuations and invoicing of calls and subscriptions, as well as on payment collection and debt recovery processes.

Capital expenditure: controls on investments and the management costs for the telecommunication network's assets are performed through a procedure based on predetermined authorized thresholds and budgets.

Purchases: purchases other than capital expenditure are also controlled based on authorized thresholds, as well as by segregating tasks, with control of Internet operating costs being separated from control of fixed telephony costs each month based on a reconciliation of calls made and bills issued.

Cash flows: control over cash management is performed through bank reconciliations, secure means of payment, specific signature authorizations, including for off-balance sheet commitments, and daily, weekly, monthly and quarterly reporting. Cash flow hedging operations require special authorization and monitoring.

Payroll: employees' salaries are controlled through a procedure that is based on segregating line managers' controls.

4 OTHER INFORMATION REQUIRED PURSUANT TO ARTICLE L. 225-37 OF THE FRENCH COMMERCIAL CODE

4.1 Specific procedures for participating in Shareholders' Meetings

Attendance at the Company's Shareholders' Meetings is governed by the applicable laws and Article 26 of the Company's bylaws. All shareholders are entitled to attend and vote at Shareholders' Meetings, either in person or by proxy, irrespective of the number of shares they hold, subject to the conditions set out in Article 26 of the Company's bylaws.

4.2 Disclosures required pursuant to Article L. 225-100-3 of the French Commercial Code

The disclosures required in accordance with Article L. 225-100-3 of the French Commercial Code are provided in the following sections of this registration document: Section 10 – "Capital resources", Section 18 – "Major shareholders", and Section 21 – "Additional information".

The Chairman of the Board of Directors

ANNEXE B

STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH ARTICLE L. 225-235 OF THE FRENCH COMMERCIAL CODE ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS OF ILIAD

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditors of Iliad, and in accordance with article L. 225-235 of the French Commercial Code (*Code de Commerce*), we hereby report to you on the report prepared by the Chairman of your Company in accordance with article L. 225-37 of the French Commercial Code for the year ended December 31, 2010.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report describing the internal control and risk management procedures implemented by the Company and providing the other information required by article L. 225-37 of the French Commercial Code, in particular relating to corporate governance.

It is our responsibility:

- to report to you on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information; and
- to attest that the report sets out the other information required by article L. 225-37 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

INFORMATION CONCERNING THE INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES RELATING TO THE PREPARATION AND PROCESSING OF FINANCIAL AND ACCOUNTING INFORMATION

The professional standards require that we perform procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report. These procedures mainly consisted of:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based, and of the existing documentation;
- obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;
- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Board's report, prepared in accordance with article L. 225-37 of the French Commercial Code.



OTHER INFORMATION

We attest that the Chairman's report sets out the other information required by article L. 225-37 of the French Commercial Code.

Neuilly-sur-Seine and Paris, April 5, 2011

The Statutory Auditors

PricewaterhouseCoopers Audit

Frédéric Charcosset

Boissière Expertise Audit

Jean-Luc Cohen

CROSS-REFERENCE TABLE

INFORMATION REQUIRED IN THE ANNUAL FINANCIAL REPORT

	Section of the registration document	Page number of the registration document
Information required in the annual financial report		
Parent company financial statements	20.2	170
Consolidated financial statements	20.1	118
Management report	9	59
Table summarizing authorizations in force concerning capital increases and use of these authorizations during the year	21.1.8	196
Information required by Article L. 225-100-3 of the French Commercial Code relating to important information in the event of a public offer	4.1.2 Annexe A	14 217
Information relating to share buybacks (paragraph 2 of Article L. 225-211 of the French Commercial Code)	21.1.3	192
Statement by the persons responsible for the annual financial report	1.2	4
Statutory Auditors' report on the parent company financial statements	20.2	188
Statutory Auditors' report on the consolidated financial statements	20.1	168

ESR CROSS REFERENCE TABLE

Articles R. 225-104 and R. 225-105 of the French Commercial Code

	Section of the registration document
Social data	
1°a Total workforce	17.1.1
1°b Information in relation to for the workforce reduction plans	N/A
2° Organisation of working time	17.2.1
3° Wages	17.2
4° Professional relationships	17.3
5° Health and safety conditions	17.3.2
6° Training	17.4
7° Employment and integration of disabled workers	17.3.1
8° Welfare	5.3 et 17.5
9° Subcontracting	17.1
Environnemental data	
1° Consumption of water resources	8.2
2° Measures taken to restrict damage to biological	8.2
3° Environmental evaluation and certification procedures	N/A
4° Measures taken to ensure that activity conforms to legislative provisions	N/A
5° Expenditure devoted to prevention of possible consequences of activity on the environment	N/A
6° Existence of internal environment management departments	N/A
7° Amounts of provisions and guarantees for environmental risks	N/A
8° Amounts of indemnities paid following court decisions regarding the environment	N/A
9° Information on targets assigned to affiliates abroad	N/A



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8 rue de la Ville l'Evêque - 75008 Paris (France)
Tél. : +33 1 73 50 20 00
www.iliad.fr



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