

2011 REGISTRATION DOCUMENT  
FINANCIAL REPORT



*iliad*

# Summary

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# REGISTRATION DOCUMENT AND FINANCIAL REPORT

## YEAR ENDED DECEMBER 31, 2011

### 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 4, 2012.

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 (16, 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](http://www.iliad.fr)) as well as on the website of the AMF ([www.amf-france.org](http://www.amf-france.org)).





# 1

## PERSONS RESPONSIBLE

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1.2 STATEMENT BY THE PERSON  
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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 2011 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 240 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.*

*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  
16, rue de la Ville l'Évêque  
75008 Paris  
Téléphone: + 33 1 73 50 20 00  
www.iliad.fr

## 1.4 PROVISIONAL TIMETABLE FOR FINANCIAL COMMUNICATIONS

By May 15, 2012:  
May 24, 2012:  
September 1, 2012:  
By November 15, 2012:

First-quarter 2012 revenues  
Annual Shareholders' Meeting  
First-half 2012 revenues and earnings  
Revenues for the first nine months of 2012



# 2

## AUDITORS

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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 Tita A. Zeïtoun  
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 ended 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 ended 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, 2011

TABLE OF FEES PAID TO THE STATUTORY AUDITORS

	PricewaterhouseCoopers Audit				Boissière Expertise Audit			
	Amount		%		Amount		%	
	2011	2010	2011	2010	2011	2010	2011	2010
<i>In € thousands – excluding tax</i>								
<b>Audit</b>								
Statutory and contractual audits	375.5	332.6	94%	88%	215.0	220.0	100%	100%
Issuer	195.0	132.6	49%	35%	100.0	105.6	47%	48%
Fully-consolidated subsidiaries	180.5	200.1	45%	53%	115.0	114.4	53%	52%
Audit-related work	23.0	45.7	6%	12%	0.0	0.0	0%	0%
Issuer	23.0	45.7	6%	12%	0.0	0.0	0%	0%
Fully-consolidated subsidiaries	0.0	0.0	0%	0%	0.0	0.0	0%	0%
<b>SUB-TOTAL</b>	<b>398.5</b>	<b>378.3</b>	<b>100%</b>	<b>100%</b>	<b>215.0</b>	<b>220.0</b>	<b>100%</b>	<b>100%</b>
<b>Other services provided by the networks to fully-consolidated subsidiaries</b>								
Legal and tax advisory services								
IT consulting								
<b>SUB-TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0%</b>	<b>0%</b>	<b>0.0</b>	<b>0.0</b>	<b>0%</b>	<b>0%</b>
<b>TOTAL</b>	<b>398.5</b>	<b>378.3</b>	<b>100%</b>	<b>100%</b>	<b>215.0</b>	<b>220.0</b>	<b>100%</b>	<b>100%</b>





# 3

## SELECTED FINANCIAL INFORMATION

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PRINCIPAL FINANCIAL INDICATORS

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<i>In € millions</i>	Year ended December 31, 2011	Year ended December 31, 2010	Year ended December 31, 2009
<b>INCOME STATEMENT</b>			
Revenues	2,122.1	2,038.3	1,954.5
Operating income and expense, net	(1,623.9)	(1,560.4)	(1,595.1)
<b>Gross profit</b>	<b>1,170.4</b>	<b>1,138.8</b>	<b>1,034.2</b>
<b>Ebitda <sup>(1)</sup></b>	<b>833.4</b>	<b>798.1</b>	<b>661.4</b>
Profit from ordinary activities	498.2	477.9	359.4
Other operating income and expense, net	(4.6)	61.0	(26.5)
Operating profit	493.6	538.9	332.9
Finance costs, net	(46.8)	(41.7)	(50.7)
Other financial income and expenses	(34.0)	(7.8)	1.7
Corporate income tax	(161.0)	(176.3)	(109.0)
Profit for the period	251.8	313.1	175.9
<b>Profit for the period before non-recurring items *</b>	<b>254.8</b>	<b>273.2</b>	<b>193.3</b>
<b>BALANCE SHEET</b>			
Non-current assets	3,204.0	1,904.4	1,602.9
Current assets	600.5	516.2	820.8
<i>Of which cash and cash equivalents</i>	<i>357.4</i>	<i>347.5</i>	<i>633.9</i>
Assets held for sale	54.9	71.6	31.5
<b>Total assets</b>	<b>3,859.4</b>	<b>2,492.2</b>	<b>2,455.2</b>
Total equity	1,523.9	1,078.3	764.4
Non-current liabilities	1,466.3	1,016.0	1,140.5
Current liabilities	869.2	397.9	550.3
<b>Total equity and liabilities</b>	<b>3,859.4</b>	<b>2,492.2</b>	<b>2,455.2</b>
<b>CASH FLOWS</b>			
Net cash generated from operating activities	779.6	874.9	734.3
Net cash used in investing activities	(1,156.4)	(793.7)	(424.2)
Net cash generated from (used in) financing activities	389.8	(374.1)	(17.1)
Net change in cash and cash equivalents	13.0	(292.9)	293.0
Cash and cash equivalents at year-end	350.5	337.5	630.4

(1) See definition in the glossary on page 223 of this registration document.

\* Profit for the period before non-recurring items, see Section 20.1.

## KEY FIGURES FOR 2011

The year 2011 saw (i) the commercial success of the Freebox Revolution offer, enabling the Group to achieve a record market share with almost 27% of the market's new subscribers, and (ii) a change in the VAT regime applicable to triple play offers. At the same time, the Group was able to maintain its solid financial structure.

Against this backdrop of tax rules and a new commercial offer, Iliad managed to step up its pace of growth, while maintaining high profitability levels. Consolidated revenues for the year as a whole climbed 4% to €2,122 million, buoyed by a 5.6% increase in the second half.

The Group's high profitability levels in 2011 were achieved despite the dilutive impact of (i) calls to mobile numbers and to Algeria being included in the Freebox Revolution offer, (ii) the change in the VAT regime, and (iii) the losses incurred on the mobile business. By continuing to apply the virtuous business model focused on unbundling and implementing cost optimization measures across the Group's expense items, Iliad was able to post a consolidated Ebitda margin of 39.3%, slightly higher than the record level reported in 2010.

Profit from ordinary activities rose by just over 4% in 2011 to €498 million from €478 million the previous year. This increase was driven by both the enhanced profitability mentioned above as well as the fact that the depreciation-to-revenues ratio remained stable.

Profit for the period before non-recurring items totaled €255 million, down 7% on 2010. The overall profit figure for 2010 was boosted by more than €39 million as a result of non-recurring income received during the year.

In line with Group forecasts, free cash flow cash from ADSL operations contracted to €307 million from €436 million in 2010 due to the commercial success of the Freebox Revolution offer.

In spite of the Group's pro-active capital expenditure plan, its financial structure was extremely solid at December 31, 2011, with:

- a leverage ratio of 1.16x compared with 0.87x at December 31, 2010;
- a near-€200 million increase in consolidated equity due to the conversion of two thirds of the Océane bonds issued in 2006; and
- a successful first bond issue representing €500 million.

## PRINCIPAL FINANCIAL INDICATORS

<i>In € millions</i>	<b>Year ended December 31, 2011</b>	<b>Year ended December 31, 2010</b>	<b>% change</b>
<b>Consolidated revenues</b>	<b>2,122</b>	<b>2,038</b>	<b>4%</b>
<b>Ebitda</b>	<b>833</b>	<b>798</b>	<b>4%</b>
<i>% of revenues</i>	39.3%	39.2%	
<b>Profit from ordinary activities</b>	<b>498</b>	<b>478</b>	<b>4%</b>
Profit for the period	252	313	-20%
<b>Profit for the period before non-recurring items</b>	<b>255</b>	<b>273</b>	<b>-7%</b>
<b>Free Cash Flow from ADSL operations<sup>(1)</sup></b>	<b>307</b>	<b>436</b>	<b>-30%</b>
<b>LEVERAGE RATIO<sup>(2)</sup></b>	<b>1.16X</b>	<b>0.87X</b>	

(1) See definition on page 223 of this registration document.

(2) See definition on page 224 of this registration document.



# 4

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Iliad 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, director, 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 hardware such as the Freebox modem, Freebox DSLAM and the Nodebox for the mobile network, 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 an 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 GROUP'S OFFERINGS

The Group considers that the components and other items used to manufacture its Freebox modems, Freebox DSLAMs and Nodeboxes 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 or could prevent it from increasing its network capacity. 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 FIXED 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 particularly the number of users with fixed broadband access. 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 FIXED INTERNET ACCESS OFFERINGS**

The market for fixed Internet access services 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 ongoing growth of Internet use in France, (ii) the number of strategic and capital alliances among the Group's competitors which could continue to rise, (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 could enter the market.

#### **Mobile communications**

On January 10, 2012 the Group launched its first commercial mobile telephony offerings. The arrival of Free Mobile as the fourth mobile operator in a French market which is already mature heightened competition and is likely to prompt the market's incumbent mobile operators – and notably the multinationals that have greater financial resources than those of the Group – to launch a marketing offensive. In addition, the incumbent mobile operators as well as mobile virtual network operators (MVNOs) could implement aggressive pricing strategies in response to Free Mobile's attractive packages. The Group's success will therefore depend on its ability to ensure that its offerings are sufficiently appealing compared with those of its competitors.

#### **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 in 2011 for television, video and games services via ADSL, 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 2011 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 could 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, could 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 ARCEP on December 22, 2009 concerning the rollout of optical fiber in these areas and rollout pooling 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 MOBILE BUSINESS

##### Risks relating to the rollout of a third- and fourth-generation mobile communications network

The rollout of a third- and fourth-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 in the completion of such work could hold up the rollout schedule and lead to significant operating losses.

Any such delays in the rollout schedule could result in the Group not being able to meet either its contractual obligations with its main partners or its regulatory coverage requirements as provided for in ARCEP Decisions 2010-0043 and 2011-1169 dated January 12, 2010 and October 11, 2011 respectively, which authorized Free Mobile to use frequencies to set up and operate a third- and fourth-generation mobile communications network open to public use. However, the other operators have not respected their coverage commitments in the past.

The financial sustainability of the Group's mobile business depends on its capacity to achieve a high direct coverage rate and an appropriate quality service.

Furthermore, if the public concerns expressed about the potential health hazards caused by mobile telecommunications equipment result in an increase in the number of legal disputes, a reduction in the number of subscribers or delays in site rollouts, this could have an adverse impact on the Group's earnings and financial position.

### Operating risks

The Group must be in a position to manage the operating risks inherent to the launch of its new mobile business and the huge influx of subscription applications. If the Group is unable to manage these risks, its targets and earnings could be significantly affected. For example, a fault in and/or saturation of the Group's mobile communication networks and/or information systems could render its services unavailable and therefore damage the Group's image and negatively impact its financial position and targets.

Any problems that may arise in the future for adapting the mobile network currently under construction to new technological developments and changes in subscriber behavior, as well as any lack of spectrum capacity, could also have a negative effect on the number of new subscribers the Group's business, results of operations and financial position as well as on its ability to achieve its objectives.

In addition, any failure in the Group's information systems could adversely impact the number of new subscribers and supply of subscriber services, and could therefore harm the Group's image and reputation.

At the same time, the Group must be able to manage the operating risks related to the delivery of SIM cards and mobile telephones to its subscribers and its financial position could be affected if it is unable to meet its subscribers' expectations.

The Group also runs the risk of people attempting to fraudulently access its services without paying for them. If any such attempts are successful this could adversely affect its revenues, margins, service quality and reputation.

Lastly, on March 2, 2011, the Group signed a roaming agreement with Orange France in order to ensure coverage for Free Mobile subscribers on Orange France's 2G and 3G networks. The interruption or the failure to execute the roaming agreement could have substantial negative effects on the Group's objectives, results and strategy.

## 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, 2011.

### 4.3.2 EQUITY RISKS

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

At February 29, 2012, Xavier Niel, the Company's principal shareholder held 59.22% of the capital and 57.44% 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 financial markets in general or the fixed and mobile telecommunications and Internet industry. 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 of the Group's sales performance;
- 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.

In addition, 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. This agreement came into effect on December 13, 2011 when Free Mobile's network coverage reached 25% of the French population. 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 services provided by 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.

### 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. Moreover, the growing complexity of networks as well as the constant need for inter-operability makes the information technology and communications sector a prime target for patent trolls and NPEs (non-practicing entities). These entities file aggressive and opportunistic patent lawsuits against innovative companies in order to maximize the revenue generated on the patents they hold. The outcomes of these types of lawsuit are by nature unforeseeable and could therefore affect the earnings of the defendant companies concerned.

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) which generally allows 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 <sup>(1)</sup> (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, 2011 the Group had access to almost 64,000 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.

By way of decision 2011-1169 dated October 11, 2011, ARCEP authorized Free Mobile to use a block of frequencies in the 2.6 GHz band in mainland France in order to set up and operate a 4G mobile communications network. Under this license, the Group will also be able to apply for roaming rights from another operator whose license includes two blocks of spectrum in the 800MHz band in order to cover the priority rollout area defined by ARCEP.

#### 4.4.8 INDUSTRIAL, ENVIRONMENTAL AND HEALTH 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.

The Group has undertaken that it will seek to limit the impact that its new mobile business may have on the environment.

There are currently public concerns over the potential health hazards of electromagnetic fields emitted by telecommunication equipment. Irrespective of whether or not these concerns are legitimate, they could lead to a reduction in the use of mobile communications, prevent the installation of mobile phone masts and wireless networks, or cause an increase in claims and litigation. If any of these situations arose it could have a negative impact on the Group's targets and earnings.

#### 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.

(1) See definition on page 223 of this registration document.

The main licenses held by the Group are the L. 33 and L. 34 telecom licenses as well as the 3G and 4G licenses 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 3G and 4G 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.

Concerning the 3G license, the incumbent mobile telecom operators in France 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 to be handed down during 2012. 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 use 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, more recently, on 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.

## 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 the date this registration document was filed are sufficient to ensure that there would be no material impact on the Group's consolidated financial position in the event of unfavorable outcomes. To the best of the Company's knowledge, there are no governmental, legal or arbitration proceedings (including pending or threatened proceedings) that could have, or have had 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, 2011 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 the 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 €4.9 million in 2011, 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 sites belonging to the Group.

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) and at mobile communications sites 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 networks. Its business as a fixed-line and mobile electronic communications operator and as a hosting operator for private and professional websites is covered by a professional liability insurance policy. 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, elevated areas), as well as for its head office and all of its LTO-ON sites. 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 the insurance cover currently available on the market for groups of a similar size and with similar business activities.







# 5

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## 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: 16, 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), Wi-Fi MIMO and mobile telephony over Wi-Fi (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 Mbps, 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).

## 2011

The Group launches France's first ever broadband offering for less than €10 per month, including Internet access and calls to 60 countries (February 2011).

Free Mobile and Orange sign a 2G – and subsequently 3G – roaming agreement (March 2011).

The Group carries out a €500 million inaugural bond issue (May 2011).

Free Mobile obtains a license for 20 MHz of spectrum in the new generation 4G (2.6 GHz) frequency band (December 2011).

Conversion of a significant portion of Iliad's Océane bonds leading to a €200 million increase in consolidated equity (December 2011).

### 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's 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 operators 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 Group's profitability 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 service quality 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.

Since ARCEP issued its definitions of "Very Densely Populated" and "Less Densely Populated" areas and the related regulatory framework, the Group has focused its FTTH rollout on densely populated areas. For areas that do not fall within this category Iliad has signed a co-financing agreement with France Télécom - Orange covering around 5 million homes.

In the coming years the Group will concentrate its capital outlay on "vertical" rollouts in order to speed up the process of providing connections to subscribers in Very Densely Populated areas, and will carry out co-financing projects with France Télécom - Orange in other areas.

##### **5.1.6.3 Hosting activities**

Since 2011, the Group has stepped up the development of its hosting business and the related capital expenditure. This business encompasses shared and dedicated hosting services as well as server collocation solutions. The range of services offered responds to a broad array of needs, ranging from private individuals who wish to secure their backups to SMEs that require a large amount of secure data storage space.

As part of the development strategy for this business, the Group purchased a new 12,000 sq.m site in 2011 in order to increase its server housing capacity.

##### **5.1.6.4 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. The objective it set itself at that time was to cover 27% of France's population by early

2012, 75% by end-2015 and 90% by end-2018. On December 13, 2011, having verified Free Mobile's coverage, ARCEP confirmed that the Group had complied with its 27% coverage commitment.

In line with the other commitments it made in connection with its 3G license, the Group launched its first commercial mobile offerings on January 10, 2012 which propose a range of straightforward and attractively priced packages (€2 for the one-hour offer and €19.99 for the all-inclusive offer).

In addition, in October 2011 the Group was awarded a license for 20 MHz of spectrum in the new generation 4G (2.6 GHz) frequency band. Thanks to the frequencies allocated under this license, Free Mobile will be able to propose its mobile telephony services to a greater number of subscribers and rapidly build up a 4G mobile web offering. It will also be able to meet the growing demand for ever-higher transmission speeds by offering the highest speeds available in the market, and to strengthen its technical and pricing innovation capacity over the long term. The network currently being rolled out by Free Mobile is already 4G compatible.

As well as holding 3G and 4G licenses, 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.

## 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 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:

- ADSL-related expenditure, 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 the hosting business, primarily for purchasing and fitting out sites and for dedicated equipment;
- 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 4G 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 since 2009:

<i>In € millions</i>	2011	2010	2009
ADSL expenditure	570	326	308
Hosting expenditure	12	-	-
FTTH expenditure	156	194	112
Mobile communications expenditure	417	262	-
<b>TOTAL</b>	<b>1,155</b>	<b>782</b>	<b>420</b>

### 5.2.2 PRINCIPAL INVESTMENTS IN PROGRESS

In 2011, 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 for the rollout of the third-generation mobile communications network and the purchase of the 4G license for €274.5 million.

### 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. This strategy should enable the Group to keep up its level of new subscribers and continue to increase its unbundling rate to above 92%.

- (ii) **FTTH expenditure:** In the coming years, the Group will continue with its horizontal rollouts 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. For areas that do not fall within the "Very Densely Populated" category, the Group intends to jointly invest in the rollout of a single, shared network, as part of a co-financing agreement signed with France Télécom - Orange, under which each operator is allowed to invest only to the extent of the lines needed to serve its subscribers in the local area concerned.

At end-2011 the Group had invested more than €600 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 network expenditure planned for the rollout is around €1 billion, which will be incurred over a period of five to seven years.

## Financing

The combination of the significant amount of Free Cash Flow at end-2011, the near-€200 million increase in consolidated equity following bondholders' conversion of 61% of Iliad's Océane bonds, the Group's low level of debt and access to various sources of financing (bank borrowings, bond debt and monetary instruments) means that the Group can readily 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 term of the original budget allocated to the Free Corporate Foundation expired in 2011 and a new three-year budget was set, amounting to some €1.2 million.

Computer and Internet use contribute to educating young people, exchanging knowledge and more generally to boosting social and economic development. However, despite all these advantages, full-population access to Information and Communication Technologies (ICT) is still far from being a reality.

In 2011, the Free Corporate Foundation supported more than 30 projects carried out by charities, associations, schools and other social-interest organizations, including:

- the e-G8 Forum;
- the Salvation Army (equipment for shelter and social service centers);
- Emmaüs (l'Atelier du Bocage);
- the HEC Foundation;
- the Dauphine Foundation;
- the GIAA (Groupement des Intellectuels Aveugles ou Amblyopes);
- the FFSA (Fédération Française de Sport Adapté);
- les petits débrouillards (Brittany and Poitou-Charentes regions).

During the year the Free Corporate Foundation also donated computers to several associations, a large number of which were for schools.

In addition, 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), Ubuntu-FR, Starinux, TuxFamily.org, Centrale Réseaux, 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), the Enlightenment Association, the Login Association (OpenStreetMap project), and the Agoravox Foundation.

As part of the measures put in place to promote the distribution of 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:

- the e-G8 Forum

Launched at the initiative of French President Nicolas Sarkozy, the e-G8 Forum was a two-day event involving a range of debates, meetings and talks intended to enable key Internet players – both private and public – to have their ideas and beliefs taken into account for the first time at the highest political level. The topic of the Internet was included on the agenda for the G8 summit held in Deauville, France in 2011, and the idea of the e-G8 Forum was to provide a platform for expression before the meeting so that the G8 Heads of State and governments could benefit from the views of web stakeholders concerning the Internet's importance and its impact on society and the economy;

- the Salvation Army (equipment for shelter and social service centers)

The Salvation Army has developed an NICT program to help adults reintegrate into society and to teach computer basics to children of families staying in its shelter and social service centers;

- Emmaüs (l'Atelier du Bocage)

L'Atelier du Bocage is part of the Emmaüs charity and specializes in recycling and reconditioning IT equipment and mobile telephones. The project which the Group supported in 2011 was carried out in partnership with the Fédération des Centres Sociaux et Socioculturels de France and was aimed at promoting the use of reconditioned equipment;

- the GIAA (Groupement des Intellectuels Aveugles ou Amblyopes)

The GIAA project supported by the Group during the year consisted of helping the visually impaired gain access to education as well as to cultural and leisure activities through the use of ICTs.

In 2011, the Free Corporate Foundation also pursued and strengthened its partnerships with:

- les Ateliers Sans Frontières;
- ANSA (Agence Nouvelle des Solidarités Actives);
- Unicité;
- InterTICE (a trade fair dedicated to educational uses of digital technology);
- Sport dans la ville.

At the same time, the Foundation helped to finance a new "Digital Economy" chair at Paris-Dauphine University, which is aimed at reinforcing research, publications and teaching related to the digital economy and thereby contributing to reducing the digital divide. Likewise, it contributed to funding the creation of a chair entitled "e-Business – Digital Innovation for Business" at the HEC business school, as part of a sponsorship agreement entered into between the HEC Foundation and the Free Corporate Foundation.

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 participation in the InterTICE trade fair dedicated to educational uses of digital technology.





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## 6.1 PRINCIPAL MARKETS

At end-2011 the Group's had a single principal operating market which was the Internet access market. Since the launch of its mobile business in early 2012 the Group is now a fully integrated player operating in both the Internet access and mobile markets in France.

### 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 nearly 1.3 million in 2011. With a total of 22.1 million broadband subscribers at December 31, 2011, 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, with over 85% of the French mainland population having access to unbundled lines at December 31, 2011. The high broadband penetration rate for French households offers attractive prospects for the Group in light of its positioning in this sector.

Furthermore, 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 accelerated their rollout of FTTH networks. The number of very high-speed broadband subscribers rose by 0.2 million in 2011 to a total of 0.7 million at the year-end.

### 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 other 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 2011 although triple play offerings (voice, Internet and TV) are still the market standard. The Group has been able to fully compete with these quadruple-play offerings since it launched its mobile business in early 2012.

### 6.1.3 THE MOBILE TELEPHONY MARKET IN FRANCE

At end-2011, the French mobile telephony market counted over 66 million subscriptions (corresponding to SIM cards in use), up almost 5% on 2010 and exceeding the population of France as a whole, with a 101.8% penetration rate according to ARCEP<sup>(1)</sup>.

In view of this already high penetration rate, growth in the mobile telephony market is primarily being driven by customers with more than one mobile device thanks to the development of new forms of mobile solutions using 3G USB sticks and specific multimedia equipment such as tablets and smartphones. The active multimedia subscriber base in France rose by almost 14% to 31.7 million in 2011 and the penetration rate at the year-end was 49.7%.

The year 2011 also saw a sharp increase in market share for mobile virtual network operators (MVNOs). By the year-end MVNOs had over 7.4 million subscribers, representing 11.3% of the market compared with less than 7.5% at end-2010.

(1) Source: ARCEP.

Overall revenues from mobile telephony services edged down 3% in the nine months ended September 30, 2011 compared with the same period of 2010, primarily due to:

- (i) a rise in the reduced VAT rate applicable to audiovisual access services. Revenues generated by France's mobile operators were adversely affected by this increase, which took effect in February 2011, because they decided not to pass on its impact to their subscribers;
- (ii) an increase in the number of offers that include unlimited communications (e.g. free evening and weekend calls or free calls to selected numbers) and SMS text messaging;
- (iii) changes in consumer behavior, with subscribers shifting rapidly from telephone calls to other means of communication such as SMS text messaging and data transfers.

## 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%<sup>(1)</sup> of the country's ADSL market. It has two core segments<sup>(2)</sup>, defined based on operating criteria:

- **the Broadband segment**, which primarily includes Internet service provider operations, hosting services, subscriber 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 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 to Reunion Island, Guadeloupe and between 60 and 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 as well as to certain foreign countries.

(1) Source: ARCEP.

(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.

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 34 high definition channels.

The Group also has the most comprehensive catch-up TV offering in the market, through which subscribers can watch or re-watch programs shown on 36 channels within seven days of their initial broadcast. This service is offered at no extra charge for channels included in the subscriber's television package, subject to availability.

The Group was the first operator in France to broadcast genuine 3D channels (with a total of five channels at December 31, 2011, including two in the basic package) – a move that has reaffirmed its technological edge over its competitors.

Since April 2011, the Group has offered its subscribers the possibility of building up their own Disney and ABC collections. Through this exclusive service – which is the first of its kind in France – subscribers can watch films and series *via* streaming as many times as they like and can also download content and transfer it onto any DivX® certified hardware.

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 several platforms such as Canalplay, My TF1 VOD, Cinéma[s] à la demande, M6 Pass and Vodeo.tv. This service enables subscribers to access a catalog of movies at prices starting at €0.99 per movie 24 hours a day, seven 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 for 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 2011, Free packaged this service into fifteen offers whereby subscribers have unlimited access to themed content comprising numerous videos and TV series that are regularly updated.

**HD games.** The Freebox Revolution offer enables subscribers to access games directly *via* their televisions. Through its partnerships with Gameloft – a leading worldwide developer and publisher of downloadable video games – and TransGaming – the global leader in the multiplatform deployment of 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.

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

The Hosting business corresponds to the sale of non-dedicated web hosting services, the provision of dedicated servers and bespoke solutions for communications systems management.

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.

#### 6.2.1.1.3 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) Wi-Fi 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 Mbps (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 Mbps) as well as offering access to value-added services such as audiovisual services over ADSL (Mpeg 2 and Mpeg 4 format):

#### FREEBOX V4



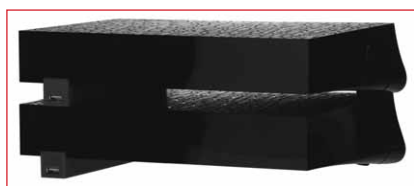
- Freebox HD or V5 (launched in 2006): This version has two boxes (a modem and a TV box) connected together using PLC technology, and also features a 40 GB digital hard disk and Wi-Fi MiMo 802.11n:

#### 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 (Wi-Fi 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 Iliad subsidiaries. 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 cross-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.

### 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), 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 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.

### 6.2.1.3 Mobile telephony

When the Group obtained its 3G mobile license in January 2010 it launched the rollout process for its mobile operations in order to propose its first mobile offerings as from early 2012.

#### 6.2.1.3.1 3G mobile services

On January 12, 2010 by way of ARCEP Decision 2010-0043, the Group was awarded France's "fourth mobile license" which authorized it to use frequencies in the 2.1 GHz and 900 MHz bands to set up and operate a third-generation (3G) mobile communications network in mainland France.

Since this license was acquired – at a price of €242.7 million – Free Mobile has strengthened its teams, especially in mobile engineering, rollout management and real estate negotiations. The company also uses service providers specialized in the various rollout phases of a site, ranging from seeking out and identifying potential sites to infrastructure and installation work.

Through these various teams, Free Mobile has put in place a specific organizational structure to manage and oversee its network rollout process, which notably involves:

- seeking out sites, which entails site identification and reporting on each site's mobile coverage potential;
- undertaking discussions with all types of lessors, including private individuals, condominium owners, housing associations, corporate and institutional lessors and companies with substantial real estate portfolios such as hotel chains;
- carrying out administrative and regulatory procedures to obtain the necessary authorizations to perform works (such as preliminary planning statements, building permit applications, etc.);
- organizing, planning and managing projects as well as coordinating the work of the various people and entities involved in both the validation process and subsequent site construction work, notably via a collaborative information system;
- ensuring a full understanding of and compliance with safety rules related to performing installation works at height and the use of mobile communications equipment.

By putting in place this structure the Group was able to achieve direct coverage of more than 27% of the French population by end-2011. On December 13, 2011, having verified Free Mobile's coverage, ARCEP confirmed that the Group had complied with the coverage obligation contained in its 3G license. In view of the fact that this coverage obligation was met, the Group can now use the national roaming agreement signed between Free Mobile and Orange France on March 3, 2011 to launch its mobile services throughout the country.

All of the separate components of the Free Mobile launch project ran to schedule, including rolling out the mobile network, entering into agreements with terminal manufacturers, and setting up distribution channels and a subscriber management and relations service.

#### 6.2.1.3.2 4G mobile services

In addition to its above-described 3G license, in Decision 2011-1080 issued on September 22, 2011 ARCEP authorized Free Mobile to use a block of frequencies in the 2.6 GHz band in mainland France in order to set up and operate a fourth-generation (4G) mobile network.

Thanks to the frequencies allocated under this license, Free Mobile will be able to propose 4G mobile telephony services. It will also be able to meet the growing demand for ever-higher transmission speeds by offering some of the highest speeds available in the market, and to strengthen its technical and pricing innovation capacity over the long term. The network currently being rolled out by Free Mobile is already 4G compatible.

### 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 recurring 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 Mbps 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

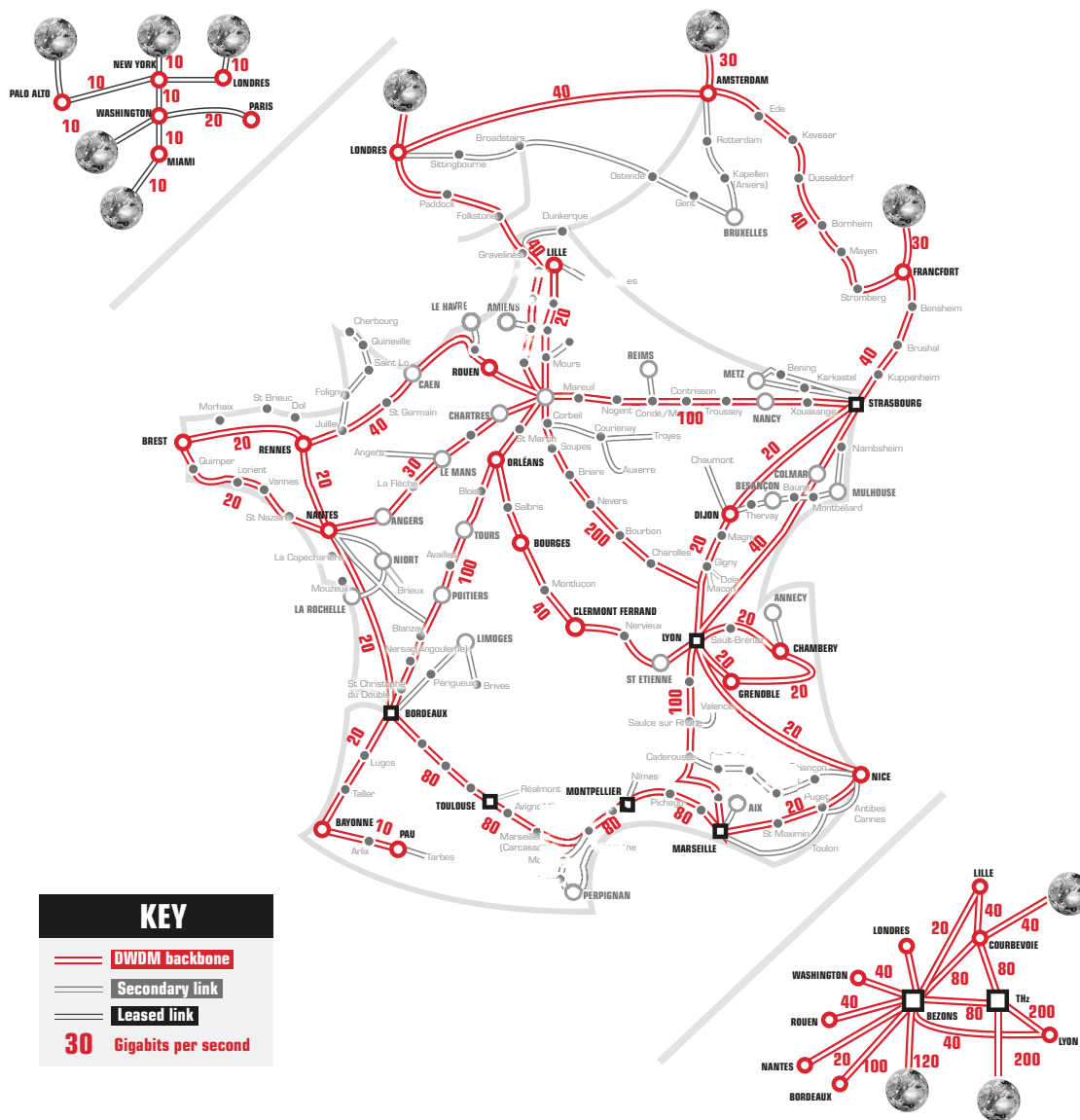
#### 6.2.2.1.1 Long-distance transmission network technology

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, 2011



The Group's network comprised some 64,000 linear km of optical fiber at December 31, 2011, compared with 58,300 km at December 31, 2010.

#### 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, Completel and Verizon relating to terminating traffic entering their networks as well as traffic for value-added services collected by these operators. At the same time, these 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.

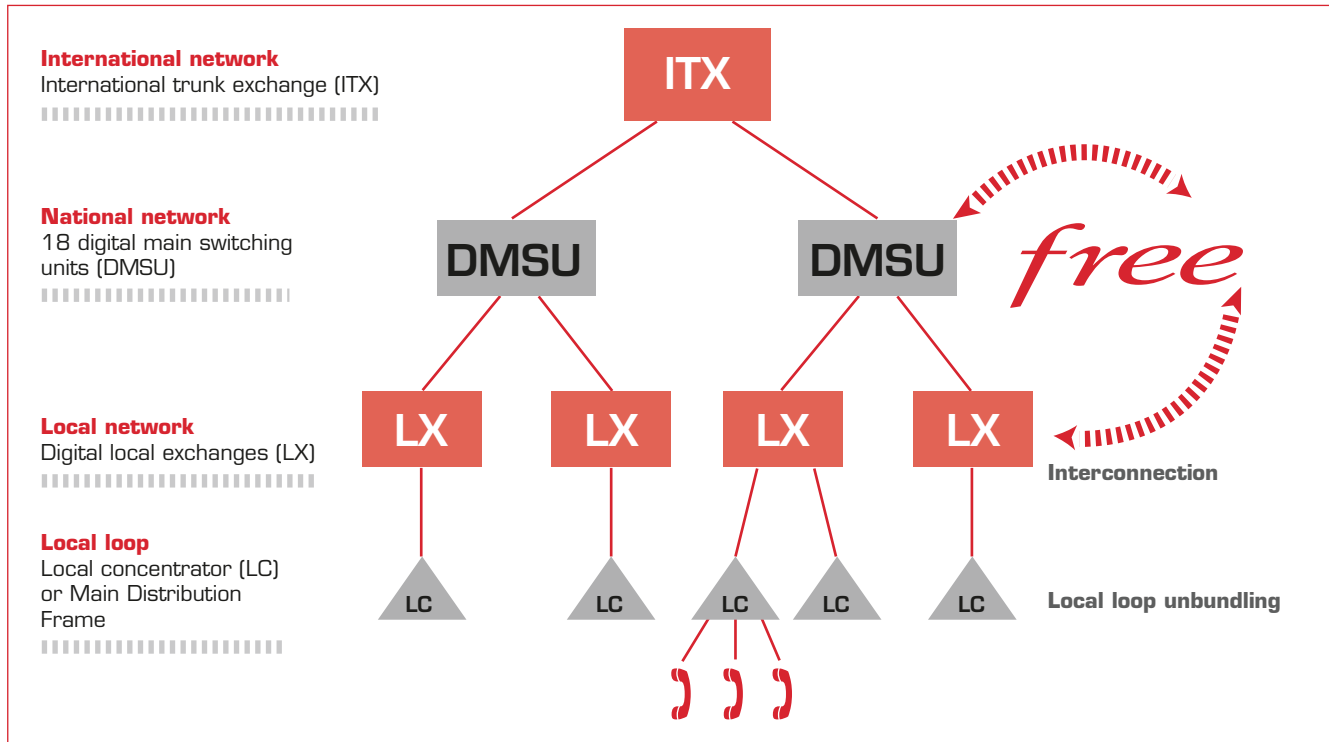
##### 6.2.2.2.1 Interconnection architecture between the Group's network and the incumbent operator's network

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 by 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	360	385

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

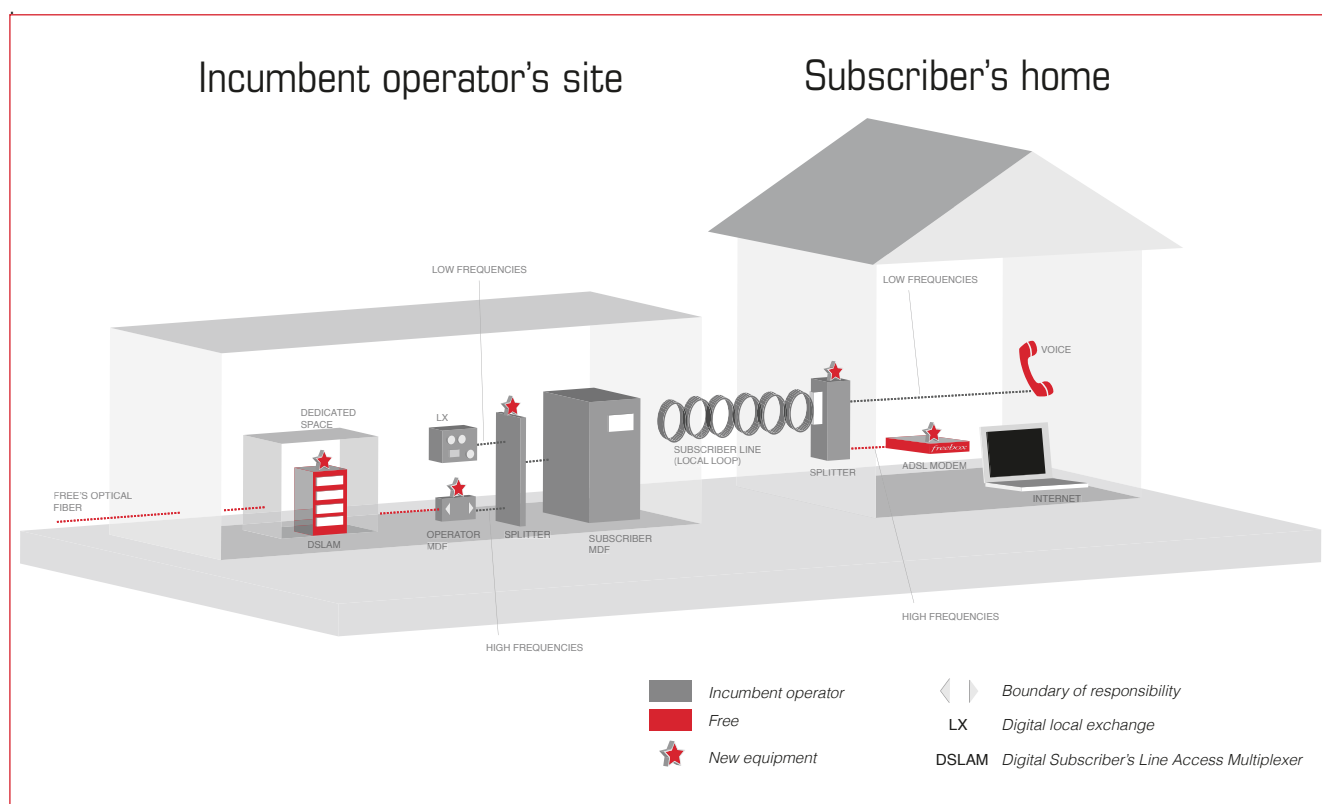
The local loop is the part of the network located between the telephone socket on the subscriber's premises and the main distribution frame (or local concentrator) to which the subscriber's line is connected.

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 Mbps.

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 enables alternative operators to become largely independent from 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.

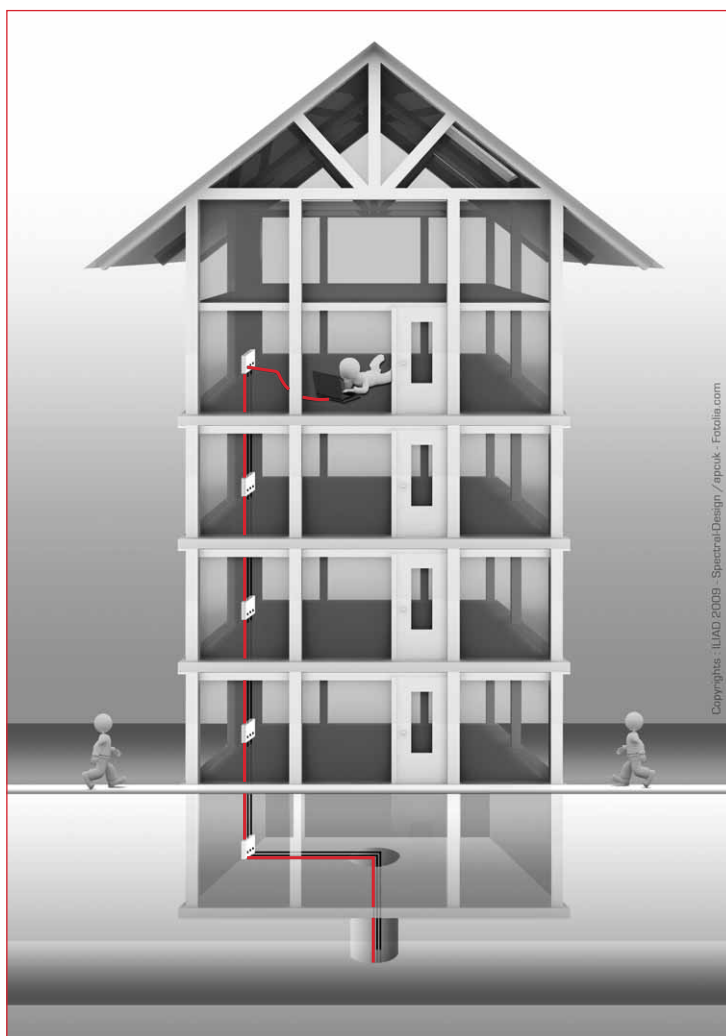
In the case of full unbundling, the alternative operator uses all the frequencies of a particular copper pair. In this case the user no longer pays telephone line rental to the incumbent operator and splitters are no longer necessary.

### 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 Mbps 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 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.

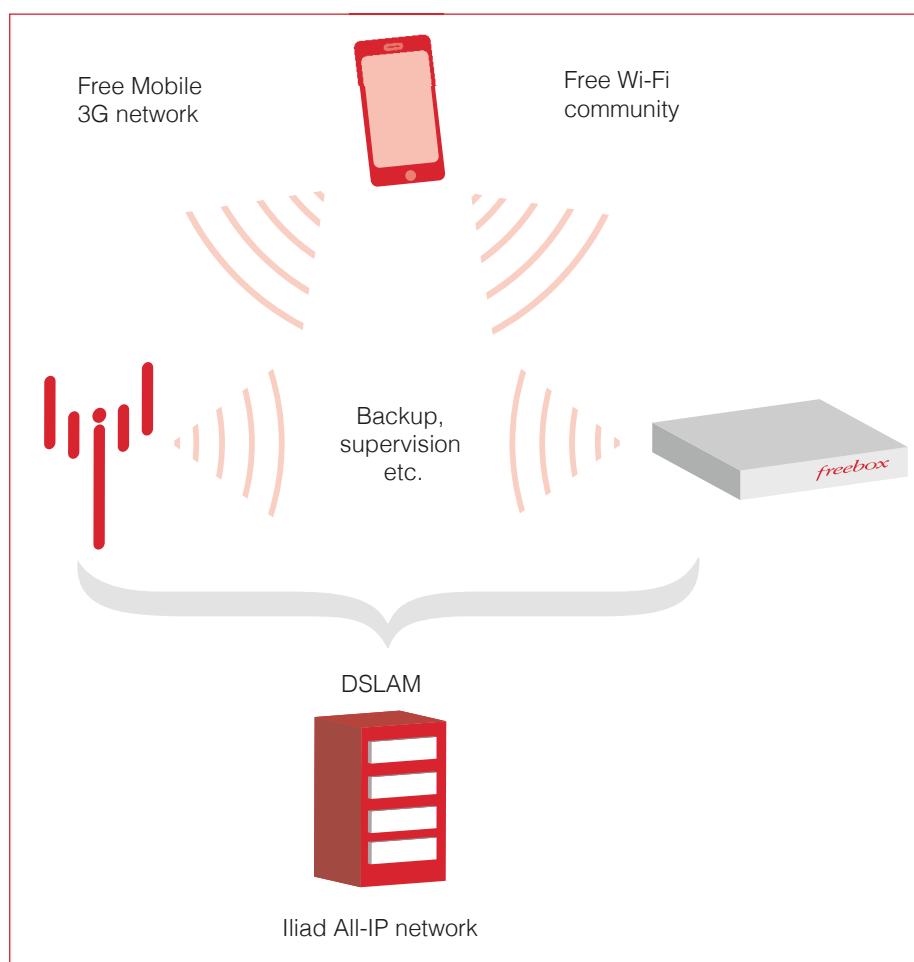
On December 22, 2009, ARCEP issued Decision 2009-1106 promoting the sharing between operators of the last drop of optical fiber local loop networks, which will facilitate vertical rollouts. Consequently, Iliad expects the pace of its vertical rollouts to become gradually faster.

#### 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.

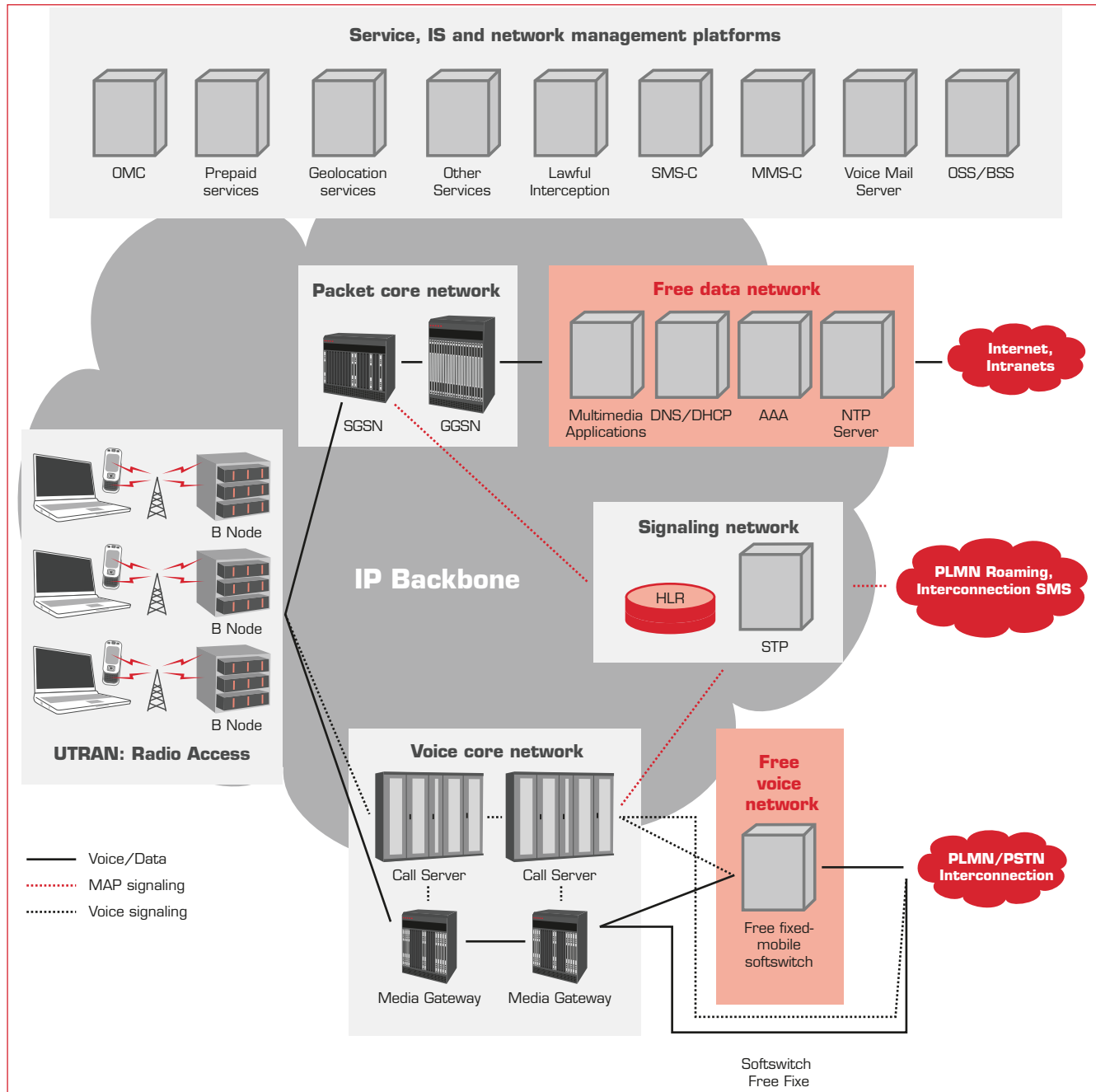
As IP technology is already used in a large number of mobile core networks across the world, equipment manufacturers are fully aware of and factor in its restrictions and consequences. In addition, the topology of the Group's IP network and the length of the rings deployed for the national network will 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. Therefore, by end 2011, the network rolled out by Free Mobile will ensure a coverage of more than 27% of the population in mainland France as confirmed by ARCEP on December 13, 2011.

#### 6.2.2.4.1 Architecture of the 3G mobile network

The architecture of the Group's 3G mobile network is summarized in the diagram below:



Free Mobile's 3G mobile network is therefore a smooth fit with the fixed Next Generation Network (NGN) currently used by the Iliad Group:

- in terms of logical architecture:
  - the two networks use the same addressing plan,
  - the Free Mobile core network directly interacts with the network equipment and services of the fixed network (in particular switches, interconnection capacity with third-party PLMN/PSTN networks, and multimedia applications such as e-mail and voice messaging);
- in terms of physical architecture:
  - the links to the mobile core network are provided through Internet Protocol (IP) links and the capacities of the fixed network,
  - the equipment for the mobile core network are located in the infrastructure (sites and secured rooms) used for the fixed network and are collocated wherever possible with the fixed network equipment with which it is interfaced.

#### 6.2.2.4.2 Coverage undertakings for the 3G mobile network

Free Mobile has made the following network coverage commitments relating to its 3G license:

Date	January 2012	January 2017	January 2020
<b>REMINDER: REQUIREMENTS IMPOSED AS PART OF THE LICENSE BID PROCESS</b> <i>(proportion of the population of mainland France covered by services)</i>			
Voice	25%	-	80%
Packet mode data (144 kbps two-way speed)	20%	-	60%
<b>FREE MOBILE'S COVERAGE UNDERTAKINGS</b> <i>(proportion of the population of mainland France covered by services)</i>			
Voice	27%	75%	90%
Packet mode data (144 kbps two-way speed)	25%	69%	83%

Since it acquired its 3G license, 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. It has also started a large-scale search and negotiation procedure for the sites required in order for it to operate its 3G network across France. By late 2011, the network rolled out by Free Mobile covered over 27% of the population in mainland France, a figure that was validated by ARCEP on December 13, 2011. Consequently, by that date Free Mobile had complied with its first coverage undertaking, ahead of schedule.

### 6.2.3 COMPETITIVE ADVANTAGES

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

#### Free – a well-known brand in the French Internet sector

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. The mobile business launched in early 2012 will also reap the benefits of these corporate values and the reputation they have built for the Group.

#### 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-performing 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, 2011 the Group had over 4.4 million unbundled lines thanks to the installation of approximately 6,100 Freebox DSLAMs in 3,900 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 implementing innovative technological solutions for 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 the experience it gained when integrating Alice between 2008 and 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.

Lastly, by way of ARCEP Decision 2011-1080, on September 22, 2011 Free Mobile was authorized to use a block of frequencies in the 2.6 GHz band in mainland France in order to set up and operate a fourth-generation (4G) mobile network.

Summary of the Group's frequencies portfolio:

Technology	Frequency bands	Frequencies held by the Group
3G	900 Mhz	5 Mhz Duplex
	2100 Mhz	5 Mhz Duplex
4G	2600 Mhz	20 Mhz Duplex
Wimax	3400 Mhz	15 Mhz Duplex

### 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. 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 also achieve the objective of enhancing its underlying offerings and reducing the number of subscription cancellations.

### 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.

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 Wi-Fi (802.11n) and a Blu-ray player.

The Group considers that these services strengthen the appeal of its ADSL broadband offering and help foster subscriber 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 <sup>(1)</sup>

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 very densely populated areas (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 raise 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 plans to continue to roll out this technology in order to increase the number of FTTH-eligible households.

### Distribution policy

The Group has established itself as a benchmark operator in the distribution of triple play ADSL offers through online and telephone sales. The Group intends to use these non-physical distribution channels for its mobile services while leveraging its base of some 5 million loyal subscribers.

In 2011, Iliad also began the rollout of a distribution network based on physical sales outlets in a number of test areas. By the year-end the Group had three Free stores called Free Centers. The aim is to open around 15 new stores in 2012. If the feedback from these pilot stores is satisfactory the Group could roll out a total of around 100 stores, which will give it a physical distribution network across France.

### Offering the most competitive mobile telephony deals in the market

In accordance with the commitments made in connection with its licenses, on January 10, 2012 the Group launched two transparent mobile offerings. The packages concerned are straightforward and attractively priced, in line with Free's long-standing strategy for the high-speed and very high-speed broadband markets of proposing access to mobile services to the greatest number of clients for the best possible all-inclusive prices.

The underlying aim of this strategy is to offer the best prices in the market for packages that encompass a fully comprehensive range of uses, i.e. telephone calls, SMS text messaging, MMS and Internet.

(1) See Section 9.2.3.2 for details on the progress of the FTTH rollout project.

### Rolling out a mobile communications network

Free Mobile's rollout of its 3G network is focused on the following two aims:

- to increase the 3G network coverage for the population in mainland France. In accordance with its obligations in its 3G mobile license, Free Mobile is required to achieve population coverage levels of 75% by 2015 and 90% by 2018;
- to optimize the profitability of its mobile offerings. In order to achieve this, Free Mobile will need to ensure that the areas where there are peak concentrations of mobile subscriber traffic are covered by its network with a view to reducing the costs of mobile services, notably those generated in connection with the company's roaming agreement.

As the Group was awarded a 4G mobile license in September 2011 it must now roll out a mobile network using the 2600 MHz band. The 4G coverage will be created based on the Group's existing and future 3G infrastructure, which will enable Free Mobile to limit the number of sites required and pool as many rollout costs as possible. The 4G network will ultimately be used to offer subscribers very-high speed mobile services.

### 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. Consequently, since January 1, 2011, these packages have been subject to the standard 19.6% VAT rate applicable in France, whereas previously a portion of the packages was eligible for the reduced rate of 5.5%.

## 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 and Alice trademarks are covered by a license for use in France.

### 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 constantly keep its inventories at levels that are sufficient to meet its estimated needs for the following 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 signed on March 2, 2011 ensuring coverage for Free Mobile subscribers on Orange France's networks for a period of six years;
- an agreement entered into at the end of 2007 with the incumbent operator for the use of its civil engineering infrastructure. This 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, which involve the granting by local authorities or private operators such as SFR and Completel of the right to use the optical fibers that 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, which 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;
- agreements allowing the Group to offer deferred payment plans and insurance for subscribers;
- agreements for the supply mobile telephones.

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 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-2011, the provisions of this Code were primarily based on governmental order 2011-1012 dated August 24, 2011 which transposed into French law the following regulations and directives issued by the European Parliament and Council for the purpose of amending the EU's "2002 Telecoms Package":

- directive 2009/140/EC dated November 25, 2009 (the "Better Regulation Directive") amending the "Framework", "Access" and "Authorization" Directives. This 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 national regulatory authorities (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 NRAs 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;
- regulation (EC) 1211/2009 dated November 25, 2009 establishing the Body of European Regulators for Electronic Communications (BEREC). 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.

Further regulatory provisions are expected to be added to the French statutory framework but these had not been published by December 31, 2011.

By way of a reminder, the EU's 2002 Telecoms Package comprised the following six directives:

- 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 were supplemented by the following two EU regulations 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.

The main changes to the regulatory framework in France in 2011 and 2010 were as follows:

- general regulations:
  - new provisions were introduced in 2010 concerning operators' disclosure of information on the geographic coverage of their electronic communications services, following the publication of the implementing order for Article D. 98-6-2 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 regional level, following the publication of Decree no. 2010-57 dated January 15, 2010 concerning the security of such disclosures, and the implementing order for Article D. 98-6-3 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);
  - new provisions were introduced following the publication of Decree no. 2011-219 dated February 25, 2011 which require Internet service providers to store data enabling the identification of persons who participate in the creation of online content in order to provide such data to the legal authorities where requested;
  - new terms and conditions now apply to the allocation and management of top-level domain names (TLD) for the French national territory since the adoption of Law no. 2011-302 on March 22, 2011;
  - new statutory provisions have been introduced concerning requirements for ISPs to block access to certain websites and online content (such as illegal gaming sites or pedo-pornographic content) where ordered by the relevant administrative authorities (Law no. 2010-476 of May 13, 2010 on online betting and gaming and Law no. 2011-267 of March 14, 2011 on internal security). The relevant administrative authorities correspond to (i) ARJEL (France's online gaming regulator), which requires authorization from a court to take such action, or (ii) the Ministry of the Interior (via the OCLCTIC, France's body responsible for combating crime related to information technology and communications), which does not require a court order;
  - the French Parliament adopted the Finance Laws for 2011 and 2012 which made the following significant changes to the costs borne by operators:
    - since January 1, 2011 the reduced rate of VAT has no longer been applicable for cases 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;

The assessment base for the tax on television services provided for in Articles L. 115-6 to L. 115-9 of the French Cinema and Moving Pictures Code has been significantly changed and now includes all offers for access to online public communications services and telephony services whenever the price of the subscription to these services enables the user to receive television services (with a 66% reduction applied to the revenues concerned). Previously this tax only applied to offerings that included TV distribution services. The new tax will come into force during 2012 as final clearance is required from the relevant European authorities.

- regulations concerning mobile telephony:
  - on July 12, 2010, Law no. 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 no. 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.

Descriptions of each market analyzed during each phase of the process, along with a table tracking market developments, can be viewed on ARCEP's website at [www.arcep.fr](http://www.arcep.fr), under the section "Major files". The main ARCEP decisions currently in force resulting from these market analyses are the following:

- decision 2011-0483 dated May 5, 2011 relating to charges for voice call termination services on the mobile networks of Orange France, SFR and Bouygues Telecom for the period July 1, 2011 through December 31, 2013. The price caps set are shown in the table below:

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

In € cents	2003	2004	2005	2006	2007	2008	First-half 2009	Second-half 2009	First-half 2010	Second-half 2010	First-half 2011	Second-half 2011	First-half 2012	Second-half 2012	2013
Orange	17.07	14.94	12.5	9.5	7.5	6.5	6.5	4.5	4.5	3.0	3.0	2.0	1.5	1.0	0.8
SFR	17.07	14.94	12.5	9.5	7.5	6.5	6.5	4.5	4.5	3.0	3.0	2.0	1.5	1.0	0.8
Bouygues Telecom	24.67	17.89	14.79	11.24	9.24	8.5	8.5	6.0	6.0	3.4	3.4	2.0	1.5	1.0	0.8
Free Mobile	-	-	-	-	-	-	-	-	-	-	-	-	2.4	1.6	1.1

- decision 2010-0892 dated July 22, 2010 relating to ARCEP's analysis of the market for wholesale SMS terminations on mobile networks in France, identifying the operators which have significant power in this market and imposing obligations on said operators. In this decision the maximum SMS termination fee that Orange France, SFR and Bouygues Telecom can charge to other operators was set at 1.5 euro cents from July 1, 2011 through June 30, 2012 and 1 euro cent as from July 1, 2012;
- decision 2011-0926 dated July 26, 2011 relating to ARCEP's analysis of the landline telephony market, identifying the operators which have significant power in this market and imposing obligations on said operators. In this decision the maximum call termination fee for landline networks for all operators, including Free, was set at 0.3 euro cents per minute until June 30, 2012, 0.15 euro cents for the second half of 2012 and then 0.08 euro cents as from January 1, 2013;



- in addition, ARCEP issued its decision relating to the market analysis for the wholesale high-speed and very high-speed broadband markets in the summer of 2011, which will remain in force until the summer of 2014. A status report will be drawn up in fall 2012. The provisions relating to the asymmetric regulation system for ducts have now been extended to aerial infrastructure and the regulations on passive access to the unbundled copper local loop have been maintained and extended to cover access to the local sub-loop in order to increase the speeds available for subscribers. Furthermore, bitstream pricing is now required to be cost-oriented.

At December 31, 2011, ARCEP had notified the French competition authorities of a draft market analysis in which the maximum call termination fee for Free Mobile was set at 2.4 euro cents for the first half of 2012, 1.6 euro cents in the second half and 1.1 euro cents in 2013. These caps may be changed when ARCEP issues its final decision on the matter which is expected to be in the first half of 2012. At December 31, 2011 ARCEP had not yet started its market analysis process for Free Mobile's SMS terminations.

### 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 Télécom 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 very 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;
- Free Fréquences for frequencies in the 2,600 MHz band (ARCEP Decision 2011-1169 dated October 11, 2011), for the rollout and operation of a fourth-generation mobile communications network.

Free Mobile and Free Fréquences are 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;
- 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.

Free Fréquences has undertaken to (i) roll out a network that will cover at least 25% of the French population by the end of 2015, 60% by 2018 and 75% in 2023 and (ii) allow virtual mobile operators access to its 4G network. Free Fréquences may entrust Free Mobile with all or part of the rollout and activation of its network. In accordance with the conditions applicable for the 4G license bidding process, as a shareholder of Free Fréquences, Free Mobile has a roaming right on the 4G network that will be rolled out in the 800 MHz band by SFR.



## 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*).

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. Free Mobile has signed interconnection agreements with France Télécom, Orange France and SFR and has entered into negotiations with other operators relating to interconnection with their networks.

In addition ARCEP's remit relating to interconnection has been extended to cover Internet interconnection issues following the adoption of French governmental order 2011-1012 dated August 24, 2011 concerning electronic communications.

### Portability

Number portability is an obligation for all operators connecting end-subscribers. To that end, in January 2009 the main operators – including Free – set up a dedicated entity called *l'Association de la Portabilité des Numéros Fixes* (APNF). Free Mobile is also a member of an inter-company partnership called GIE EGP which comprises all of France's mobile operators and manages the information required for users to retain their mobile numbers. ARCEP has now carried out a public consultation process concerning mobile number portability and is expected to adopt a decision in the first half of 2012 to strengthen the applicable regulatory framework. The ultimate aim is for operators to be able to process number portability requests in one day.

### Directories and provision of subscriber lists

The Group has an electronic directory business operated under the "ANNU" brand. All landline and mobile 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 various landline and mobile operators under which they provide access to their databases for the purpose of publishing directories and/or providing information services.

Likewise, Free has signed an agreement with a number of players operating in the directory and/or information service markets, under which Free supplies a list of its subscribers that 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 cover the end-subscribers for whom Free provides telephone access.

When it launched its services, Free Mobile set up a facility for providers of information services to access its subscriber list, bearing in mind that unlike for landline subscriptions, mobile subscribers have to opt in before their information can be passed on.

### 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 no. 2004-669 dated July 9, 2004 extended the oversight powers of the French broadcasting watchdog, the *Conseil Supérieur de l'Audiotvisuel* 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 provider of audiovisual services via electronic communications networks, 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. For local public channels, this must-carry obligation also requires service providers to bear the technical costs of broadcasting the channels.

Under Law no. 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") – via the television services tax (see above) – which calculated based on the revenue generated by broadcasting audiovisual content. In addition, a law reforming the public audiovisual sector has set a new development framework for

public service television channels in France and created a regulatory framework for new audiovisual services such as video on demand. This law also provides for 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 no. 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 required to store the technical data related to connections that is necessary for criminal investigations or for the *Haute Autorité pour le Développement des Œuvres de l'Esprit* to carry out its regulatory duties. 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 the communication concerned has been carried out.

Historically under French law, communications operators have had a long-standing duty of neutrality concerning the content of the communications they transmit and have not been subject to any general obligation to monitor their subscribers. These principles were clearly affirmed at the European level in the judgment handed down on November 24, 2011 by the European Court of Justice in the *Scarlet v Sabam* case (C-70/10).

However at the French national level, new statutory provisions have been introduced concerning requirements for ISPs to block access to certain websites and online content (such as illegal gaming sites or pedo-pornographic content) where ordered by the relevant administrative authorities (Law no. 2010-476 of May 13, 2010 on online betting and gaming and Law no. 2011-267 of March 14, 2011 on internal security). The relevant administrative authorities correspond to (i) ARJEL (France's online gaming regulator), which requires authorization from a court to take such action, or (ii) the Ministry of the Interior (*via* the OCLCTIC, France's body responsible for combating crime related to information technology and communications), which does not require a court order.

### Intellectual property rights and the Internet

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.

These provisions were initially transposed into French law by way of Law no. 2006-961 dated August 1, 2006 (the DADVSI Law) concerning copyright and related rights in the information society. However following the "Elysée Agreements" of November 2007 the system based on the DADVSI Law was significantly amended by the "Hadopi" laws adopted on June 12, 2009 (Law no. 2009-669) and October 29, 2009 (Law no. 2009-1311). Law no. 2009-669 promotes the dissemination and protection of creative works on the Internet and introduced a specific "graduated response" system 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) – has been specifically created in order to manage and issue these messages. The law adopted on October 29, 2009 is aimed at protecting literary and artistic property and was adopted to round out the graduated response system by providing that in the event of repeat offenses a judge can levy a fine or even suspend the subscriber's Internet access.

These statutory provisions have also been supplemented by a number of regulatory provisions related to (i) types of data and interconnection of information systems (Decree 2010-536 of March 5, 2010) and (ii) the obligation for ISPs to act as a vector for the recommendations issued by the HADOPI (Decree 2010-1202 of October 12, 2010).

### Processing of personal data and protection of individuals

Law no. 2004-801 of August 6, 2004 on the protection of individuals with respect to the processing of personal data, amending Law no. 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 no. 2004-575 of June 21, 2004 on confidence in the digital economy and Law no. 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. Lastly, Governmental order 2011-1012 dated August 24, 2011 transposed into French law the new EU directives adopted in November 2009. 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 no. 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 offenses are punishable by a fine of up to €300,000 and five years' imprisonment;
- electronic communications operators are required to keep a registry of security failures and to notify the CNIL (National Commission for Information Technology and Freedom) of any breaches of personal data rules of which they are aware concerning their subscribers.

In the course of its business, the Group records and processes statistical data, including in particular data relating to the use of the services it provides to its subscribers and 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.

Concerning data relating to the use of its services, since June 18, 2008, the Group has been required to store all user identification data for a period of five years following subscription termination. In accordance with Article L. 34-1 of the French Post and Electronic Communications Code (as amended by Governmental Order 2011-1012 of August 24, 2011) technical data relating to connections has to be stored and then anonymized after a period of one year.

The Group may be required to pass on data it has in its possession on the identification, location and connection of a user of its services but such data may only be provided to duly authorized national legal and administrative authorities. The information passed on does not include any data concerning the content of any communications or information consulted. The categories of data covered by this requirement are currently set out in Decrees 2006-358 of March 24, 2006 and 2011-219 of February 25, 2011. In accordance with Law no. 91-646 of July 10, 1991 the Group may also be required to carry out legal interceptions of the electronic communications transmitted over its landline and mobile networks where required by the duly authorized legal and administrative authorities. This type of interception – for which the Group receives financial compensation from the French State following Decision 2000-441 of the French Constitutional Council (*Conseil Constitutionnel*) dated December 28, 2000 – is carried out in accordance with a strict supervisory framework by qualified professionals using equipment that is duly authorized and controlled by the relevant authorities.

## 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 legal provisions relating to the allocation and management of top-level domain names (TLD) for the French national territory are set out in Law no. 2011-302 of March 22, 2011 as codified in Articles L. 45 *et seq.* of the French Post and Electronic Communications Code. 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

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## 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 company is Iliad which receives financial income in the form of 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 and 16 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. A number of specialized committees have been set up which report to Group Management and are responsible for the Group-wide application and control of Iliad's internal guidelines. These guidelines are also reviewed by the Audit Committee. There are strong operating links between the Group's subsidiaries at several levels: (i) the Group's telecommunications network is lodged within Free and Free Mobile, which are responsible for carrying the traffic of all the Group's entities, (ii) Free and Free Mobile manage 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.

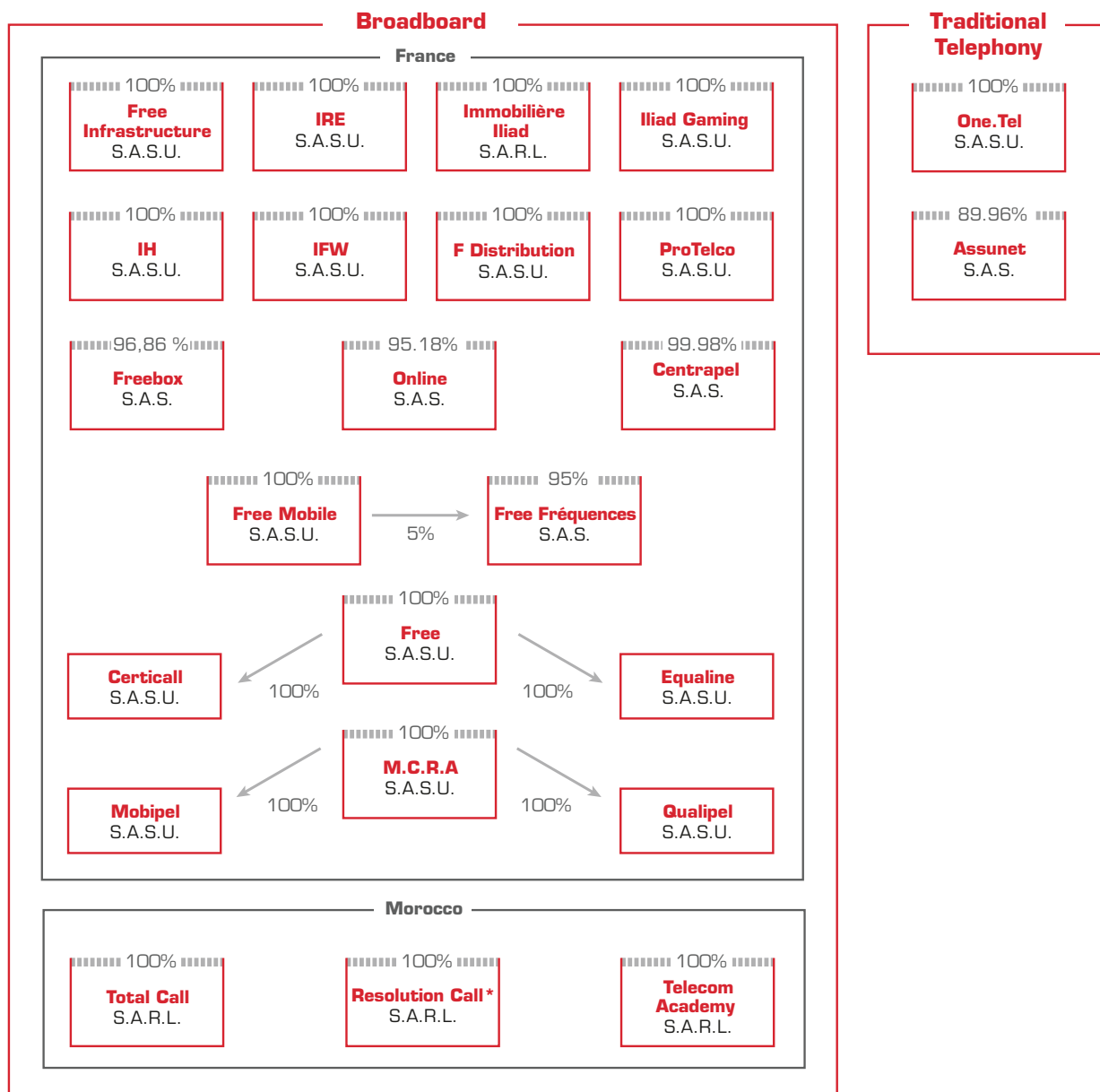
A number of suppliers only wish to work with Iliad, which means that Iliad receives all the invoices issued by these suppliers for services provided to all of the Group's entities. Iliad therefore rebills these amounts to the subsidiaries concerned.

In view of the launch of the Group's mobile business, 7 new companies were formed in 2011. The Group does not have any significant minority shareholders.

## 7.2 GROUP ORGANIZATION CHART AT DECEMBER 31, 2011

The percentage interests shown below correspond to the Company's ownership interests in the main fully consolidated companies at December 31, 2011.

### ILIAD S.A.



See Note 35 to the consolidated financial statements (Section 20.1) and Note 2.3.4 to the parent company financial statements (Section 20.2) for a list of the Group's consolidated companies at December 31, 2011.

(\*) formerly Call One BPO







# 8

## PROPERTY, PLANT AND EQUIPMENT

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## 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 or five years as from the date the related assets are brought into service.

The Group also capitalizes various expenses incurred in 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 the Paris area.

For further details on the Group's property, plant and equipment see Note 19 to the 2011 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 addition, the Group has signed a co-financing agreement with the incumbent operator for rollouts in areas that do not fall within the densely populated category in order to streamline the work required in those areas.

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 environmental impact of early telephone renewals in the mobile market by encouraging the use of existing telephones on its mobile network, providing telephones without SIM-locks that can be used on other networks, and working with partners to promote recycling and reconditioning of used equipment.

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





# 9

## MANAGEMENT REPORT

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## 9.1 ANALYSIS OF THE GROUP'S BUSINESS AND RESULTS

### KEY CONSOLIDATED FINANCIAL DATA

<i>In € millions</i>	Year ended December 31, 2011	Year ended December 31, 2010	Year ended December 31, 2009
<b>INCOME STATEMENT</b>			
Revenues	2,122.1	2,038.3	1,954.5
Operating income and expense, net	(1,623.9)	(1,560.4)	(1,595.1)
<b>Gross profit</b>	<b>1,170.4</b>	<b>1,138.8</b>	<b>1,034.2</b>
<b>Ebitda</b>	<b>833.4</b>	<b>798.1</b>	<b>661.4</b>
Profit from ordinary activities	498.2	477.9	359.4
Other operating income and expense, net	(4.6)	61.0	(26.5)
Operating profit	493.6	538.9	332.9
Finance costs, net	(46.8)	(41.7)	(50.7)
Other financial income and expense, net	(34.0)	(7.8)	1.7
Corporate income tax	(161.0)	(176.3)	(109.0)
Profit for the period	251.8	313.1	175.9
<b>Profit for the period before non-recurring items</b>	<b>254.8</b>	<b>273.2</b>	<b>193.3</b>
<b>BALANCE SHEET</b>			
Non-current assets	3,204.0	1,904.4	1,602.9
Current assets	600.5	516.2	820.8
<i>Of which cash and cash equivalents</i>	<i>357.4</i>	<i>347.5</i>	<i>633.9</i>
Assets held for sale	54.9	71.6	31.5
<b>Total assets</b>	<b>3,859.4</b>	<b>2,492.2</b>	<b>2,455.2</b>
Total equity	1,523.9	1,078.3	764.4
Non-current liabilities	1,466.3	1,016.0	1,140.5
Current liabilities	869.2	397.9	550.3
<b>Total equity and liabilities</b>	<b>3,859.4</b>	<b>2,492.2</b>	<b>2,455.2</b>
<b>CASH FLOWS</b>			
Net cash generated from operating activities	779.6	874.9	734.3
Net cash used in investing activities	(1,156.4)	(793.7)	(424.2)
Net cash generated from (used in) financing activities	389.8	(374.1)	(17.1)
Net change in cash and cash equivalents	13.0	(292.9)	293.0
Cash and cash equivalents at year-end	350.5	337.5	630.4

## 9.2 OVERVIEW

The Iliad Group (also referred to as the “Group”) is a major player in the telecommunications market in France, with a market share of 23% in the ADSL broadband segment at December 31, 2011.

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), operations related to the rollout of the FTTH (fiber-to-the-home) network (Free Infrastructure, IRE, Immobilière Iliad and Citéfibre), mobile telephony activities (Free Mobile), 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 2011, 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, particularly following the commercial launch of its mobile operations on January 10, 2012.

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 end of the reporting period.

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 the 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 57, 100 or 101 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.
- The Group also has the most comprehensive catch-up TV offering in the market, through which subscribers can watch or re-watch programs shown on 39 channels within seven days of their initial broadcast. This service is offered at no extra charge for channels included in the subscriber’s television package, subject to availability.

\* Resolution Call.

The Group was the first operator in France to broadcast genuine 3D channels (with a total of five at December 31, 2011, including two in the basic package) – a move that has reaffirmed its technological edge over its competitors.

Since April 2011, the Group has offered its subscribers the possibility of building up their own Disney and ABC collections. Through this exclusive service – which is the first of its kind in France – subscribers can watch films and series *via* streaming as many times as they like and can also download content and transfer it onto any DivX® certified hardware.

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, Cinéma[s] à la demande, M6 VOD and Vodeo.tv. 3D content is also offered on several platforms.
- This service enables subscribers to access a catalog of movies at prices starting at €0.99 per movie 24 hours a day, seven 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 for 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 2011, 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 offer enables subscribers to access games directly *via* their televisions. Through its partnerships with Gameloft – a leading worldwide developer and publisher of downloadable video games – and TransGaming – the global leader in the multiplatform deployment of 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 is structured around three service areas, each of which is represented by a brand:

- **shared hosting services,** marketed under the Online brand, which correspond to hosting provided on the Iliad Group's web site equipment as well as the purchase and resale of domain names. These services are invoiced to customers based on an annual subscription. They are referred to as "shared" hosting services because the same server is used to host several sites for several different subscribers. This offering is primarily targeted at private individuals and very small businesses that have relatively low data storage requirements;
- **dedicated hosting services,** marketed under the Dedibox brand, which correspond to the provision of a dedicated server hosted on the Group's premises. This offering – which is invoiced based on a monthly subscription – proposes a wide range of servers and related prices depending on subscribers' data storage requirements. Subscribers manage their servers and hosted data remotely. The offering responds to a broad spectrum of needs, ranging from private individuals who wish to secure their backups to SMEs that require a large amount of secure data storage space;
- **server collocation services,** marketed under the Iliad Entreprises brand, which are solely proposed to businesses. This offer consists of providing physical space in our datacenters to house subscribers' bays and servers in a fully secure and accessible space. The amount of space rented can vary from a few square meters to a large-scale dedicated area that can house numerous server bays. In addition to these services Iliad Entreprises offers outsourcing solutions and the purchase and resale of hosting equipment if required by the subscriber.

The Group implemented a capital expenditure program for its Hosting business in 2011, acquiring a new 12,000 sq.m site and increasing the server housing capacity at its first datacenter.

### 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) Wi-Fi cards and related equipment, as well as the preselection offering, migration to unbundled offers 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".

#### 9.2.1.2 Traditional Telephony revenues

Traditional Telephony segment revenues are generated through the following offerings:

- One.Tel's no-subscription carrier preselection offering;
- other offerings including ANNU (the reverse look-up directory accessible by Minitel, telephone, Internet and SMS text messaging), Assunet (an insurance broker) and Iliad Telecom (a 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. 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, 2011:

- **operating costs under Option 1 (partial unbundling):**
  - rental of the copper pair and the ADSL splitter: €1.70,
  - other costs (backhaul cables, room rental, optical fiber leasing payments, etc.): €1.99,
- **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.): €1.99;
- **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 Option 5, 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.

The monthly subscription fee for the DSL Access service was set at €7.30 effective from July 1, 2010 and was reduced to €4.25 as from September 1, 2011.

For the DSL Access Only service the monthly subscription fee was set at €14.15 effective from July 1, 2010 and was reduced to €12.37 as from September 1, 2011.

IP transit service costs vary depending on the bit rate used by all Option 5 subscribers. The price terms applicable in 2011 were as follows:

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

On November 1, 2011 access fees were raised to €3.90 per month.

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 in the Group's balance sheet 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:

- since December 14, 2010, subscribers have been supplied with either the Freebox HD under the traditional offering or the latest-generation Freebox under the Freebox Revolution offer. The Freebox Revolution incorporates state-of-the-art technologies such as PLC (Power Line Communication), a Blu-ray player, a gyroscopic remote control, a gamepad and loud speakers. At the time of its launch, the cost of a Freebox Revolution was around €300. However, during 2011 the Group implemented measures to optimize its production costs, which enabled it to reduce the cost of a Freebox Revolution to around €275;
- fees invoiced by the incumbent operator for access to unbundling services are €50 per subscriber for full unbundling and €60 for partial unbundling.

In view of the numerous innovations incorporated into the Freebox Revolution, the depreciation period for these boxes has been set at five years compared with four years for the previous version, the Freebox HD.

In view of the features of the Group's subscriber base as well as the average useful life of the hardware concerned and the current market dynamics, the Group decided to increase the depreciation period for access fees and logistics costs from four to five years as from January 1, 2011.

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 five years as from when the related services are provided.

### 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.

In very densely populated areas, as defined by ARCEP, 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");
- "vertical rollout", which consists of:
  - laying optical fiber within buildings up to the front doors of each household or business for which Free Infrastructure holds the connection agreement, or
  - connecting buildings made available by third-party operators under rollout pooling agreements;
- 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, 2011 the Group had 225 such sites against 209 one year earlier.

In 2011 the Group continued to focus on horizontal rollouts – undertaken either by the Group's own teams or subcontractors and particularly 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.

In view of the delays experienced with implementing the pooling agreements entered into with other operators in relation to the vertical phase, there were slightly fewer in-building rollouts than expected in 2011, which meant that the Group had to revise downwards its target of some 100,000 connected subscribers by the year-end. However, Iliad expects its in-building rollouts to pick up pace over the course of 2012. To date, the Group acts as "building operator" for over 300,000 households and has access to a base of over 1,700,000 householders that are connected up by Orange, SFR or other operators.

For areas that do not fall within the "very densely populated" category, the Group has entered into a co-financing agreement with France Télécom - Orange for some sixty conurbations representing around 5 million homes. The agreement falls within the scope of France Télécom - Orange's third-party operator access offer for its FTTH network outside very densely populated areas, which allows each operator to invest only to the extent of the lines needed to serve its subscribers in the local area concerned. This pooling of resources to introduce a network shared among the fiber optic providers and subscribers is aimed at expanding the service to a wider population.

### 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 strengthened its own teams, especially in mobile engineering, rollout management and real estate negotiations. The company has also built up a network of service providers specialized in the various rollout phases of a site, ranging from seeking out and identifying potential sites to infrastructure and installation work.

Through these various teams, Free Mobile has put in place a specific organizational structure to manage and oversee its network rollout process, which notably involves:

- seeking out sites, which entails site identification and reporting on each site's mobile coverage potential;
- undertaking discussions with all types of lessors, including private individuals, condominium owners, housing associations, corporate and institutional lessors and companies with substantial real estate portfolios such as hotel chains;
- carrying out administrative and regulatory procedures to obtain the necessary authorizations to perform works (such as preliminary planning statements, building permit applications etc.);

- organizing, planning and managing projects as well as coordinating the work of the various people and entities involved in both the validation process and subsequent site construction work, notably via a collaborative information system;
- ensuring a full understanding of and compliance with safety rules related to performing installation works at height and the use of mobile communications equipment.

By putting in place this structure the Group was able to achieve direct coverage of more than 27% of the French population. On December 13, 2011, having verified Free Mobile's coverage, ARCEP confirmed that the Group had complied with the coverage obligation contained in its 3G license.

Based on the 1,000 sites that have already been set up and its rollout plan of 6,000 sites, the Group is standing by the objectives set in connection with Free Mobile's commitments to ARCEP, namely to achieve population coverage levels of 75% of the French population by 2015 and 90% by 2018.

The aggregate amount of network expenditure forecast for the purposes of rolling out the Group's mobile network is €1 billion. In 2011, total capital outlay for the mobile business came to €417 million, including €274.5 million for the 4G license. Thanks to the frequencies allocated under this license, Free Mobile will be able to propose its mobile telephony services to a greater number of subscribers and rapidly build up a 4G mobile web offering. It will also be able to meet the growing demand for ever-higher transmission speeds by offering the highest speeds available in the market, and to strengthen its technical and pricing innovation capacity over the long term. The network currently being rolled out by Free Mobile is already 4G compatible.

Lastly, during the first half of 2011, the Group signed a 2G and 3G roaming agreement with France Télécom with a six-year term effective from the launch of the Group's mobile offering.

### 9.3 SIGNIFICANT EVENTS OF THE YEAR

<i>In € millions</i>	2011	2010	% change
<b>Consolidated revenues</b>	<b>2,122</b>	<b>2,038</b>	<b>4%</b>
<b>Ebitda</b>	<b>833</b>	<b>798</b>	<b>4%</b>
<i>as a % of revenues</i>	39.3%	39.2%	
<b>Profit from ordinary activities</b>	<b>498</b>	<b>478</b>	<b>4%</b>
Profit for the period	252	313	-20%
<b>Profit for the period before non-recurring items</b>	<b>255</b>	<b>273</b>	<b>-7%</b>
Free Cash Flow from ADSL operations	307	436	-30%
<b>LEVERAGE RATIO</b>	<b>1.16X</b>	<b>0.87X</b>	

The year 2011 saw (i) the commercial success of the Freebox Revolution offer, enabling the Group to achieve a record market share with over 27% of the market's new subscribers, and (ii) a change in the VAT regime applicable to triple play offers. At the same time, the Group was able to maintain its solid financial structure.

Against this backdrop, Iliad managed to step up its pace of growth, while maintaining high profitability levels. Consolidated revenues for the year as a whole climbed 4% to €2,122 million, buoyed by a 5.6% increase in the second half.

The Group's high profitability levels in 2011 were achieved despite the dilutive impact of (i) calls to mobile numbers and to Algeria being included in the Freebox Revolution offer, (ii) the change in the VAT regime, and (iii) the losses incurred on the mobile business. By continuing to apply the virtuous business model focused on unbundling and implementing cost optimization measures across the Group's expense items, Iliad was able to post a consolidated Ebitda margin of 39.3%, slightly higher than the record level reported in 2010.

Profit from ordinary activities rose by just over 4% in 2011 to €498 million from €478 million the previous year. This increase was driven by both the enhanced profitability mentioned above as well as the fact that the depreciation-to-revenues ratio remained stable.

Profit for the period before non-recurring items totaled €255 million, down 7% on 2010. The overall profit figure for 2010 was boosted by more than €39 million as a result of non-recurring income received during the year.

In line with Group forecasts, free cash flow cash from ADSL operations contracted to €307 million from €436 million in 2010 due to the commercial success of the Freebox Revolution offer.

In spite of the Group's pro-active capital expenditure plan, its financial structure was extremely solid at December 31, 2011, with:

- a leverage ratio of 1.16x compared with 0.87x at December 31, 2010;
- a near-€200 million increase in consolidated equity due to the conversion of two thirds of the Océane bonds issued in 2006; and
- a successful first bond issue representing €500 million.

## 9.4 COMPARISON OF RESULTS FOR 2011 AND 2010

<i>In € millions</i>	2011	2010	% change
<b>Revenues</b>	<b>2,122.1</b>	<b>2,038.3</b>	<b>4.1%</b>
Purchases used in production	(951.7)	(899.5)	5.8%
<b>Gross profit</b>	<b>1,170.4</b>	<b>1,138.8</b>	<b>2.8%</b>
<b>as a % of revenues</b>	<b>55.2%</b>	<b>55.9%</b>	
Payroll costs	(129.0)	(104.4)	23.6%
External charges	(147.3)	(144.1)	2.2%
Taxes other than on income	(17.3)	(37.3)	-53.6%
Additions to provisions	(29.6)	(29.0)	2.1%
Other income and expenses from operations, net	(13.8)	(25.9)	-46.7%
<b>Ebitda</b>	<b>833.4</b>	<b>798.1</b>	<b>4.4%</b>
<b>as a % of revenues</b>	<b>39.3%</b>	<b>39.2%</b>	
Share-based payment expense	(10.0)	(8.1)	23.5%
Depreciation, amortization and provisions for impairment of non-current assets	(325.2)	(312.1)	4.2%
<b>Profit from ordinary activities</b>	<b>498.2</b>	<b>477.9</b>	<b>4.2%</b>
Other operating income and expense, net	(4.6)	61.0	-
<b>OPERATING PROFIT</b>	<b>493.6</b>	<b>538.9</b>	<b>-8.4%</b>
Finance costs, net	(46.8)	(41.7)	12.2%
Other financial income and expense, net	(34.0)	(7.8)	-
Corporate income tax	(161.0)	(176.3)	-8.7%
<b>Profit for the period</b>	<b>251.8</b>	<b>313.1</b>	<b>-19.6%</b>
<b>PROFIT FOR THE PERIOD BEFORE NON-RECURRING ITEMS</b>	<b>254.8</b>	<b>273.2</b>	<b>-6.7%</b>

## 9.4.1 ANALYSIS OF CONSOLIDATED RESULTS

### 9.4.1.1 Revenues

The table below shows the breakdown of revenues by segment and category for 2011 and 2010 as well as the percentage change between the two years.

In € millions	2011	2010	% change
ISP revenues (ADSL, Pay-as-you-go, dial-up packages)	2,058.4	1,975.9	4.2%
Hosting and advertising revenues	32.4	26.4	22.7%
Other revenues	20.5	22.6	-9.3%
Inter-segment sales	2.4	3.8	-36.8%
<b>Total Broadband revenues</b>	<b>2,113.8</b>	<b>2,028.7</b>	<b>4.2%</b>
Traditional Telephony revenues (excluding inter-segment sales)	10.7	13.4	-20.1%
Inter-segment sales	23.5	27.7	-15.2%
<b>Total Traditional Telephony revenues</b>	<b>34.2</b>	<b>41.1</b>	<b>-16.8%</b>
<b>Elimination of inter-segment sales</b>	<b>(25.9)</b>	<b>(31.5)</b>	<b>-17.8%</b>
<b>TOTAL CONSOLIDATED REVENUES</b>	<b>2,122.1</b>	<b>2,038.3</b>	<b>4.1%</b>

Consolidated revenues climbed €83.8 million or 4.1% in 2011, topping the €2 billion mark once again due to ongoing growth in the Broadband segment. Meanwhile, revenue contribution from the Traditional Telephony segment continued to represent an increasingly negligible amount.

#### ISP revenues

ISP revenues rose 4.2% from €1,975.9 million to €2,058.4 million. This increase was achieved despite the negative impact caused by the change in VAT regime, which was particularly felt in January, and primarily reflects the combined effects of the following:

- **an excellent sales performance, fueled by the success of the Freebox Revolution offer.** Free gained 407,000 new subscribers in 2011 (net of terminations and excluding Alice subscriber migrations), with this high number reflecting both the very strong appeal of the Freebox Revolution offer and the Group's capacity to innovate and stand out from its competitors. This put Free's market share of net adds at nearly 35% <sup>(1)</sup>, representing a record high for the brand;
- **ongoing implementation of the loyalty and retention program for Alice subscribers.** In early 2011 the Group launched a program offering Alice subscribers the possibility of migrating to Free's offers (including the Freebox Revolution). A total of 85,000 Alice subscribers took up this option during the year and moved to one of Free's offers;

	December 31, 2011	December 31, 2010	December 31, 2009
<b>Total broadband subscribers</b>	<b>4,849,000</b>	<b>4,534,000</b>	<b>4,456,000</b>
- Free	4,461,000	3,969,000	3,778,000
Of which migrations from Alice to Free	85,000	-	-
- Alice	388,000	565,000	678,000
<b>Percentage of unbundled subscribers</b>	<b>92.2%</b>	<b>89.2%</b>	<b>85.4%</b>

- **a decrease in the Traditional Telephony segment's contribution concerning value added services**, as a result of (i) a reduction of some 31% in landline call termination charges over the year, (ii) the incorporation of new international destinations in the basic package, and (iii) the inclusion within the Freebox Revolution and Freebox offers (in non-unbundled areas) of calls to mobiles on the networks of all mainland France's national operators.

Based on the factors described above, the Group's Average Revenue Per User (ARPU) came in at €35.5 at end-2011. ARPU for Freebox Revolution subscribers stood at more than €38, in line with the Group's expectations.

In €	End-2011	End-2010	End-2009
ARPU	35.5	36.1	36.5

(1) Based on a total market of 1,147,000 net ADSL adds (source: ARCEP).

### 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 €32.4 million in 2011, up by more than 22% on the €26.4 million recorded for 2010. This year-on-year increase reflects the capital expenditure and business development plan put in place by the Group in 2011.

### Other Broadband revenues

Other Broadband revenues mainly comprise income from the sale of Wi-Fi cards, related equipment and other components. These revenues contracted year on year but the decrease did not significantly affect 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 weighting 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 €25.9 million in 2011 *versus* €31.5 million in 2010.

#### 9.4.1.2 Gross profit

Consolidated gross profit came to €1,170.4 million against €1,138.8 million in 2010 but as a percentage of revenues it edged down to 55.2%. The year-on-year change in these figures was attributable to the combination of:

- **the dilutive effect on gross profit of calls to mobile numbers and to Algeria being included in the Freebox Revolution offer.** As the Group expected, the success of the Freebox Revolution offer and the high number of calls made to mobile numbers weighed slightly on the Group's gross margin. This impact should taper off in line with the announced reductions in call termination charges;
- **the negative impact of the change in VAT regime for triple play offers**, which took effect on January 1, 2011 whereas the Group only started billing subscribers using the new pricing structure in February 2011;
- **the positive effect of lower operating costs and a rise in the unbundling rate.** The Group opened over 560 new connection nodes during 2011, pushing up its unbundling rate by 2.9 points to 92.1% by the year-end and reaching the target originally set.

#### 9.4.1.3 Payroll costs

Payroll costs excluding employee benefits and capitalized costs represented 6.1% of consolidated revenues in 2011.

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

The payroll costs figure for 2011 includes the impact of recruitments carried out in connection with developing the Group's mobile operations. In the fourth quarter of the year the Group took on over 900 new employees with a view to ensuring that the launch of its mobile offers would be a success.

#### 9.4.1.4 External charges

The Group's external charges stood at €147.3 million in 2011 against €144.1 million in 2010. This item mainly includes the costs of network maintenance, equipment hosting, insurance, advertising and sub-contracting.

#### 9.4.1.5 Taxes other than on income

Taxes other than on income decreased in 2011 to €17.3 million from €37.3 million in 2010.

#### 9.4.1.6 Additions to provisions

At €29.6 million, additions to provisions – which primarily correspond to provisions for bad debts – were on a par with the €29.0 million recorded in 2010.

#### 9.4.1.7 Other income and expenses from operations, net

This item represented a net expense of €13.8 million, compared with a net expense of €25.9 million in 2010. The total includes royalties, bad debt writedowns (net of provision reversals) and gains and losses on asset disposals.

#### 9.4.1.8 Ebitda

Consolidated Ebitda climbed 4.4% year on year to €833.4 million. The Ebitda margin edged up to 39.3%, primarily reflecting the combined impact of:

- the above-described slight decline in gross margin;
- the negative effect of losses arising due to the launch of the mobile business, mainly in the second half of the year;
- pro-active management of the fixed costs base.

#### 9.4.1.9 Profit from ordinary activities

Profit from ordinary activities rose 4.2% to €498.2 million in 2011 from €477.9 million the previous year, propelled by:

- the above-described increase in Ebitda;
- the fact that the depreciation-to-revenues ratio remained stable at 15.3% in 2011, unchanged from 2010.

#### 9.4.1.10 Profit for the period

In 2011, profit for the period before non-recurring items amounted to €254.8 million, down 6.7% year on year. The overall profit figure for 2010 was boosted by more than €39 million as a result of non-recurring income received during the year.

### 9.4.2 BREAKDOWN OF RESULTS BY SEGMENT FOR 2011 AND 2010

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.

In € millions	2011	2010	% change
<b>Revenues</b>	<b>2,113.8</b>	<b>2,028.7</b>	<b>4.2%</b>
Purchases used in production	(951.6)	(899.5)	5.8%
<b>Gross profit</b>	<b>1,162.2</b>	<b>1,129.2</b>	
as a % of revenues	55.0%	55.7%	<b>2.9%</b>
Payroll costs	(123.5)	(99.1)	24.6%
External charges	(138.0)	(140.2)	-1.6%
Taxes other than on income	(16.9)	(36.8)	-54.1%
Additions to provisions	(29.3)	(28.6)	2.4%
Other income and expenses from operations, net	(13.7)	(25.7)	-46.7%
<b>Ebitda</b>	<b>840.8</b>	<b>798.8</b>	
as a % of revenues	<b>39.8%</b>	<b>39.4%</b>	<b>5.3%</b>
Share-based payment expense	(8.7)	(6.9)	26.1%
Depreciation, amortization and provisions for impairment of non-current assets	(324.9)	(311.9)	4.2%
<b>Profit from ordinary activities</b>	<b>507.2</b>	<b>480.0</b>	<b>5.7%</b>
Other operating income and expense, net	(4.6)	50.6	-
<b>OPERATING PROFIT</b>	<b>502.6</b>	<b>530.6</b>	<b>-5.3%</b>

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

<i>In € millions</i>	2011	2010	% change
<b>Revenues</b>	<b>34.2</b>	<b>41.1</b>	<b>-16.8%</b>
<b>Gross profit</b>	<b>33.2</b>	<b>39.3</b>	<b>-15.5%</b>
<b>Ebitda</b>	<b>(7.4)</b>	<b>(0.7)</b>	<b>-</b>
<b>Profit/(loss) from ordinary activities</b>	<b>(9.0)</b>	<b>(2.0)</b>	<b>-</b>
Other operating income and expense, net	-	10.4	-
<b>OPERATING PROFIT/(LOSS)</b>	<b>(9.0)</b>	<b>8.4</b>	

### 9.4.3 CASH FLOWS AND CAPITAL EXPENDITURE

<i>In € millions</i>	2011	2010	% change
<b>Consolidated cash flow</b>	<b>828.9</b>	<b>778.6</b>	<b>6.5%</b>
Change in working capital requirement	47.9	(17.1)	-
ADSL-related capital expenditure	(569.7)	(326.0)	74.8%
<b>Free Cash Flow from ADSL operations</b>	<b>307.1</b>	<b>435.5</b>	<b>-29.5%</b>
FTTH-related capital expenditure	(156.1)	(193.7)	-19.4%
Mobile-related capital expenditure	(416.9)	(262.3)	58.9%
Hosting-related capital expenditure	(11.8)	-	-
Other	(135.2)	53.5	-
<b>Consolidated Free Cash Flow</b>	<b>(412.9)</b>	<b>33.0</b>	<b>-</b>
Net cash generated from/(used in) financing activities	425.9	(326.0)	-
<b>Net change in cash and cash equivalents</b>	<b>13.0</b>	<b>(292.9)</b>	<b>-</b>
<b>CASH AND CASH EQUIVALENTS AT YEAR-END</b>	<b>350.5</b>	<b>337.5</b>	<b>3.8%</b>

### Free Cash Flow from ADSL operations

The overall consolidated cash flow figure climbed by more than 6% in 2011, driven by the Group's enhanced profitability levels.

ADSL-related capital expenditure (including network expenditure due to increased unbundling and subscriber-related expenditure for modems and other connection expenses) came to €570 million in 2011 compared with €326 million for the previous year, directly reflecting the commercial success of the Freebox Revolution offer launched in December 2010. Consequently, Free Cash Flow from ADSL operations amounted to €307 million in 2011, down on the 2010 figure of €436 million.

### Consolidated Free Cash Flow

In line with the Group's expectations, consolidated Free Cash Flow came in at a negative €413 million in 2011, as a result of:

- **the commercial success of the Freebox Revolution offer** (as described above);
- **ongoing capital expenditure for the rollout of the FTTH project.** During the year the Group invested €156.1 million in its FTTH project. This figure was lower than in 2010 reflecting (i) delays experienced in 2011 in implementing the agreements signed with other operators for pooling the vertical rollout phase, and (ii) sales of real estate assets that are held for sale and are not being used for the FTTH rollout;
- **a sharp rise in mobile-related capital expenditure**, including the purchase of the 4G license for €274.5 million and the acceleration of the mobile network rollout (which represented an outlay of €142.4 million in 2011 *versus* €20 million in 2010);
- **the payment of a €97 million tax charge.**

### Net change in cash and cash equivalents:

The €13 million net increase in cash and cash equivalents in 2011 was primarily due to the successful €500 million bond issue carried out during the year.



#### 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, 2011 the Group had gross debt of €1,326.9 million and net debt of €969.4 million. Despite its pro-active capital expenditure plan implemented during the year (due to the Freebox Revolution launch and FTTH and mobile rollouts) the Group maintained a solid financial structure:

- the Group's leverage ratio stood at 1.2x at December 31, 2011 (compared with 0.9x one year earlier), confirming its position as one of the European telecom operators with the lowest debt levels;
- consolidated equity rose by almost €200 million due to the partial conversion of the Océane bonds issued on June 21, 2006. Based on the number of conversion applications received by the final exercise date of December 22, 2011 the Group issued 2,260,524 new shares during the year. The June 21, 2006 bond issue involved a total of 3,754,968 Océane bonds (convertible into new or existing shares) with a face value of €88.05 per bond, and gave rise to net proceeds of €326.3 million.

The Group's gross debt primarily comprised the following at end-2011:

##### A €1,400 million syndicated credit facility

On June 9, 2010 the Group set up a €1,400 million syndicated credit facility with a pool of 11 international banks. This facility comprises two tranches:

- a €600 million loan tranche to refinance the Group's net debt, of which €400 million had been drawn down at December 31, 2011;
- a revolving tranche of €800 million expiring in June 2015. None of this tranche had been drawn down at December 31, 2011.

The applicable interest rate is based on Euribor plus a margin of between 2.05% and 1.10% per year depending on the Group's leverage ratio.

##### Loan granted by the European Investment Bank (EIB)

The EIB has granted Iliad a €150 million loan in order to help finance the rollout of the Group's ADSL and FTTH networks. The loan – which has a 10-year term and is repayable in installments – had been fully drawn down at December 31, 2011.

At December 31, 2011 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 roll out its FTTH network and (ii) a portion of its technical equipment.

At December 31, 2011, the Group's total obligations under finance leases amounted to €97.1 million, up €1.5 million on December 31, 2010.

##### A €500 million bond issue

On May 26, 2011 the Group issued €500 million worth of bonds paying interest at 4.875% per year. The bonds will be redeemed at face value on June 1, 2016.

#### 9.4.5 OWNERSHIP STRUCTURE AT DECEMBER 31, 2011

Following the issue of 2,260,524 shares in 2011 for the conversion of Océane bonds, at the year-end Iliad's share capital was made up of 57,042,092 ordinary shares, held by the following shareholders:

- Executive Management: 36,093,445 shares, representing 63.3% of the share capital;
- public: 20,948,647 shares, representing 36.7% of the share capital.

At December 31, 2011, there were seven Iliad stock option plans in place with the following main characteristics:

	Grant date	Exercise price	Exercise date	Number of shares under option
Options	01/20/2004	€16.30	01/20/2008	6,870
Options	12/20/2005	€48.44	12/20/2009 / 12/20/2010	164,259
Options	06/14/2007	€74.62	06/13/2012	162,455
Options	08/30/2007	€68.17	08/30/2012	663,222
Options	11/05/2008	€53.79	11/05/2013	564,200
Options	08/30/2010	€67.67	08/29/2014	162,450
Options	08/30/2010	€67.67	08/29/2015	379,050
Options	11/07/2011	€84.03	11/06/2016	398,200
<b>TOTAL</b>				<b>2,500,706</b>

## 9.5 ADDITIONAL INFORMATION

### 9.5.1 STRATEGIC OBJECTIVES

In light of its strong 2011 results the Group intends to continue to implement its strategy of achieving profitable growth and has set itself the following objectives.

#### Operational objectives:

- Landline business:
  - 25% share of the landline Broadband market in the long term;
- FTTH business:
  - step-up in the pace of subscriber connections,
  - ongoing horizontal rollouts;
- mobile business:
  - intensified rollout, with the aim of having 2,500 equipped sites at the end of 2012.

#### Financial objectives<sup>(1)</sup>:

- Landline business:
  - revenue growth of over 5% in 2012,
  - Free Cash Flow from ADSL operations in excess of €1.1 billion between 2010 and 2012;
- Group:
  - robust revenue growth in 2012,
  - revenues of over €4 billion by 2015.

### 9.5.2 EVENTS AFTER THE BALANCE SHEET DATE

In line with its commitments, the Group launched its first commercial mobile offerings on January 10, 2012.

In addition, at the beginning of 2012 Free Mobile entered into agreements with manufacturers for the supply of mobile telephones.

<sup>(1)</sup> The principal financial indicators are presented in Section 3.



# 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 and 9.4.4.

At December 31, 2011, the Group's leverage ratio (net debt to Ebitda) was 1.16 times.

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





# 11

## RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

11.1 RESEARCH AND DEVELOPMENT

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11.2 INTELLECTUAL PROPERTY

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11.2.1 Patents

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11.2.2 Trademarks

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## 11.1 RESEARCH AND DEVELOPMENT

Iliad S.A., Freebox, Free, Free Infrastructure, Free Mobile, Protelco and Online bear the Group's research and development costs, which 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 break down as follows by subsidiary:

- Freebox S.A.S.: 22 employees;
- Free Mobile S.A.S.: 33 employees;
- Free Infrastructure S.A.S.: 7 employees;
- Free S.A.S.: 9 employees;
- Protelco S.A.S.: 4 employees;
- Online S.A.S.: 3 employees;
- Iliad S.A.: 2 employees.

In 2011 the Group spent €6.7 million on R&D (*versus* €6.1 million in 2010 and €1.8 million in 2009), mainly related to broadband, optical fiber and the mobile network (see Note 7 to the consolidated financial statements for further information).

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 19 patent families in the areas of optical fiber, multimedia distribution flows and PLC data transmission.

### 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 of its main business segments.

Information concerning events after the balance sheet date of December 31, 2011 is presented in Section 9.5.2 of this registration document and Note 34 to the consolidated financial statements presented in Section 20.2.







# 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:

- fixed Internet services:
  - to attain a 25% share of the fixed broadband market in the long term,
- FTTH operations:
  - to step up the pace of subscriber connections,
  - to continue horizontal rollouts,
- mobile business:
  - to intensify the network rollout, with the aim of having 2,500 equipped sites at the end of 2012;

**(ii)** financial objectives:

- fixed services:
  - to post revenue growth of over 5% in 2012,
  - to achieve aggregate Free Cash Flow from ADSL operations in excess of €1.1 billion between 2010 and 2012,
- Group:
  - to record robust revenue growth in 2012,
  - revenues over €4 billion by 2015.



# 14

## ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

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## 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, 2011, 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 <sup>(1)</sup>	Main positions and directorships held outside the Group <sup>(2)</sup>	Positions and directorships that have expired in the past five years <sup>(3)</sup>
<b>Chairman of the Board of Directors</b>				
Cyril Poidatz	12/12/2003	2012	N/A	N/A
<b>Chief Executive Officer and a director</b>				
Maxime Lombardini	05/29/2007	2014	N/A	N/A
<b>Senior Vice-President and a director</b>				
Xavier Niel	12/12/2003	2012	<ul style="list-style-type: none"> <li>• Director of Ateme S.A.</li> <li>• Legal Manager of Elysées Capital</li> <li>• Chairman of Atelier 37 S.A.S.</li> <li>• Legal Manager of Sons</li> <li>• Member of the Supervisory Board of Le Monde S.A.</li> <li>• Member of the Supervisory Board of Editrice du Monde S.A.</li> <li>• Chairman of NJJ Holding S.A.S.</li> <li>• Chairman of NJJ Capital S.A.S.</li> <li>• Chairman of NJJ Immobilier S.A.S.</li> <li>• Chairman of NJJ Market S.A.S.</li> <li>• Chairman of NJJ INVEST TEL. S.A.S</li> <li>• Chairman of Kima Ventures S.A.S.</li> </ul>	
Antoine Levavasseur	05/27/2005	2012	N/A	N/A
Thomas Reynaud	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.

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

(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.

The terms of office of Thomas Reynaud and Marie-Christine Levet will expire at the close of the Annual General Meeting called to approve the financial statements for the year ended December 31, 2011. At its March 6, 2012 meeting the Board decided to recommend to shareholders at the Annual General Meeting that they re-elect Thomas Reynaud and Marie-Christine Levet as directors for a 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 6, 2012, 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: Alain Weill, Marie-Christine Levet, Pierre Pringuet, Orla Noonan and Virginie Calmels.

#### 14.1.1.2 Biographies of the directors

##### Cyril Poidatz

Aged 50, French nationality

Before joining the Group in 1998, 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.

##### Maxime Lombardini

Aged 46, French nationality

Maxime Lombardini is a graduate of Sciences Po Paris and holds a degree in business and tax law from the university of Paris II. 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 45, French nationality

Xavier Niel is the Group's founder and majority shareholder. He is a self-taught entrepreneur and 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 co-founded France's first ISP, Worldnet. Subsequently, after founding 3617 ANNU, the leading reverse look-up directory service on Minitel, in 1999 he went on to create Free – France's first free-access ISP. Mr. Niel was the architect behind the 2002 launch of the Freebox – the first multi-services box providing households with access to a triple play offering (Internet, telephone and television). He has also been the inspiration behind the Group's major strategic developments, including its current rollout of the 4G mobile network in France and its Mobile offerings which were launched on January 10, 2012.

In March 2010 Xavier Niel set up his own investment fund – Kima Ventures – which invests in 50 to 100 startups a year throughout the world. In addition, since 2010 he has held a controlling ownership interest in the Le Monde newspaper, alongside Pierre Bergé and Matthieu Pigasse.

Mr. Niel is also a member of France's National Digital Advisory Council (*Conseil National du Numérique*).

##### Antoine Levavasseur

Aged 35, 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 that date 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 38, 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 41, 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 51, 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 Vice Chairman of the Management Board since 1997. He has served as Chairman of NextRadioTV since November 8, 2000, and is also Chairman of RMC, RMC Régie, BFM, BFM TV, Groupe O1 and BFM Business.

**Pierre Pringuet**

Aged 62, French nationality

After graduating from Ecole Polytechnique and Ecole des Mines, Pierre Pringuet began his career in the French public sector at the 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 45, 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 NextRadioTV group. Since April 2010, she has held the position 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 42, 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. Ms. 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 41, 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 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.

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 <sup>(1)</sup>
Maxime Lombardini	Chief Executive Officer	06/14/2007	2014
Xavier Niel	Senior Vice-President	06/14/2007	2014
Antoine Levavasseur	Senior Vice-President	06/14/2007	2014
Rani Assaf <sup>(2)</sup>	Senior Vice-President	06/14/2007	2014
Thomas Reynaud	Senior Vice-President	03/18/2010	2014

(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) 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 Maxime Lombardini's term of office as 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 37, 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 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, and (ii) the requirement set out in the bylaws that each director must hold at least one hundred Iliad shares.

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

At February 29, 2012, 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	33,806,900	59.22%	57.44%
Rani Assaf	942,590	1.65%	3.15%
Cyril Poidatz	690,614	1.21%	2.24%
Antoine Levavasseur	537,324	0.94%	1.76%
Olivier Rosenfeld	70,790	0.12%	0.12%
Alain Weill	6,212	0.01%	0.01%
Pierre Pringuet	2,037	0.00%	0.00%
Marie-Christine Levet	350	0.00%	0.00%
Orla Noonan	300	0.00%	0.00%
Virginie Calmels	150	0.00%	0.00%
Thomas Reynaud	150	0.00%	0.00%
Maxime Lombardini	100	0.00%	0.00%
<b>TOTAL</b>	<b>36,057,517</b>	<b>63.17%</b>	<b>64.70%</b>

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

- **Freebox:** Xavier Niel, Cyril Poidatz, and Antoine Levavasseur each hold one share in Freebox, and Rani Assaf holds 302 shares, representing total interests of approximately 1.22% of the company's capital and voting rights;
- **One.Tel:** Cyril Poidatz holds one share in One.Tel, which does not represent a significant holding in the company;
- **Assunet:** Xavier Niel holds one share in Assunet, representing approximately 0.02% of the company's capital and voting rights.



# 15

## COMPENSATION AND BENEFITS

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### 15.1 DIRECTORS' AND OFFICERS' COMPENSATION

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## 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 seventh resolution of the Annual General Meeting held on May 24, 2011, 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 2010 and 2011.

Non-executive directors	Amount paid (in €) in 2011	Amount paid (in €) in 2010
<b>Olivier Rosenfeld</b>		
Directors' fees	N/A	N/A
Other compensation	N/A	N/A
<b>Alain Weill</b>		
Directors' fees	20,000	20,000
Other compensation	N/A	N/A
<b>Pierre Pringuet</b>		
Directors' fees	20,000	20,000
Other compensation	N/A	N/A
<b>Marie-Christine Levet</b>		
Directors' fees	20,000	20,000
Other compensation	N/A	N/A
<b>Orla Noonan</b>		
Directors' fees	20,000	20,000
Other compensation	N/A	N/A
<b>Virginie Calmels</b>		
Directors' fees	20,000	20,000
Other compensation	N/A	N/A

At its March 6, 2012 meeting, the Board of Directors decided to recommend to shareholders at the Annual General Meeting to be held on May 24, 2012 that they set the aggregate amount of directors' fees payable for 2012 at €100,000.

In order to comply with the recommendations of the AFEF – 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 OFFICERS

The Board of Directors is responsible for the compensation policy concerning the Company's executive officers and has confirmed its intention to ensure transparency in this regard by complying with the AFEP – MEDEF Code. At its December 14, 2010 meeting, the Board set up a Compensation Committee tasked with helping the Board analyze the components of executive officers' compensation packages.

The Board's objective is to provide executive officers with competitive compensation packages that increase annually at a steady rate. Decisions concerning salary increases and payment methods are straightforward and clear. Executive officers do not receive directors' fees. The overall aim of the compensation policy put in place within the Company is to regularly reward executive officers' medium- and long-term loyalty.

### 15.1.2.1 Individual compensation paid to executive officers in 2010 and 2011

#### FIXED AND VARIABLE COMPENSATION AND BENEFITS IN KIND PAID TO EXECUTIVE OFFICERS IN 2010 AND 2011

	Fixed portion <sup>(1)</sup>	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.

### 15.1.2.2 Stock option and share grant policy for executive 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. In addition, a share grant policy has been put in place by Free Mobile for certain of the company's executive officers and employees.

#### 15.1.2.2.1 Stock options

##### Stock options granted to executive officers in 2010 and 2011 by Iliad or any other Group 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 executive officers in either 2010 or 2011.

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 executive 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 an executive officer. To the Company's knowledge, none of the options received by the executive officers are hedged.

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

#### *Stock options exercised by executive officers in 2011*

Executive officer concerned	Grant date	Number of options exercised during the year	Exercise price
Cyril Poidatz			
Maxime Lombardini			
Xavier Niel			
Antoine Levavasseur		No stock options were exercised by executive officers in 2011	
Rani Assaf			
Thomas Reynaud			

#### 15.1.2.2.2 Share grants

#### ILIAD PERFORMANCE SHARES GRANTED TO EXECUTIVE OFFICERS IN 2010 AND 2011 BY ILIAD OR ANY OTHER GROUP COMPANY

#### *Shareholder-approved performance shares granted to executive officers in 2010 and 2011*

Name of beneficiary	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		No Iliad performance shares were granted to executive officers in 2010 or 2011				
Rani Assaf						
Thomas Reynaud						

*Executive officers' performance shares whose lock-up period expired in 2011*

Executive officer concerned	Plan number and date	Number of shares whose lock-up period expired during the year	Vesting conditions
Cyril Poidatz			
Maxime Lombardini			
Xavier Niel			
Antoine Levavasseur		No Iliad performance shares vested in 2011	
Rani Assaf			
Thomas Reynaud			

**SHARES GRANTED FREE OF CONSIDERATION TO EXECUTIVE OFFICERS OF FREE MOBILE**

During the year, Free Mobile – an entity controlled by Iliad within the meaning of Article L. 233-16 of the French Commercial Code – granted shares free of consideration to certain executive officers of the Company. These share grants were carried out in connection with the authorization given by Iliad's Board of Directors on May 3, 2010 to set up an incentive plan for certain employees and officers through share grants representing up to 5% of the share capital of Free Mobile.

Following a decision by the sole shareholder of Free Mobile, in May 2010 and December 2010 the Chairman used this authorization to grant shares free of consideration to 16 employees and officers of the Company representing an aggregate 4.6% of Free Mobile's capital. The share grant plans include an option to settle the share-based payment in Iliad shares, in which case the price would be determined by an independent expert.

The share grants for the executive officers listed below were made in their capacity as officers of Free Mobile.

*Free Mobile shares granted free of consideration to executive officers in 2010*

Name of beneficiary	Plan number and date	Number of shares granted during the year	Unit value of shares based on method used for the consolidated financial statements	Vesting date	End of lock-up period
Cyril Poidatz	05/12/2010	1,825,694	0.63	05/12/2012	05/13/2014
Maxime Lombardini	05/12/2010	2,555,971	0.63	05/12/2012	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	05/12/2012	05/13/2014
Rani Assaf	05/12/2010	1,825,694	0.63	05/12/2012	05/13/2014
Thomas Reynaud	05/12/2010	2,555,971	0.63	05/12/2012	05/13/2014
<b>TOTAL</b>	<b>N/A</b>	<b>10,589,024</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>

In accordance with Article L. 225-197-1 II paragraph 4 of the French Commercial Code concerning shares granted free of consideration to executive officers, at the grant date the Board of Directors is required to either (i) set the number of shares that beneficiaries must hold in registered form until they leave their position as an executive officer, or (ii) decide that the shares cannot be sold by the beneficiaries until the end of their term as an executive officer. Consequently, under the May 12, 2010 plan, at the grant date the Chairman decided that each executive officer is required to hold in registered form at least 5% of the shares awarded under the plan until such time as they no longer hold the position of executive officer.

No shares were granted to executive officers in 2011

**15.1.2.3 Summary table of compensation, stock options and share grants awarded to executive officers in 2010 and 2011**

The following table sets out the compensation, stock options and share grants awarded to executive officers in 2010 and 2011.

	2011	2010
<b>Cyril Poidatz</b>		
Compensation payable for the year	154,800	154,800
Value of stock options granted	N/A	N/A
Value of Free Mobile <sup>(1)</sup> shares granted during the year	N/A	0.63
<b>TOTAL</b>	<b>154,800</b>	<b>1,308,639</b>
<b>Maxime Lombardini</b>		
Compensation payable for the year	384,000	384,000
Value of stock options granted	N/A	N/A
Value of Free Mobile <sup>(1)</sup> shares granted during the year	N/A	0.63
<b>TOTAL</b>	<b>384,000</b>	<b>1,999,374</b>
<b>Xavier Niel</b>		
Compensation payable for the year	173,040	173,040
Value of stock options granted	N/A	N/A
Value of Free Mobile <sup>(1)</sup> shares granted during the year	N/A	N/A
<b>TOTAL</b>	<b>173,040</b>	<b>173,040</b>
<b>Antoine Levavasseur</b>		
Compensation payable for the year	172,800	172,800
Value of stock options granted	N/A	N/A
Value of Free Mobile <sup>(1)</sup> shares granted during the year	N/A	0.63
<b>TOTAL</b>	<b>172,800</b>	<b>1,326,639</b>
<b>Rani Assaf</b>		
Compensation payable for the year	154,800	154,800
Value of stock options granted	N/A	N/A
Value of Free Mobile <sup>(1)</sup> shares granted during the year	N/A	0.63
<b>TOTAL</b>	<b>154,800</b>	<b>1,308,639</b>
<b>Thomas Reynaud</b>		
Compensation payable for the year	384,000	384,000
Value of stock options granted	N/A	N/A
Value of Free Mobile <sup>(1)</sup> shares granted during the year	N/A	0.63
<b>TOTAL</b>	<b>384,000</b>	<b>1,999,374</b>

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



#### 15.1.2.4 Commitments given to executive officers

##### *Employment contracts held by executive officers*

Name and position	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
<b>Cyril Poidatz</b>								
Chairman of the Board of Directors		x		x		x		x
<b>Maxime Lombardini</b>								
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 senior managers are appointed as officers of a company their employment contract should be terminated, either by way of resignation or by a contractual agreement. In the case of executive officers whose employment contract has not yet been terminated, the Code recommends that the termination take place when the executive officer's term of office is renewed.

At its April 4, 2011 meeting, the Board of Directors renewed the term of office of Maxime Lombardini as Chief Executive Officer for a period of four years. Since that date, Maxime Lombardini has no longer held 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 Maxime Lombardini's compensation at a fixed amount of €384,000. This compensation does not include a variable portion and it is wholly related to Mr. Lombardini's position as Chief Executive Officer.

The Board also decided to accept a recommendation of the Compensation Committee to put in place a termination benefit system for the Chief Executive Officer in the event that he is removed from office. In accordance with Article L. 225-42-1 of the French Commercial Code and the recommendations set out in the AFEP – MEDEF Corporate Governance Code, the payment of this termination benefit is subject to performance conditions.

As required by the applicable law, this commitment in favor of the Chief Executive Officer was approved by shareholders at the Annual General Meeting held on May 24, 2011.

The maximum amount of the termination benefit has been set at 1.5 times the total annual gross compensation paid in respect of Mr. Lombardini's position as Chief Executive Officer. Said compensation corresponds to the aggregate of (i) the fixed portion of the Chief Executive Officer's basic annual remuneration and (ii) the average of the variable portion of the annual remuneration received by the Chief Executive Officer for the two fiscal years preceding the date on which he is removed from office.

The payment of the termination benefit will be subject to the achievement of at least three of the five performance conditions listed below, as placed on record by the Board of Directors in accordance with the conditions required by the applicable law on the date the Chief Executive Officer is removed from office. The assessment of whether these performance conditions have been achieved will not take into account the impact of any regulatory changes:

- positive free cash flow from ADSL activities;
- Ebitda margin on the landline business maintained at the level recorded in 2010;
- average revenue growth of at least 5% over the reference period;
- 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.

The termination benefit will not be payable if Maxime Lombardini resigns from his position as Chief Executive Officer of his own accord or if he changes position within the Iliad Group.

##### **Other commitments**

Within the Company there are no:

- specific pension plans in place for executive officers;
- leaving bonuses;
- commitments given to executive 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 executive officers under no-compete clauses.

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

**Agreements entered into between Iliad and Thomas Reynaud, Maxime Lombardini, Cyril Poidatz, Rani Assaf and Antoine 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 signature of several agreements between the Company and the above-mentioned executive 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, 2011 and no interest was paid in relation to this account during the year.

## 15.3 LOANS AND GUARANTEES GRANTED TO MEMBERS OF THE COMPANY'S ADMINISTRATIVE OR MANAGEMENT BODIES

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

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In accordance with Article L. 225-37 of the French Commercial Code, the Company hereby states that it uses the AFEP – MEDEF Corporate Governance Code for listed companies as its basis of reference for corporate governance issues. This Code can be viewed on the MEDEF website.

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 A to this registration document. This report was approved by the Board of Directors on March 6, 2012.



## 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 administrative and 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 Board diversity

##### 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 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.

##### Independent directors

The April 4, 2011 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 contained 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 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 6, 2012, 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: Alain Weill, Pierre Pringuet, Marie-Christine Levet, Orla Noonan and 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.

### Female representation on the Board

With a view to having a balanced structure – particularly in terms of gender equality – nearly 30% 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)

In order to comply with the principles of the AFEP – 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.

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 Operating procedures of the Board of Directors

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

The operating procedures of the Company's Board of Directors are governed by a set of internal rules, the most recent version of which is dated April 4, 2011. The provisions of these internal rules round out the requirements applicable to directors set down in the relevant 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, loyalty, confidentiality, conflicts of interest and insider trading.

The directors' duties set out in the Board's internal rules include complying with the AMF's requirement for directors and any persons related to them to disclose – on an individual and nominative basis – any transactions that they carry out in the Company's shares. Consequently, the person undertaking the transaction must inform the AMF thereof within five trading days of the transaction and must send the Company a copy of the disclosure filed with the AMF, which is then published on the Company's website, without any prior controls being performed.

The Directors' Code of Conduct – which is appended to the Board's internal rules and is given to each director when they take up office – stipulates that all directors are bound by a duty of loyalty with respect to the confidential information to which they are privy.

Furthermore, as a result of the inside information to which they have access, Board members are prohibited from trading in the Company's shares during certain "blackout" periods. In accordance with recommendation 2010-07 issued by the AMF on November 3, 2010, these periods correspond 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 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.

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

The Chairman is required to (i) provide each director with all the documents and information necessary for performing their duties and (ii) relay between Board meetings 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.

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 directors can also meet with the Company's senior executives whenever they so wish.

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 frequency and duration of meetings of the Board of Directors is such that they allow in-depth review and discussion of the matters falling within the Board's remit.

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.

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 2011

In 2011 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, and authorized the signature of certain agreements and the Company's bond issue.

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

In 2011, Iliad's Board of Directors met nine times, with an average attendance rate of around 95.95%. 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.

To this end, the Board has decided that an agenda item will be devoted 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. It also reviews whether the Board and its Committees have a suitably balanced membership structure. 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 directors to put forward proposals for improving the Board's organization and efficiency.

On March 6, 2012, 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 directors were satisfied with the Board's operating procedures and particularly appreciated the presentations given by senior management as well as the ensuing discussions concerning numerous aspects of the Group's strategy and outlook. These findings therefore show that in 2011 the Board was regularly provided with reliable data on the Group's operations. The Board assessed the regularity, frequency and format of the information it received. Receiving documentation prior to Board and committee meetings – while maintaining the confidentiality and deadlines imposed on the Company – improves the quality of the Board's discussions.

This self-assessment process enabled the Group to verify that the issues deemed to be important were effectively reported, debated and dealt with in a satisfactory way during the Board's meetings during the year.

## 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

In his capacity as Chief Executive Officer, Maxime Lombardini has the broadest powers to act on behalf of the Company in all circumstances – within the scope of the corporate purpose and the remit specified in Article 3 of the Board of Directors' internal rules – except for those matters which by law may only be dealt with in Shareholders' Meetings or by the Board of Directors.

The Board of Directors' internal rules provide that the Chief Executive Officer must obtain approval from the Board of Directors for any external growth transaction entailing an outlay of more than €200 million, as well as for any material transaction that falls outside the scope of the Company's announced 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 they issue a report on their work after each 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 is a specialist committee of the Board of Directors.

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

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

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

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

Two-thirds of the Audit Committee are therefore independent directors and none of its members are executive directors. 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 five times in 2011 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 2011.

### 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.

In 2010, the Company did not have a separate Compensation Committee and the Committee's duties were performed directly by the Board of Directors. Consequently, an agenda item at a Board meeting was devoted to the compensation of executive and non-executive officers (see Section 15 for further details), in order to discuss the compensation policy for the Company's 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: Pierre Pringuet, Alain Weill and 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 officers' compensation packages proposed by the Chairman of the Board and (ii) executive officers' retirement benefits and benefits in kind;
- recommending the general policy for granting stock options and free shares and, more particularly, the terms and conditions applicable for such grants to executive officers;
- putting forward recommendations to the Board concerning the amount 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) officers' compensation, (ii) the policy for granting stock options and/or free 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 Compensation Committee met on April 3, 2011 prior to the Board meeting that renewed Maxime Lombardini's term of office as Chief Executive Officer. The purpose of this Committee meeting was to draw up recommendations to submit to the Board on how to calculate the termination benefit payable to the Chief Executive Officer in the event that is removed from office (see Section 15.1.2.4 for further details).

### 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 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, which is 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 AND RISK MANAGEMENT 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 to this registration document.

This report states that the Group's internal control procedures and principles form part of a corporate governance approach 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 to this registration document.



# 17

## EMPLOYEES

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## 17.1 CHANGES IN THE GROUP'S WORKFORCE

### 17.1.1 GENERAL CHANGES IN THE OVERALL WORKFORCE

	Management	Other	Total
December 31, 2009	514	3,538	4,052
December 31, 2010	580	3,775	4,355
December 31, 2011	666	4,989	5,655

At end-2011, the Group's workforce totaled 5,655, up 30% on 2010. The proportion of managers within the workforce as a whole was on a par with 2010, representing almost 12%. The year-on-year increase in employee numbers reflects the Group's overall strategy, particularly in connection with the launch of its mobile business.

During the year, the Group implemented a targeted recruitment strategy, based on a forward-looking analysis of its future requirements in terms of jobs and skills.

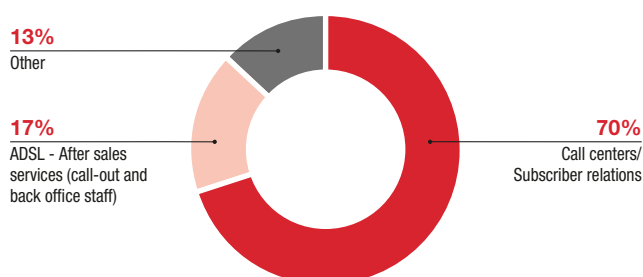
In the ADSL business, new hires were taken on for technical assistance and subscriber relations posts, in view of the Group's growing subscriber base.

In the FTTH business, the Group strengthened its team of roaming technicians providing in-home assistance, in order to partner the rising subscriber base.

Lastly, in late 2011 the Group opened two new call centers in the Paris area prior to the launch of its mobile business.

### 17.1.2 BREAKDOWN BY JOB CATEGORY

The following diagram provides a breakdown of the Group's employees by job category at December 31, 2011:



The Group pays particular attention to the quality of its customer services, and almost 5,300 of its employees – i.e. 87% of its workforce – are dedicated to subscriber relations.

The subscriber relations division includes the employees of the Group's nine call centers, as well as teams of roaming technicians who provide after-sales support at subscribers' homes and work on the maintenance of the ADSL network.

### 17.1.3 RECRUITMENT POLICY AND INTEGRATION

#### Recruitment policy

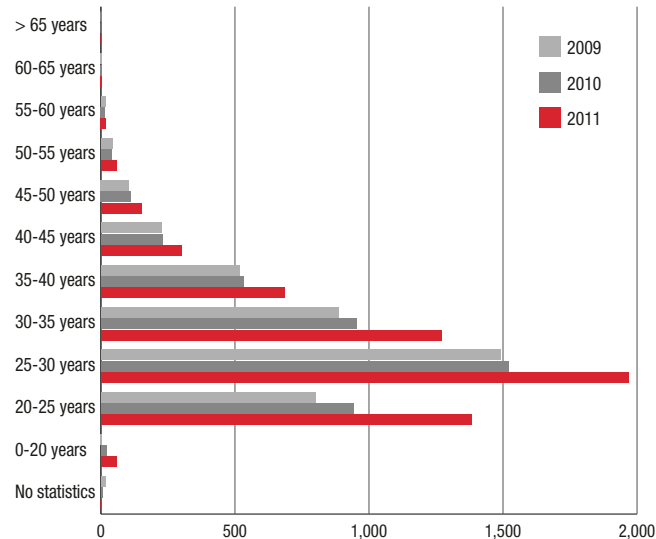
For many years Iliad's employment policy has been aimed at actively managing careers, focusing on teamwork and motivation and recognizing and rewarding the input of each and every employee. This – combined with a proactive recruitment policy – has enabled the Group to put in place a forward-looking management system for jobs and skills within its various entities and carry out targeted hires in line with its operational requirements.

During 2011 the Group used temporary staff and subcontractors in order to meet short-term increases in its business volumes, notably due to the launch of new products and services. However, in line with its overall growth strategy the Group's general aim is to hire people on long-term contracts wherever possible. Consequently, out of the 3,425 employees recruited in 2011, 99% were taken on under long-term contracts.

## Offering job opportunities for young people

The Group continues to promote job opportunities for young people, and at end-2011 almost 79% of its staff were under the age of 35.

The recruitments carried out for the Group's new call centers in 2011 are an apt illustration of its committed drive to helping young people find employment, as its future multimedia consultants do not necessarily have to have a vast amount of experience as long as their potential is effectively leveraged.



### 17.1.4 STAFF MOBILITY AND TURNOVER

The year 2011 saw a large number of internal promotions – fueled by the opening of the new call centers – which were an opportunity for the Group to recognize and reward the professional experience gained by its employees.

A Mobility Charter was drawn up during the year in order to create a standard framework for mobility within the Group and ensure transparency and visibility for all employees. In particular, the Charter sets out the rules of good conduct that everyone involved in employee mobility is required to respect.

Employee retention is a key issue for the Group and it devotes substantial budgets to training and career development, and favors internal promotion wherever possible. During 2011 the Group also set up a system of mid-career development meetings.

The increase in the average annual workforce in 2011 reflects efforts to recruit as part of the development of the mobile business. Overall, the recruitments carried out during the year were mainly in France, with employee numbers outside France remaining relatively stable compared with 2010.

The Group is committed to gender equality both in terms of employee numbers and job prospects, and has a balanced number of male and female workers within its contact centers. At end-2011, the percentage of the Group's female employees across its various businesses was 31%, compared with 29% one year earlier.

## 17.2 COMPENSATION

### 17.2.1 COMPENSATION POLICY

The Group has put in place a system for monitoring compensation in order to ensure that its compensation packages are consistent across all of its entities. Incentivization is a key aspect of the overall remuneration system, with performance-driven bonuses and annual profit-sharing plans supplementing basic salaries.

In addition, in accordance with the French law passed on July 28, 2011, all of the Group's subsidiaries have signed a dividend bonus agreement with the relevant trade unions. Under this agreement, each eligible employee is entitled to a lump sum dividend bonus calculated based on the length of time they served with the Group during 2010. The maximum amounts of these dividend bonuses were as follows:

- employees with an annual salary of less than €36,000: €300;
- employees with an annual salary of between €36,000 and €65,000: €140;
- employees with an annual salary of over €65,000: €50.

### 17.2.2 EMPLOYEE PROFIT-SHARING

The profit-sharing agreement signed on December 11, 2009 is aimed at involving employees in the Group's financial performance, with each employee entitled to a payment from the special profit-sharing reserve provided that they have been with the Group for three months. The total amount of the special profit-sharing reserve increased significantly in 2011 from €368,013 to €4,490,745.

The amounts allocated to individual employees are determined based on their annual salaries and can be either received immediately or invested in the various corporate mutual funds that make up the Group's employee savings plan.

### 17.2.3 STOCK OPTIONS

The Group regularly grants employee stock options and in 2011 a new stock option plan was set up.

The main characteristics of the stock options granted by the Company which were outstanding at December 31, 2011 are set out in Section 21.1.4.1 of this registration document.

The following table shows 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 executive officers – who received the largest number of stock options	Total number of stock options granted/exercised	Weighted average price	Date of plan
Stock options granted during the year to the ten Group employees who were granted the largest number of stock options	66,000	84.03	05/24/2011
Stock options exercised during the year by the ten Group employees who exercised the largest number of options	69,128	38.50	01/20/2004 12/20/2005

## 17.3 TRAINING

Training plays an essential role in the Group's operations, particularly for subscriber relations teams which represent the bulk of the workforce.

Some 494,088 hours of training were given in 2011 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 98 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 as a result of the launch of the Freebox Revolution as well as the growing numbers of staff, which has led to a significant amount of induction training.

Average monthly workforce 2009	Average monthly workforce 2010	Average monthly workforce 2011	Training hours 2009	Training hours 2010	Training hours 2011	Number of training hours/ average annual workforce 2009	Number of training hours/ average annual workforce 2010	Number of training hours/ average annual workforce 2011
4,080	4,126	5,039	135,228	239 354	494,088	33	58	98

Employees recruited as call center agents are given a two-to-five week induction 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 800 employees – are given a three-week induction course and throughout their time with the Group are trained on the various products available to subscribers. Moreover, a catalog 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.

## 17.4 EMPLOYEE RELATIONS

Several company-level agreements were signed within the Group's various entities during 2011. Two of these agreements related to managers' working time – one at Centrapel and the other within UES des Entités Isolées, in order to align working time practices with those applied in the Group's other subsidiaries. The agreement signed within Centrapel notably included provisions for calculating working time in terms of days.

Consequently, managers' working time is now determined based on the overall number of days worked rather than hours per day so that they can effectively organize their schedules in accordance with the assignments and duties entrusted to them. In view of this working time arrangement, Group Management is particularly attentive to ensuring that all employees take the daily and weekly rest time provided for in the applicable laws and regulations.

Furthermore, in 2011 all of the Group's legal entities signed a dividend bonus agreement (see Section 17.2.1. above).

## 17.5 WORK ENVIRONMENT

### 17.5.1 HEALTH AND SAFETY

The Group considers that ensuring its employees' physical and psychological health and safety is one of its fundamental responsibilities. As a result it has put in place a number of specific procedures and action plans in order to identify, assess and mitigate the risks inherent to their daily activities.

### 17.5.2 WORKING CONDITIONS

In view of the growing numbers of its employees the Group took on more than 9,000 square meters of additional premises in 2011, resulting in more spacious and airy working areas.

In order to optimize the working time and conditions of its roaming employees, the Group has set up the necessary technical solutions for them to be able to work remotely.

### 17.5.3 CORPORATE SOCIAL RESPONSIBILITY

In partnership with the company Deafi, Free has set up a visual live chat in sign language, as well as a help site offering ten languages which is compatible with software for the visually impaired. In order to staff these live chat services, Iliad has hired and trained a number of hearing-impaired employees so that its deaf and hearing-impaired subscribers can now receive assistance in sign language that is tailored to their needs.

The Group also continued to promote the employment of disabled workers during the year and took part in recruitment fairs and round table discussions on integrating disadvantaged populations, during which it presented the various professions available in its subscriber relations centers.



# 18

## MAJOR SHAREHOLDERS

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## 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	Dec. 31, 2011			Dec. 31, 2010			Dec. 31, 2009		
	Number of shares	% capital	% voting rights	Number of shares	% capital	% voting rights	Number of shares	% capital	% voting rights
Xavier Niel <sup>(1)</sup>	33,806,900	59.27%	57.44%	34,965,720	63.93%	61.79%	35,797,050	65.58%	63.34%
Antoine Levavasseur <sup>(1)</sup>	537,324	0.94%	1.77%	552,607	1.01%	1.86%	557,631	1.02%	1.91%
Rani Assaf <sup>(2)</sup>	942,590	1.65%	3.16%	942,590	1.72%	3.28%	942,590	1.73%	3.29%
Cyril Poidatz <sup>(1)</sup>	690,614	1.21%	2.24%	690,614	1.26%	2.34%	670,307	1.23%	2.30%
Olivier Rosenfeld <sup>(3)</sup>	106,718	0.19%	0.18%	186,718	0.34%	0.33%	246,718	0.45%	0.43%
Alain Weil <sup>(3)</sup>	6,212	0.01%	0.01%	754	NM	NM	1,000	NM	NM
Maxime Lombardini <sup>(1)</sup>	100	0.00%	0.00%	100	NM	NM	100	NM	NM
Thomas Reynaud <sup>(1)</sup>	150	0.00%	0.00%	150	NM	NM	150	NM	NM
Pierre Pringuet <sup>(3)</sup>	2,037	0.00%	0.00%	2,037	NM	NM	1,037	NM	NM
Orla Noonan <sup>(3)</sup>	300	0.00%	0.00%	300	NM	NM	300	NM	NM
Virginie Calmels <sup>(3)</sup>	150	0.00%	0.00%	150	NM	NM	150	NM	NM
Marie-Christine Levet <sup>(3)</sup>	350	0.00%	0.00%	150	NM	NM	150	NM	NM
<b>SUB-TOTAL – SENIOR MANAGERS</b>	<b>36,093,445</b>	<b>63.28%</b>	<b>64.80%</b>	<b>37,341,890</b>	<b>68.27%</b>	<b>69.61%</b>	<b>38,217,183</b>	<b>70.02%</b>	<b>71.29%</b>
<b>Public</b>	<b>20,948,647</b>	<b>36.72%</b>	<b>35.20%</b>	<b>17,294,550</b>	<b>31.62%</b>	<b>30.13%</b>	<b>16,302,283</b>	<b>29.87%</b>	<b>28.71%</b>
of which FMR LLC <sup>(4)</sup>	2,721,625	4.97%	4.74%	2,750,647	5.03%	4.78%	-	-	-
Iliad (own shares)	22,932	0.04%	N/A	60,300	0.11%	N/A	63,974	0.11%	N/A
<b>TOTAL</b>	<b>57,042,092</b>	<b>100.00%</b>	<b>100.00%</b>	<b>54,696,740</b>	<b>100.00%</b>	<b>100.00%</b>	<b>54,583,440</b>	<b>100.00%</b>	<b>100.00%</b>

(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) On June 28, 2011, FMR LLC disclosed to the AMF that it had reduced its interest in Iliad to below 5% of the Company's capital and voting rights and that at that date it held 4.97% of the capital and 4.74% of the voting rights.

NM: not material.

There were no significant changes in the Company's ownership structure between December 31, 2011 and the date this registration document was filed.

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 2011 the Company disclosed to the AMF that four of its directors and officers and parties related to them had sold a total of 1,254,103 Iliad shares.

## Summary table of trades in Iliad shares carried out by directors and officers in 2011

(Disclosed in compliance with Article 223-26 of the AMF's General Regulations)

Name	Transaction date	Type of transaction	Unit price	Total amount
Antoine Levavasseur (related parties)	01/10/2011	Sale	€79.25	€79,256.60
Xavier Niel (related companies)	01/11/ 2011	Sale	€76.62	€53,634,000.00
Alain Weill	02/02/2011	Purchase	€78.75	€131,906.25
Alain Weill	02/02/2011	Purchase	€78.75	€297,911.25
Antoine Levavasseur (related parties)	02/04/2011	Sale	€79.00	€237,000.00
Antoine Levavasseur (related parties)	02/09/2011	Sale	€79.08	€395,409.50
Olivier Rosenfeld	03/10/2011	Sale	€81.05	€810,540.00
Olivier Rosenfeld	03/11/2011	Sale	€79.59	€795,940.00
Antoine Levavasseur (related parties)	04/13/2011	Sale	€87.54	€550,014.45
Parties related to a senior manager	05/05/2011	Sale	€86.25	€39,573,225.00
Olivier Rosenfeld	09/02/2011	Sale	€86.24	€1,724,800.00
Olivier Rosenfeld	09/05/2011	Sale	€86.01	€18,664.00
Olivier Rosenfeld	09/06/2011	Sale	€86.04	€332,544.00
Olivier Rosenfeld	09/07/2011	Sale	€86.73	€513,268.00
Olivier Rosenfeld	10/04/2011	Sale	80.88	€2,426,400.00

## 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, 2011:

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 due to the fact that there are independent directors on the Board of Directors and on 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 2011 between the Group and entities or groups of entities that hold direct interests in the Company.

Details of transactions effected with the Company's main senior managers are provided in Section 15.2 and 15.3 of the registration document.

See Notes 30 and 33 to the 2011 consolidated financial statements for information on related party transactions.

Details of cash flows between Group entities are provided in Section 7.1.



# 20

## FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES

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## 20.1 CONSOLIDATED FINANCIAL STATEMENTS FOR 2011, 2010 AND 2009

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, 2010 and the report of the Statutory Auditors thereon, as set out in Section 20.1 of the registration document filed on April 6, 2011;
- 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.

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## CONSOLIDATED INCOME STATEMENT

<i>In € thousands</i>	Note	2011	2010
<b>REVENUES</b>	<b>4</b>	<b>2,122,050</b>	<b>2,038,255</b>
Purchases used in production	5	(951,660)	(899,488)
Payroll costs	6	(129,010)	(104,436)
External charges		(147,295)	(144,093)
Taxes other than on income		(17,257)	(37,251)
Additions to provisions	9	(29,559)	(28,982)
Other income from operations	8	27,264	23,517
Other expenses from operations	8	(41,134)	(49,408)
<i>Ebitda</i> <sup>(1)</sup>	1	833,399	798,114
Share-based payment expense	26	(10,036)	(8,117)
Depreciation, amortization and provisions for impairment of non-current assets	9	(325,171)	(312,066)
<b>PROFIT FROM ORDINARY ACTIVITIES</b>		<b>498,192</b>	<b>477,931</b>
Other operating income and expense, net	10	(4,645)	60,950
<b>OPERATING PROFIT</b>		<b>493,547</b>	<b>538,881</b>
Income from cash and cash equivalents	11	6,368	2,320
Finance costs, gross	11	(53,160)	(44,015)
<b>FINANCE COSTS, NET</b>		<b>(46,792)</b>	<b>(41,695)</b>
Other financial income	11	0	0
Other financial expenses	11	(33,961)	(7,779)
Corporate income tax	12	(160,962)	(176,269)
Profit for the period from continuing operations		251,832	313,138
<b>PROFIT FOR THE PERIOD</b>		<b>251,832</b>	<b>313,138</b>
<b>PROFIT FOR THE PERIOD BEFORE NON-RECURRING ITEMS</b> <sup>(2)</sup>		<b>254,800</b>	<b>273,173</b>
<b>Attributable to:</b>			
• Owners of the Company		251,593	313,161
• Minority interests		239	(23)
<b>Earnings per share (in €):</b>			
• Basic earnings per share	13	4.60	5.74
• Diluted earnings per share	13	4.44	5.52
<b>Earnings per share from continuing operations (in €):</b>			
• Basic earnings per share	13	4.60	5.74
• Diluted earnings per share	13	4.43	5.52

(1) See definition on page 134 or 223

(2) See definition on page 134.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>In € thousands</i>	Note	2011	2010
<b>PROFIT FOR THE PERIOD</b>		<b>251,832</b>	<b>313,138</b>
• Fair value gains/(losses) on interest rate and currency hedging instruments, net of tax		(4,116)	7,274
<b>TOTAL INCOME AND EXPENSES RECOGNIZED DIRECTLY IN EQUITY</b>		<b>(4,116)</b>	<b>7,274</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>247,716</b>	<b>320,412</b>

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

## PROFIT FOR THE PERIOD BEFORE NON-RECURRING ITEMS

<i>In € thousands</i>	Note	2011	2010
<b>PROFIT FOR THE PERIOD</b>		<b>251,832</b>	<b>313,138</b>
• Other operating income and expense, net		4,645	(60,950)
• Corresponding tax impact		(1,677)	20,985
• Profit, net of taxes, from discontinued operations and assets held for sale		0	0
<b>PROFIT FOR THE PERIOD BEFORE NON-RECURRING ITEMS</b>		<b>254,800</b>	<b>273,173</b>

## CONSOLIDATED BALANCE SHEET – ASSETS

<i>In € thousands</i>	<i>Note</i>	<b>At December 31, 2011</b>	<b>At December 31, 2010</b>
Goodwill	16	214,728	214,248
Intangible assets	17	1,025,611	299,242
Property, plant and equipment	19	1,947,300	1,337,119
Other long-term financial assets	20	7,635	12,934
Deferred income tax assets	12	8,734	24
Other non-current assets		0	40,822
<b>TOTAL NON-CURRENT ASSETS</b>		<b>3,204,008</b>	<b>1,904,389</b>
Inventories	21	26,477	888
Current income tax assets		21	698
Trade and other receivables	22	199,686	167,125
Other short-term financial assets	20	16,877	2,687
Cash and cash equivalents	23	357,449	344,853
<b>TOTAL CURRENT ASSETS</b>		<b>600,510</b>	<b>516,251</b>
<b>ASSETS HELD FOR SALE</b>	<b>24</b>	<b>54,860</b>	<b>71,574</b>
<b>TOTAL ASSETS</b>		<b>3,859,378</b>	<b>2,492,214</b>

## CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES

<i>In € thousands</i>	<i>Note</i>	<b>At December 31, 2011</b>	<b>At December 31, 2010</b>
Share capital	25	12,641	12,121
Additional paid-in capital	25	304,987	98,660
Retained earnings and other reserves	25	1,206,293	967,558
<b>TOTAL EQUITY</b>		<b>1,523,921</b>	<b>1,078,339</b>
• <b>Attributable to owners of the Company</b>		<b>1,523,121</b>	<b>1,077,867</b>
• <b>Minority interests</b>		<b>800</b>	<b>472</b>
Long-term provisions	27	1,388	1,393
Long-term financial liabilities	28	1,149,744	999,967
Deferred income tax liabilities	12	7,745	12,760
Other non-current liabilities	29	307,388	1,874
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1,466,265</b>	<b>1,015,994</b>
Short-term provisions	27	29,910	24,357
Taxes payable		33,387	1,785
Trade and other payables	29	628,770	335,542
Short-term financial liabilities	28	177,125	36,197
<b>TOTAL CURRENT LIABILITIES</b>		<b>869,192</b>	<b>397,881</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>3,859,378</b>	<b>2,492,214</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>In € thousands</i>	Share capital	Additional paid-in capital	Own shares held	Reserves	Retained earnings	Total equity
<b>TOTAL EQUITY AT JANUARY 1, 2010</b>	<b>12,096</b>	<b>93,362</b>	<b>(2,750)</b>	<b>23,908</b>	<b>637,794</b>	<b>764,410</b>
<b>Movements in 2010</b>						
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
<b>Total comprehensive income for the period</b>				<b>7,274</b>	<b>313,138</b>	<b>320,412</b>
Capital increase	25	5,298				5,323
Dividends paid by Iliad SA					(20,174)	(20,174)
Dividends paid by subsidiaries					(43)	(43)
Purchases/sales of own shares			294			294
Impact of stock options				8,117		8,117
Other movements						
<b>TOTAL EQUITY AT DECEMBER 31, 2010</b>	<b>12,121</b>	<b>98,660</b>	<b>(2,456)</b>	<b>39,299</b>	<b>930,715</b>	<b>1,078,339</b>
<b>TOTAL EQUITY AT JANUARY 1, 2011</b>	<b>12,121</b>	<b>98,660</b>	<b>(2,456)</b>	<b>39,299</b>	<b>930,715</b>	<b>1,078,339</b>
<b>Movements in 2011</b>						
Profit for the period					251,832	251,832
Income and expenses recognized directly in equity:						
Impact of interest rate and currency hedges				(4,116)		(4,116)
<b>Total comprehensive income for the period</b>				<b>(4,116)</b>	<b>251,832</b>	<b>247,716</b>
Capital increase	520	206,327				206,847
Dividends paid by Iliad SA					(21,884)	(21,884)
Dividends paid by subsidiaries					(173)	(173)
Purchases/sales of own shares			3,036			3,036
Impact of stock options				10,036		10,036
Other movements				4		4
<b>TOTAL EQUITY AT DECEMBER 31, 2011</b>	<b>12,641</b>	<b>304,987</b>	<b>580</b>	<b>45,223</b>	<b>1,160,490</b>	<b>1,523,921</b>

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In € thousands</i>	Note	2011	2010
<b>PROFIT FOR THE PERIOD (INCLUDING MINORITY INTERESTS)</b>		<b>251,832</b>	<b>313,138</b>
+/- Depreciation, amortization and provisions against non-current assets and net additions to provisions for contingencies and charges (excluding restructuring costs)		341,455	367,532
-/+ Unrealized gains and losses on changes in fair value		520	3,712
+/- Expenses and income related to stock options and other share-based payments		10,036	8,117
-/+ Other income and expenses, net		19,287	(1)
-/+ Gains and losses on disposals of assets		(2,011)	(6,844)
-/+ Dilution gains and losses		0	0
+/- Share of profit of associates		0	0
- Dividends (investments in non-consolidated undertakings)		0	0
- Restructuring costs		0	0
<b>CASH FLOWS FROM OPERATIONS AFTER FINANCE COSTS, NET, AND INCOME TAX (EXCLUDING RESTRUCTURING COSTS)</b>		<b>621,119</b>	<b>685,654</b>
+ Finance costs, net	11	46,792	41,695
+/- Income tax expense (including deferred taxes)	12	160,962	176,269
<b>CASH FLOWS FROM OPERATIONS BEFORE FINANCE COSTS, NET, AND INCOME TAX (EXCLUDING RESTRUCTURING COSTS) (A)</b>		<b>828,873</b>	<b>903,618</b>
- Income tax paid (B)		(97,133)	(11,608)
+/- Change in operating working capital requirement (including employee benefit obligations) (C)	14	47,900	(17,123)
<b>= NET CASH GENERATED FROM OPERATING ACTIVITIES BEFORE RESTRUCTURING COSTS (D) = (A + B + C)</b>		<b>779,640</b>	<b>874,887</b>
- Restructuring costs (E)		0	0
<b>= NET CASH GENERATED FROM OPERATING ACTIVITIES AFTER RESTRUCTURING COSTS (F) = (D + E)</b>		<b>779,640</b>	<b>874,887</b>
- Acquisitions of property, plant and equipment and intangible assets	14	(1,179,756)	(783,579)
+ Disposals of property, plant and equipment and intangible assets		12,292	41,148
- 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		(586)	(300)
+/- Effect of changes in Group structure – disposals		0	0
+/- Change in outstanding loans and advances		(1,330)	(418)
+ Cash inflows from assets held for sale		21,391	4,714
- Cash outflows for assets held for sale		(8,389)	(44,203)
+/- Other		0	(11,109)
<b>= NET CASH USED IN INVESTING ACTIVITIES (G)</b>		<b>(1,156,378)</b>	<b>(793,747)</b>
+ Proceeds from capital increases:			
• Paid by owners of the Company		0	0
• Paid by minority shareholders of consolidated companies		0	0
+ Proceeds received on the exercise of stock options		5,660	5,739
-/+ Own-share transactions		(178)	294
• Dividends paid during the period:		0	0
• Dividends paid to owners of the Company		(21,884)	(20,174)
• Dividends paid to minority shareholders of consolidated companies		(173)	(43)
+ Proceeds from new borrowings		1,045,128	683,870
- Repayment of borrowings (including finance leases)	28	(617,295)	(1,009,115)
- Net interest paid (including on finance leases)		(21,486)	(34,649)
<b>= NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES (H)</b>		<b>389,772</b>	<b>(374,078)</b>
+/- Effect of exchange-rate movements on cash and cash equivalents (I)		(35)	9
<b>= NET CHANGE IN CASH AND CASH EQUIVALENTS (F + G + H + I)</b>		<b>12,999</b>	<b>(292,929)</b>
Cash and cash equivalents at beginning of year	14	337,469	630,398
Cash and cash equivalents at year-end	14	350,468	337,469

**NOTE 1 ACCOUNTING PRINCIPLES****1.1 General information**

Iliad SA is a *société anonyme* registered in France and listed on Eurolist by Euronext Paris under the symbol "ILD". The Company's registered office is located at 16 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, 2011 on March 6, 2012 and their publication date was set for March 8, 2012. 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, 2012.

**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 used.

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, amendments to existing standards and interpretations were mandatory for the first time for the financial year beginning January 1, 2011:**

- *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. This standard has been applied by Group Management.

**The following new standards, amendments to existing standards and interpretations were mandatory for the first time for the financial year beginning January 1, 2011, but did not impact the Group's financial statements:**

- *Amendments to IFRIC 14, Pre-payments of a Minimum Funding Requirement* (applicable for annual periods beginning on or after January 1, 2011). These amendments provide that when an entity is subject to minimum funding requirements under an employee benefit plan, any prepayments it makes to cover those requirements can be treated as an asset. The amendments are not relevant to the Iliad Group.

**The following new standards, amendments to existing standards and interpretations were applicable for annual periods beginning on or after January 1, 2011, but are not currently relevant to the Group's operations:**

- *Amendments to IFRS 7, Disclosures – Transfers of Financial Assets* (applicable for annual periods beginning on or after July 1, 2011). These amendments are intended to allow users of financial statements to improve their understanding of transfer transactions of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets. They also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of the reporting period. These amendments are not relevant to the Iliad Group.

**The following new standards related to consolidation were not applicable at December 31, 2011 and have not yet been approved by the European Union:**

- *IFRS 10, Consolidated Financial Statements*. This standard provides for a single consolidation model by establishing control as the basis for consolidation. The consolidated financial statements presented by the Iliad Group already comply with IFRS 10;

- *IFRS 11, Joint Arrangements.* This standard focuses on the rights and obligations of joint arrangements rather than their legal form. It addresses inconsistencies in the reporting of joint arrangements by requiring a single method – the equity method – to account for interests in jointly controlled entities and joint ventures. However, under IFRS 11 joint operations will continue to be consolidated on a proportionate basis. This standard will not affect the Iliad Group because the Company exercises control over all of its subsidiaries within the meaning of IFRS 10;
- *IFRS 12, Disclosure of Interests in Other Entities.* This standard presents in a single IFRS the disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, and unconsolidated structured entities. Its aim is to establish disclosure objectives according to which an entity discloses information that enables users of its financial statements to understand the basis of control over other entities and the interest that non-controlling interests have in the group's activities and cash flows, and to evaluate (i) any restrictions on the entity's ability to access or use assets, and settle liabilities, of the group, and (ii) the entity's exposure to risks associated with its interests in unconsolidated structured entities. The Group will analyze the disclosures that will be required in accordance with this new standard;

## 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 for impairment annually – or whenever events or circumstances indicate that it may be impaired – and is 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**

In accordance with IAS 21, 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 elected to present two additional indicators of earnings performance in its income statement:

- Ebitda

Ebitda is a key indicator of the Group's operating performance and corresponds to profit from ordinary activities before:

- depreciation, amortization and impairment of property, plant and equipment and intangible asset, and
- share-based payment expense;
- profit for the period before non-recurring items

This line corresponds to profit for the period adjusted for the impacts of:

- other operating income and expense, net of the corresponding tax impact, and
- profit, net of taxes, from discontinued operations and assets held for sale.

**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 the following:

- 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;
- Specific investments for optical fiber network rollouts: 8 to 30 years;
- Computer equipment: 3 to 5 years;
- Office furniture and equipment: 2 to 10 years;
- Modems: 4 to 5 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 five 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.

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 post-employment 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 measurement date.

These total benefits are then allocated over each of the past and future years for which rights are accrued 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 anticipated 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 the inception of the hedge 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 Notes 31 and 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 list of consolidated companies and the consolidation methods used is provided in Note 35 for the year ended December 31, 2011 and Note 36 for the year ended December 31, 2010.

**Changes in scope of consolidation in 2011**

Changes in the scope of consolidation in 2011 are set out in the table in Note 37.

The main changes concerned the following:

- the formation in January 2011 of Free Fréquences, a simplified joint-stock company (*société par actions simplifiée*) that is wholly-owned by Iliad S.A. through both direct and indirect interests and was fully consolidated at December 31, 2011. Free Fréquences' corporate purpose is to supply certain assets (through leases, sub-leases etc.) and generally to carry out any actions required for enabling the use of radio frequencies that it holds;
- the formation in April 2011 of Télécom Academy "Privé", a private limited company (*société à responsabilité limitée*) that is directly wholly-owned by Iliad S.A. and was fully consolidated at December 31, 2011. The corporate purpose of Télécom Academy "Privé" is to provide – either directly or through sub-contractors – continuing education courses, management consulting and coaching services, and advice and assistance to the Group's training structures.

Also during the year, the Group set up several new companies whose corporate purpose is to create and operate call centers as well as to provide all types of service in the area of communications. These companies – which were fully consolidated at December 31, 2011 – primarily include:

- Management Centre de Relation Abonné (MCRA), a simplified joint-stock company set up in May 2011 which is wholly-owned by Iliad S.A.;
- Qualipel, a simplified joint-stock company set up in June 2011 which is indirectly wholly-owned by Iliad S.A.;
- Equaline, a simplified joint-stock company set up in November 2011 which is indirectly wholly-owned by Iliad S.A.;
- Certicall, a simplified joint-stock company set up in November 2011 which is indirectly wholly-owned by Iliad S.A.;
- Mobipel, a simplified joint-stock company set up in November 2011 which is indirectly wholly-owned by Iliad S.A.

**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>	<b>2011</b>	<b>2010</b>
• Wages and salaries	94,690	74,797
• Payroll taxes	34,320	29,639
<b>TOTAL</b>	<b>129,010</b>	<b>104,436</b>

**Number of employees at year-end**

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

	<b>At December 31, 2011</b>	<b>At December 31, 2010</b>
• Management	666	580
• Other	4,989	3,775
<b>TOTAL</b>	<b>5,655</b>	<b>4,355</b>

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 €2,620,000 at December 31, 2011, compared with €1,874,000 at December 31, 2010.

The following main economic assumptions were used to measure the Group's post-employment benefit obligation at December 31, 2011 and 2010:

	2011	2010
• Discount rate	4.50%	4.75%
• Inflation rate	2%	2%
• Salary growth rate	3%	3%
• Mortality table	INSEE 2007-2009	INSEE 2006-2008
• Type of retirement	Voluntary	
• Retirement age		
– Management	Statutory retirement age	Voluntary
– Other	post 2010 French pension reform and the 2012 French Social Security Financing Act	Statutory retirement age post 2010 French pension reform

## 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;
- the technological development costs incurred in the mobile telephony business, notably concerning the network's architecture and functionalities. These costs are mainly incurred by Free Mobile.

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

In € thousands	2011	2010
• Amortization of capitalized development costs	1,047	788
• Development costs recognized directly in the income statement	844	1,918
<b>TOTAL</b>	<b>1,891</b>	<b>2,706</b>

**NOTE 8 OTHER INCOME AND EXPENSES FROM OPERATIONS**

"Other income from operations" breaks down as follows:

<i>In € thousands</i>	<b>2011</b>	<b>2010</b>
• Proceeds from sales of non-current assets	7,774	17,682
• Customer contract termination fees	13,077	
• Other	6,413	5,835
<b>TOTAL OTHER INCOME FROM OPERATIONS</b>	<b>27,264</b>	<b>23,517</b>

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

<i>In € thousands</i>	<b>2011</b>	<b>2010</b>
• Carrying amount of divested non-current assets	(5,228)	(10,838)
• Royalties and similar fees	(27,254)	(34,441)
• Bad debts	(4,935)	(2,231)
• Other	(3,717)	(1,898)
<b>TOTAL OTHER EXPENSES FROM OPERATIONS</b>	<b>(41,134)</b>	<b>(49,408)</b>

**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>	<b>2011</b>	<b>2010</b>
• Depreciation and amortization expense:		
– Intangible assets	5,118	4,773
– Property, plant and equipment	320,787	308,064
• Provisions for impairment of property, plant and equipment		
• Amortization of investment grants recognized as intangible assets		
<b>TOTAL</b>	<b>325,171</b>	<b>312,066</b>

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>	2011	2010
• Provisions for contingencies and charges	6,759	610
• Provisions for impairment of inventories and trade receivables	22,800	28,372
<b>TOTAL</b>	<b>29,559</b>	<b>28,982</b>

## NOTE 10 OTHER OPERATING INCOME AND EXPENSE, NET

This item represented a net expense of €4,645,000 in 2011, compared with net income of €60,950,000 in 2010.

<i>In € thousands</i>	2011	2010
• Other operating income and expense, net	(4,645)	60,950
<b>TOTAL</b>	<b>(4,645)</b>	<b>60,950</b>

## Comments on the 2011 figure

See Note 24.

## Comments on the 2010 figure

The €60.9 million in net income recorded under "Other operating income and expense, net" in 2010 reflected 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.

**NOTE 11 FINANCIAL INCOME AND EXPENSES**

Financial income and expenses can be analyzed as follows:

<i>In € thousands</i>	<b>2011</b>	<b>2010</b>
• Income from cash and cash equivalents	6,368	2,320
• Finance costs, gross	(53,160)	(44,015)
<b>Finance costs, net</b>	<b>(46,792)</b>	<b>(41,695)</b>
• Other financial income and expenses:		
– Translation adjustments/Hedging expense	(11,671)	(7,824)
– Discounting expense	(15,915)	0
– Other	(6,375)	45
<b>NET FINANCIAL EXPENSE</b>	<b>(80,753)</b>	<b>(49,474)</b>

Net financial expense primarily concerns the costs of the Group's various sources of financing (see Note 28).

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.

Discounting expense concerns trade payables with maturities of more than one year.

**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>	<b>2011</b>	<b>2010</b>
Current taxes		
• on income	155,034	(21,750)
• on value added (CVAE)	17,328	13,908
<b>CURRENT INCOME TAX CHARGE (BENEFIT)</b>	<b>172,362</b>	<b>(7,842)</b>
Deferred taxes		
• on income	(7,809)	189,564
• on value added (CVAE)	(3,591)	(5,453)
<b>DEFERRED INCOME TAX CHARGE (BENEFIT)</b>	<b>(11,400)</b>	<b>184,111</b>
<b>TOTAL TAX CHARGE</b>	<b>160,962</b>	<b>176,269</b>

**Tax group**

The Iliad Group has set up a tax group, which at end-2011 included all consolidated companies except for (i) companies that are less than 95%-owned by the Group, (ii) companies that were set up in 2011, 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>	2011	2010
<b>PROFIT FOR THE PERIOD</b>	<b>251,832</b>	<b>313,138</b>
• Corporate income tax	160,962	176,269
• Profit, net of taxes, from discontinued operations	0	0
<b>CONSOLIDATED PROFIT FROM CONTINUING OPERATIONS BEFORE TAX</b>	<b>412,794</b>	<b>489,407</b>
<b>THEORETICAL TAX RATE</b>	<b>36.10%</b>	<b>34.43%</b>
• Net impact of permanent differences	0.64%	0.18%
• Impact of unrecognized tax loss carryforwards	0.06%	0.11%
• Impact of different tax rates	0.04%	0.02%
• Other impacts	2.15%	1.28%
<b>EFFECTIVE TAX RATE</b>	<b>38.99%</b>	<b>36.02%</b>

## Unrecognized deferred tax assets

Unrecognized deferred tax assets concern:

- tax loss carryforwards of companies outside the Iliad tax group which have been in a loss-making position for several years and are not expected to return to profit in the near future;
- tax loss carryforwards that are not expected to be utilized based on the projected future earnings of the companies concerned 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 €2,625,000 at December 31, 2011, compared with €4,242,000 one year earlier.

**NOTE 13 BASIC AND DILUTED EARNINGS PER SHARE****Basic earnings per share**

Number of shares used for the calculation	2011	2010
• Number of shares at the year-end	57,042,092	54,696,740
• Weighted average number of shares	54,731,420	54,563,253

**Diluted earnings per share**

<i>In € thousands</i>	2011	2010
<b>PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>	<b>251,593</b>	<b>313,161</b>
Interest expense on Océane convertible bonds (net of tax)	9,517	9,568
<b>DILUTED PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>	<b>261,110</b>	<b>322,729</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (AFTER DILUTION)</b>		
• Weighted average number of shares outstanding (see above)	54,731,420	54,563,253
• Number of share equivalents:		
– Stock options	497,122	188,676
– Océane bonds	3,652,092	3,754,968
<b>MAXIMUM WEIGHTED AVERAGE NUMBER OF SHARES AFTER DILUTION</b>	<b>58,880,634</b>	<b>58,506,897</b>
Diluted earnings per share ( <i>in €</i> )	4.44	5.52

**Instruments with no dilutive impact**

As Iliad's average share price in 2011 was €85.17, the stock options granted in November 2011 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 2011 and 2010 can be analyzed as follows:

<i>In € thousands</i>							
12/31/2011	Note	Balance at January 1, 2011	Net debits	Net credits	Changes in Group structure	Other	Balance at December 31, 2011
• Net inventories	21	888	25,589				26,477
• Net trade receivables	22	94,819	9,939				104,758
• Net other receivables	22	72,306	24,859			(2,237)	94,928
• Supplier payables	29	(159,520)		(86,666)		379	(245,807)
• Other payables		(80,229)		(21,621)		(4)	(101,854)
<b>TOTAL</b>		<b>(71,736)</b>	<b>60,387</b>	<b>(108,287)</b>		<b>(1,862)</b>	<b>(121,498)</b>
<b>Change in operating working capital requirement in 2011</b>				<b>(47,900)</b>			

<i>In € thousands</i>							
12/31/2010	Note	Balance at January 1, 2010	Net debits	Net credits	Changes in Group structure	Other	Balance at 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)
<b>TOTAL</b>		<b>(88,093)</b>	<b>34,162</b>	<b>(17,039)</b>		<b>(766)</b>	<b>(71,736)</b>
<b>Change in operating working capital requirement in 2010</b>			<b>17,123</b>				

**Other receivables**

This item can be analyzed as follows:

<i>In € thousands</i>			
	Note	At December 31, 2011	At December 31, 2010
Trade and other receivables:	22	199,686	167,125
• Net trade receivables	22	(104,758)	(94,819)
<b>RECOGNIZED IN STATEMENT OF CASH FLOWS</b>		<b>94,928</b>	<b>72,306</b>

## Other payables

This item can be analyzed as follows:

<i>In € thousands</i>	Note	At December 31, 2011	At December 31, 2010
Trade and other payables	29	936,158	337,416
• Suppliers of goods and services (incl. VAT)	29	(245,807)	(159,520)
• Suppliers of non-current assets (excl. VAT)		(588,497)	(97,567)
• Other		0	(100)
<b>RECOGNIZED IN STATEMENT OF CASH FLOWS</b>		<b>101,854</b>	<b>80,229</b>

## Acquisitions of non-current assets

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

<i>In € thousands</i>	Note	At December 31, 2011	At December 31, 2010
• Intangible assets	17	754,565	262,827
• Property, plant and equipment	19	902,085	535,930
Suppliers of non-current assets (excl. VAT):			
• at beginning of year		97,567	93,498
• impact of changes in Group structure		0	0
• at year-end		(588,497)	(97,567)
• Other		14,036	(11,109)
<b>RECOGNIZED IN STATEMENT OF CASH FLOWS</b>		<b>1,179,756</b>	<b>783,579</b>

## Cash and cash equivalents

<i>In € thousands</i>	Note	Cash and cash equivalents at December 31, 2011	Cash and cash equivalents at December 31, 2010
Cash (including currency hedges)	23	10,839	32,430
Marketable securities	23	346,610	312,423
<b>SUB-TOTAL</b>		<b>357,449</b>	<b>344,853</b>
Bank borrowing facilities	28	(6,981)	(7,384)
<b>TOTAL</b>		<b>350,468</b>	<b>337,469</b>

## Non-monetary flows relating to investing and financing activities

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

<i>In € thousands</i>	At December 31, 2011	At December 31, 2010
• Acquisitions of assets under finance leases	20,429	56,790

**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) networks, 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, particularly following the commercial launch of the Group's mobile business on January 10, 2012.

**Analysis of the consolidated income statement by operating segment**

*In € thousands*

At December 31, 2011	Broadband	Traditional Telephony	Inter-segment	Total
<b>Revenues</b>				
External revenues	2,111,340	10,710		2,122,050
Inter-segment revenues	2,436	23,470	(25,906)	0
Total revenues	2,113,776	34,180	(25,906)	2,122,050
<b>Earnings</b>				
Ebitda	840,792	(7,393)	0	833,399
Share-based payment expense	(8,650)	(1,386)	0	(10,036)
Depreciation, amortization and provisions for impairment of non-current assets	(324,939)	(232)	0	(325,171)
Profit/(loss) from ordinary activities	507,203	(9,011)	0	498,192

*In € thousands*

At December 31, 2010	Broadband	Traditional Telephony	Inter-segment	Total
<b>Revenues</b>				
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
<b>Earnings</b>				
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

## Capital expenditure by operating segment

In € thousands

At December 31, 2011	Broadband	Traditional Telephony	Inter-segment	Total
Intangible assets	318,446	8	0	318,474
Property, plant and equipment	856,297	4,985	0	861,282

In € thousands

At December 31, 2010	Broadband	Traditional Telephony	Inter-segment	Total
Intangible assets	262,787	40	0	262,827
Property, plant and equipment	520,570	187	0	520,757

## Employee numbers by operating segment

At December 31, 2011	Broadband	Traditional Telephony	Inter-segment	Total
Number of employees at year-end	5,584	71	0	5,655

At December 31, 2010	Broadband	Traditional Telephony	Inter-segment	Total
Number of employees at year-end	4,293	62	0	4,355

## Analysis of consolidated assets by operating segment

In € thousands

At December 31, 2011	Broadband	Traditional Telephony	Total
<b>Non-current assets (excluding taxes)</b>	<b>3,186,066</b>	<b>9,208</b>	<b>3,195,274</b>
<b>Current assets (excl. cash and cash equivalents and tax receivables)</b>	<b>282,207</b>	<b>15,693</b>	<b>297,900</b>
Inventories	26,477	0	26,477
Trade and other receivables	183,993	15,693	199,686
Other short-term financial assets	16,877	0	16,877
Assets held for sale	54,860	0	54,860
<b>Cash and cash equivalents</b>			<b>357,449</b>

In € thousands

At December 31, 2010	Broadband	Traditional Telephony	Total
<b>Non-current assets (excluding taxes)</b>	<b>1,852,605</b>	<b>10,938</b>	<b>1,863,543</b>
<b>Current assets (excl. cash and cash equivalents and tax receivables)</b>	<b>233,872</b>	<b>8,402</b>	<b>242,274</b>
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
<b>Cash and cash equivalents</b>			<b>344,853</b>



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

*In € thousands*

At December 31, 2011	Broadband	Traditional Telephony	Total
<b>NON-CURRENT LIABILITIES (EXCL. DEFERRED TAXES)</b>	<b>1,457,988</b>	<b>532</b>	<b>1,458,520</b>
Long-term provisions	1,002	386	1,388
Long-term financial liabilities	1,149,744	0	1,149,744
Other non-current liabilities	307,242	146	307,388
<b>CURRENT LIABILITIES (EXCL. TAXES PAYABLE)</b>	<b>822,805</b>	<b>13,000</b>	<b>835,805</b>
Short-term provisions	29,790	120	29,910
Trade and other payables	615,922	12,848	628,770
Short-term financial liabilities	177,093	32	177,125

*In € thousands*

At December 31, 2010	Broadband	Traditional Telephony	Total
<b>NON-CURRENT LIABILITIES (EXCL. DEFERRED TAXES)</b>	<b>1,002,692</b>	<b>542</b>	<b>1,003,234</b>
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
<b>CURRENT LIABILITIES (EXCL. TAXES PAYABLE)</b>	<b>380,484</b>	<b>15,612</b>	<b>396,096</b>
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

## NOTE 16 GOODWILL

The main movements in goodwill in 2011 and 2010 were as follows:

<i>In € thousands</i>	2011	2010
Carrying amount at January 1	214,248	214,048
Increase following acquisitions:		
• Freebox	480	0
Other movements:		
• IFW	0	200
<b>CARRYING AMOUNT AT DECEMBER 31</b>	<b>214,728</b>	<b>214,248</b>

**NOTE 17 INTANGIBLE ASSETS**

Intangible assets break down as follows:

<i>In € thousands</i>	At December 31, 2011			At December 31, 2010		
	Gross	Amortization and impairment	Net	Gross	Amortization and impairment	Net
<b>Acquisitions:</b>						
• Wimax license	54,296	40,181	14,115	54,296	40,000	14,296
• 3G license	264,801	0	264,801	252,640	0	252,640
• 4G license	280,976	0	280,976	0	0	0
• Alice customer base	25,000	6,945	18,055	25,000	4,862	20,138
• Other	447,442	3,275	444,167	12,363	2,670	9,693
<b>Internally-generated intangible assets:</b>						
• Development costs	6,651	3,154	3,497	4,582	2,107	2,475
<b>TOTAL</b>	<b>1,079,166</b>	<b>53,555</b>	<b>1,025,611</b>	<b>348,881</b>	<b>49,639</b>	<b>299,242</b>

Following an impairment test carried out in 2010, the Group recorded a €40 million impairment loss on its Wimax license, which was maintained in 2011 as there were no changes in circumstances that justified its reversal. In addition, the Group has started to amortize this license since the commercial launch of its Wimax offerings in late 2011.

In January 2010, the Iliad Group was issued France's fourth 3G mobile telecommunications license in return for consideration of €242.7 million. In accordance with IAS 23 the carrying amount of this asset in the balance sheet includes related borrowing costs.

In September 2011, the Group was allocated a license for 20 MHz of spectrum in the new generation 4G (2.6 GHz) frequency band for a cost of €278.1 million.

Also in 2011, the Group accelerated the rollout of its mobile network in preparation for its launch in early 2012. This resulted in the signature of agreements granting the Group certain long-term rights.

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:

<i>In € thousands</i>	2011	2010
Net at January 1	299,242	80,291
• Acquisitions	752,496	261,532
• internally-generated intangible assets	2,069	1,295
Reclassifications	(23,310)	0
Other	(953)	(40,000)
Amortization	(3,933)	(3,876)
<b>NET AT DECEMBER 31</b>	<b>1,025,611</b>	<b>299,242</b>

**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 did not recognize any impairment losses on this CGU's goodwill or intangible assets in 2011.

The impairment test carried out on the Group's Wimax license in 2011 did not result in any adjustments to the asset's carrying amount.

Similarly, no adjustments were required to be made to the carrying amount of the mobile telephony business's intangible assets in progress.

**NOTE 19 PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment can be analyzed as follows:

In € thousands	At December 31, 2011			At December 31, 2010		
	Gross	Depreciation	Net	Gross	Depreciation	Net
• Land and buildings <sup>(1)</sup>	125,801	1,364	124,437	119,163	845	118,318
• Network usage rights	175,917	44,834	131,083	161,544	37,059	124,485
• Service access fees	576,307	353,044	223,263	529,338	331,950	197,388
• Network equipment <sup>(2)</sup>	2,143,588	824,096	1,319,492	1,496,301	687,087	809,214
• Other	157,994	8,969	149,025	91,298	3,584	87,714
<b>TOTAL</b>	<b>3,179,607</b>	<b>1,232,307</b>	<b>1,947,300</b>	<b>2,397,644</b>	<b>1,060,525</b>	<b>1,337,119</b>
(1) of which finance leases	90,645	647	89,998	85,934	251	85,683
(2) of which finance leases	69,232	40,273	28,959	55,548	32,445	23,103

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	2011	2010
Net at January 1	1,337,119	1,087,470
Acquisitions*	922,514	592,720
Disposals	(9,747)	(38,502)
Reclassifications	22,387	3,622
Other	(3,735)	0
Depreciation	(321,238)	(308,191)
<b>NET AT DECEMBER 31</b>	<b>1,947,300</b>	<b>1,337,119</b>
* Acquisitions excluding assets acquired under finance leases	902,085	535,930

During 2011 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 2011 the Group unbundled more than 500 new France Télécom sites;
- expenditure to expand 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;
- further 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, 2011.

### 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>	<b>At December 31, 2011</b>	<b>At December 31, 2010</b>
• Land and buildings	94,662	98,724
• Network usage rights	15,385	14,705
• Network equipment	495,384	351,757
<b>TOTAL</b>	<b>605,431</b>	<b>465,186</b>

## NOTE 20 OTHER FINANCIAL ASSETS

Other financial assets break down as follows by nature:

	<b>At December 31, 2011</b>	<b>At December 31, 2010</b>
<i>In € thousands</i>	<b>Net</b>	<b>Net</b>
<b>Other long-term financial assets</b>		
• Loans	477	3,287
• Other investment securities	1,827	3,828
• Guarantee deposits	5,331	5,819
<b>TOTAL OTHER LONG-TERM FINANCIAL ASSETS</b>	<b>7,635</b>	<b>12,934</b>
<b>Other short-term financial assets</b>		
• Loans	16	16
• Cash flow hedges	16,861	2,671
<b>TOTAL OTHER SHORT-TERM FINANCIAL ASSETS</b>	<b>16,877</b>	<b>2,687</b>
<b>TOTAL OTHER FINANCIAL ASSETS</b>	<b>24,512</b>	<b>15,621</b>

Other short-term and long-term financial assets correspond to the portion of receivables due within one year and beyond one year respectively.

Other financial assets break down as follows by function:

	At December 31, 2011	At December 31, 2010
<i>In € thousands</i>	Net	Net
• Financial assets at fair value through profit or loss	18,689	2,686
• Held-for-trading investments	0	0
• Held-to-maturity investments	0	0
• Loans and receivables issued by the Group	5,823	9,122
• Available-for-sale financial assets	0	3,813
<b>TOTAL OTHER FINANCIAL ASSETS</b>	<b>24,512</b>	<b>15,621</b>

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

<i>In € thousands</i>	2011	2010
Net at January 1	15,621	12,533
Acquisitions	2,834	6,660
Redemptions and repayments	(1,504)	(6,242)
Impact of changes in Group structure	0	0
Additions to provisions	(6,629)	1
Impact of cash flow hedges	14,190	2,671
<b>NET AT DECEMBER 31</b>	<b>24,512</b>	<b>15,621</b>

Acquisitions and redemptions and repayments in 2010 and 2011 primarily concerned movements in guarantee deposits paid.

Additions to provisions recorded in 2011 relate to a project from which the Group has decided to withdraw.

## NOTE 21 INVENTORIES

Inventories break down as follows:

<i>In € thousands</i>	At December 31, 2011	At December 31, 2010
Raw materials	836	644
Work-in-progress	0	0
Finished products	26,096	474
<b>Inventories – gross</b>	<b>26,932</b>	<b>1,118</b>
Provisions:		
• raw materials	(434)	(209)
• finished products	(21)	(21)
<b>Total provisions</b>	<b>(455)</b>	<b>(230)</b>
<b>INVENTORIES – NET</b>	<b>26,477</b>	<b>888</b>

The year-on-year increase in inventories of finished products was primarily due to mobile terminals purchased in preparation for the launch of the mobile network in early 2012.

**NOTE 22 TRADE AND OTHER RECEIVABLES**

Trade and other receivables break down as follows:

<i>In € thousands</i>	<b>At December 31, 2011</b>	<b>At December 31, 2010</b>
<b>Trade and other receivables</b>		
Trade receivables	149,095	139,689
Advances and prepayments	1,308	1,187
Tax receivables (VAT)	57,718	43,970
Other	17,626	11,221
Prepaid expenses	19,495	17,148
<b>TOTAL – GROSS</b>	<b>245,242</b>	<b>213,215</b>
Provisions for trade receivables	(44,337)	(44,870)
Provisions for other receivables	(1,219)	(1,220)
<b>NET TRADE AND OTHER RECEIVABLES</b>	<b>199,686</b>	<b>167,125</b>
Net trade receivables	104,758	94,819
Net other receivables	94,928	72,306

**NOTE 23 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents can be analyzed as follows:

<i>In € thousands</i>	<b>At December 31, 2011</b>		<b>At December 31, 2010</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
<b>Certificates of deposit</b>				
Net value	70,010	70,010	45,000	45,000
<b>Mutual funds (UCITs)</b>				
Net value	276,600	276,600	267,423	267,423
Cash	10,839	10,839	32,430	32,430
<b>TOTAL NET</b>	<b>357,449</b>	<b>357,449</b>	<b>344,853</b>	<b>344,853</b>

The Group's policy is to invest its cash in instruments that qualify as cash equivalents within the meaning of IAS 7. As a result, these investments:

- have a short maturity;
- are highly liquid;
- are readily convertible into a known amount of cash; and
- 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" classification of the French securities regulator (AMF).

**NOTE 24 ASSETS HELD FOR SALE**

Assets held for sale break down as follows:

<i>In € thousands</i>	<b>At December 31, 2011</b>	<b>At December 31, 2010</b>
Buildings held for sale	54,860	71,574
<b>TOTAL</b>	<b>54,860</b>	<b>71,574</b>

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, 2010 or 2011.

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

Gains and losses arising on sales of these assets, including the impact of any related provisions, are presented in the consolidated income statement under "Other operating income and expense, net".

**NOTE 25 EQUITY****Share capital****Capital increase following the conversion of Océane bonds**

In June 2006, the Iliad Group carried out an issue of Océane bonds convertible into new shares and/or exchangeable for existing shares. The bonds were convertible/exchangeable at any time from the bond issue date (June 29, 2006) until the seventh working day preceding their maturity and redemption date (December 22, 2011).

Based on the conversion requests received by the December 22, 2011 final exercise date, and taking into account the delivery of 35,700 existing Iliad shares held by the Company, the number of new shares issued for allocation to Océane bondholders amounted to 2,260,524. The issuance of these new shares resulted in a €501,000 increase in the Company's capital from €12,121,000 to €12,622,000. The amount of their par value as well as a total issue premium of €202,924,000 have been paid up in full.

**Capital increase following exercise of stock options**

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 2011, 84,828 stock options were exercised for the same number of new shares. The Group's share capital therefore increased by €19,000 from €12,622,000 to €12,641,000 at December 31, 2011.

At December 31, 2011 the Group held 23,571 Iliad shares.

At that date, Iliad's ownership structure was as follows:

<b>Shareholder</b>	<b>Number of shares</b>	<b>%</b>
Executive Management	36,093,445	63.28
Public	20,948,647	36.72
<b>TOTAL</b>	<b>57,042,092</b>	<b>100.00</b>

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

- The dividend paid in 2011 for 2010 totaled €21,884,000.
- No interim dividend was paid in 2011.

At the next Annual General Meeting, shareholders will be invited to approve a dividend payment of €0.37 per share.

**Cash flow hedge reserve**

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

These hedges are described in Note 32.

At December 31, 2010 and 2011 the cash flow hedge reserve (net of the tax effect) had negative balances of €10,286,000 and €23,548,000 respectively.

**NOTE 26 STOCK OPTION PLANS****Stock option plans**

The following tables summarize the main features of the various stock option plans approved in 2011 and prior years, and outstanding at the year-end.

**AT DECEMBER 31, 2011**

Date of Shareholders' Meeting	Date of plan launch	Exercise price (in €)	Number of options outstanding at January 1, 2011	Number of options granted in 2011	Number of options cancelled in 2011	Number of options exercised in 2011	Number of exercisable options outstanding at December 31, 2011	Number of non-exercisable options outstanding at December 31, 2011
<b>Iliad</b>								
	January 20, 2004							
December 12, 2003	December 20, 2005	16.30	28,245	0	0	21,375	6,870	0
December 12, 2003		48.44	227,712	0	0	63,453	164,259	0
May 29, 2006	June 14, 2007	74.62	162,455	0	0	0	0	162,455
May 29, 2006	August 30, 2007	68.17	680,300	0	17,078	0	0	663,222
May 29, 2008	November 5, 2008	53.79	577,400	0	13,200	0	0	564,200
May 29, 2008	August 30, 2010	67.67	182,250	0	19,800	0	0	162,450
May 29, 2008	August 30, 2010	67.67	425,250	0	46,200	0	0	379,050
May 24, 2011	November 7, 2011	84.03	0	404,800	6,600	0	0	398,200

**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
<b>Iliad</b>								
	January 20, 2004							
December 12, 2003	December 20, 2005	16.30	33,371	0	0	5,126	28,245	0
December 12, 2003		48.44	338,178	0	2,292	108,174	227,712	0
May 29, 2006	June 14, 2007	74.62	162,455	0	0	0	0	162,455
May 29, 2006	August 30, 2007	68.17	694,759	0	14,459	0	0	680,300
May 29, 2008	November 5, 2008	53.79	589,400	0	12,000	0	0	577,400
May 29, 2008	August 30, 2010	67.67	0	183,150	900	0	0	182,250
May 29, 2008	August 30, 2010	67.67	0	427,350	2,100	0	0	425,250



## Exercise date of options

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

Date of plan launch	Exercise terms and conditions
January 20, 2004	Options exercisable since January 20, 2008
December 20, 2005	Half of the options exercisable since December 20, 2009 and half since December 20, 2010
June 14, 2007	Options exercisable from June 13, 2012
August 30, 2007	Options exercisable from August 30, 2012
November 5, 2008	Options exercisable from November 5, 2013
August 30, 2010	30% of the options exercisable from August 29, 2014 and 70% from August 29, 2015
November 7, 2011	Options exercisable from November 6, 2016

## 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:

	06/14/2007	08/30/2007	11/05/2008	08/30/2010	08/30/2010	11/07/2011
Quantity	162,455	703,960	596,600	183,150	427,350	404,800
Per-share exercise price	€74.62	€68.17	€53.79	€67.67	€67.67	€84.03
Life of the options	5 years	5 years	5 years	4 years	5 years	5 years
Underlying volatility	22.50%	22.50%	30%	25%	25%	20%
Annual cost (in € thousands)	700	2,800	2,265	775	1,356	1,708
Maturity	06/13/2012	08/30/2012	11/05/2013	08/29/2014	08/29/2015	11/06/2016

The expense recorded in relation to these plans totaled €8,153,000 in 2011 and €7,145,000 in 2010.

## Share grant plan

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

During 2010 and 2011, several employees and managers were granted shares representing 5% of Free Mobile's share capital. This plan includes an option to settle the share-based payment in Iliad shares, the price of which will be determined by an independent expert.

The 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 this plan in 2011 and 2010 amounted to €1,883,000 and €972,000 respectively.

**NOTE 27 PROVISIONS**

The provisions recognized at December 31, 2011 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>	<b>At December 31, 2011</b>	<b>At December 31, 2010</b>
<b>Long-term provisions</b>		
Provisions for charges	1,388	1,393
<b>TOTAL LONG-TERM PROVISIONS</b>	<b>1,388</b>	<b>1,393</b>
<b>Short-term provisions</b>		
Provisions for contingencies	29,910	23,945
Provisions for charges	0	412
<b>TOTAL SHORT-TERM PROVISIONS</b>	<b>29,910</b>	<b>24,357</b>
<b>TOTAL PROVISIONS</b>	<b>31,298</b>	<b>25,750</b>

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>	<b>At December 31, 2011</b>	<b>At December 31, 2010</b>
Provisions for contingencies	29,910	23,945
Provisions for charges	1,388	1,805
<b>TOTAL PROVISIONS FOR CONTINGENCIES AND CHARGES</b>	<b>31,298</b>	<b>25,750</b>

Movements in provisions for contingencies and charges were as follows in 2011:

<i>In € thousands</i>	<b>At December 31, 2010</b>	<b>Increases in 2011</b>	<b>Decreases in 2011 (utilizations)</b>	<b>Decreases in 2011 (surplus provisions)</b>	<b>Changes in Group structure</b>	<b>Other movements</b>	<b>At December 31, 2011</b>
Provisions for claims and litigation and general contingencies	23,945	7,983	(1,161)	(852)	0	(5)	29,910
Provisions for charges	1,805	0	(44)	(372)	0	(1)	1,388
<b>TOTAL</b>	<b>25,750</b>	<b>7,983</b>	<b>(1,205)</b>	<b>(1,224)</b>	<b>0</b>	<b>(6)</b>	<b>31,298</b>

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

<i>In € thousands</i>	<b>At December 31, 2009</b>	<b>Increases in 2010</b>	<b>Decreases in 2010 (utilizations)</b>	<b>Decreases in 2010 (surplus provisions)</b>	<b>Changes in Group structure</b>	<b>Other movements</b>	<b>At December 31, 2010</b>
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
<b>TOTAL</b>	<b>10,277</b>	<b>20,011</b>	<b>(3,684)</b>	<b>(861)</b>		<b>7</b>	<b>25,750</b>

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

<i>In € thousands</i>	2011	2010
Profit from ordinary activities	5,559	3,074
Operating profit	0	(18,544)
Financial income and expense, net	(5)	4
<b>TOTAL</b>	<b>5,554</b>	<b>(15,466)</b>

## NOTE 28 FINANCIAL LIABILITIES

Financial liabilities can be analyzed as follows:

<i>In € thousands</i>	At December 31, 2011	At December 31, 2010
Bank borrowings	531,224	578,123
Convertible bonds	0	323,030
Ordinary bonds	497,792	0
Borrowings related to finance leases	79,000	80,666
Cash flow hedges	36,851	13,086
Other	4,877	5,062
<b>TOTAL LONG-TERM FINANCIAL LIABILITIES</b>	<b>1,149,744</b>	<b>999,967</b>
Bank borrowings	0	0
Convertible bonds	131,272	7,274
Borrowings related to finance leases	18,110	14,908
Other bank borrowing facilities	6,981	7,384
Cash flow hedges	0	2,601
Other	20,762	4,030
<b>TOTAL SHORT-TERM FINANCIAL LIABILITIES</b>	<b>177,125</b>	<b>36,197</b>
<b>TOTAL</b>	<b>1,326,869</b>	<b>1,036,164</b>

Short- and long-term financial liabilities correspond to the portion of payables due within one year and beyond one year respectively.

All Group borrowings are in euros.

The table below summarizes movements in borrowings in 2011 and 2010:

<i>In € thousands</i>	<b>2011</b>	<b>2010</b>
Borrowings at January 1	1,036,164	1,298,778
New borrowings *	1,065,557	740,660
Repayments of borrowings	(617,295)	(1,009,115)
Conversion of Océane bonds	(206,637)	0
Change in other bank borrowing facilities	(403)	5,283
Impact of changes in Group structure	0	0
Interest on Océane bonds and bond premium	7,606	7,307
Impact of cash flow hedges	21,164	(11,093)
Other	20,713	4,344
<b>TOTAL BORROWINGS AT DECEMBER 31</b>	<b>1,326,869</b>	<b>1,036,164</b>
* New borrowings excluding borrowings related to finance leases	1,045,128	683,870

### Convertible bonds

In June 2006, the Iliad Group 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 bonds were convertible/exchangeable for Iliad shares at any time from the bond issue date (June 29, 2006) until the seventh working day preceding their maturity and redemption date (December 22, 2011), with the Company making the decision on whether to allocate newly issued or existing shares, or a combination of new and existing shares.

Based on the conversion requests received by the December 22, 2011 final exercise date and taking into account the delivery of 35,700 existing Iliad shares held by the Company, Iliad issued 2,260,524 new shares for allocation to Océane bondholders.

The 1,458,744 remaining Océane bonds will be redeemed in cash on January 2, 2012 at face value (€88.05 per bond) plus an interest payment of €1.94 per bond.

### Ordinary bonds

On May 26, 2011 the Company issued €500 million worth of bonds paying interest at 4.875% per year, which will be redeemed at face value on June 1, 2016.

### 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, 2011

#### A €1,400 million syndicated credit facility

On June 9, 2010, the Company set up a €1,400 million syndicated credit facility with a pool of 11 international banks. This facility comprises two tranches:

- a €600 million loan tranche to refinance the Group's net debt, of which €400 million had been drawn down at December 31, 2011;
- a revolving tranche of €800 million expiring in June 2015. None of this tranche had been drawn down at December 31, 2011.

The applicable interest rate is based on Euribor plus a margin of between 2.05% and 1.10% per year depending on the Group's leverage ratio.

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

### Loan granted by the European Investment Bank (EIB)

The EIB has granted Iliad a €150 million loan in order to help finance the rollout of the Group's ADSL and FTTH networks. The loan – which has a 10-year term and is repayable in installments – had been fully drawn down at December 31, 2011.

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, 2011	At December 31, 2010
Fixed-rate borrowings	1,283,037	834,610
Variable-rate borrowings	43,832	201,554
<b>TOTAL BORROWINGS</b>	<b>1,326,869</b>	<b>1,036,164</b>

### Breakdown of borrowings by nature and maturity

The following table presents borrowings by nature and maturity at December 31, 2011:

<i>In € thousands</i>	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years	Total
Convertible bonds	131,272	0	0	131,272
Ordinary bonds	0	497,792	0	497,792
Bank borrowings	0	518,191	49,884	568,075
Borrowings related to finance leases	18,110	51,858	27,142	97,110
Other bank borrowing facilities	6,981	0	0	6,981
Sundry borrowings	20,762	0	4,877	25,639
<b>TOTAL</b>	<b>177,125</b>	<b>1,067,841</b>	<b>81,903</b>	<b>1,326,869</b>

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
<b>TOTAL</b>	<b>36,197</b>	<b>961,556</b>	<b>38,411</b>	<b>1,036,164</b>

### Description of the Group's main finance leases outstanding at December 31, 2011

#### 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 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.

At December 31, 2011, the Group's total obligations under the related finance leases amounted to €97.1 million versus €95.6 million one year earlier.

### Equipment finance leases

As part of its operations, the Group holds several items of equipment (mainly switching equipment) under finance leases with terms of between three and seven years.

None of the lease arrangements contain contingent lease payment clauses 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, 2011 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	18,110	51,858	27,142	97,110
Present value	18,110	46,716	20,089	84,915

Present value is determined by applying a 4.83% discount rate.

## NOTE 29 TRADE AND OTHER PAYABLES

These items break down as follows:

<i>In € thousands</i>	At December 31, 2011	At December 31, 2010
<b>Trade and other payables recorded under other non-current liabilities:</b>		
Trade payables	304,768	0
Accrued taxes and employee-related payables	2,620	1,874
<b>SUB-TOTAL</b>	<b>307,388</b>	<b>1,874</b>
<b>Trade and other payables recorded under current liabilities:</b>		
Trade payables	543,617	271,039
Advances and prepayments	5	653
Accrued taxes and employee-related payables	77,841	57,575
Other payables	6,940	5,976
Deferred income	367	299
<b>SUB-TOTAL</b>	<b>628,770</b>	<b>335,542</b>
<b>TOTAL</b>	<b>936,158</b>	<b>337,416</b>

Total trade payables can be analyzed as follows:

<i>In € thousands</i>	At December 31, 2011	At December 31, 2010
Suppliers of goods and services	245,807	159,520
Suppliers of non-current assets	602,578	111,519
<b>TOTAL</b>	<b>848,385</b>	<b>271,039</b>

**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 2011 and 2010 breaks down as follows:

<i>In € thousands</i>	<b>2011</b>	<b>2010</b>
• Total compensation	1,944	1,944
• Share-based payments	4,242	3,997
<b>TOTAL</b>	<b>6,186</b>	<b>5,941</b>

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
<b>At December 31, 2011</b>							
Cash	10,839					10,839	10,839
Marketable securities	346,610					346,610	346,610
Trade receivables				104,758		104,758	104,758
Other receivables				94,928		94,928	94,928
Other short-term financial assets	16,861			16		16,877	16,877
Other long-term financial assets	15	1,812		5,808		7,635	7,635
Long-term financial liabilities (excl. Océane bonds)			(36,851)		(1,112,893)	(1,149,744)	(1,149,744)
Short-term financial liabilities (excl. Océane bonds)					(45,853)	(45,853)	(45,853)
Océane bonds					(131,272)	(131,272)	(131,272)
Other non-current liabilities					(307,388)	(307,388)	(307,388)
Other current liabilities					(628,770)	(628,770)	(628,770)
<b>TOTAL CARRYING AMOUNT</b>	<b>374,325</b>	<b>1,812</b>	<b>(36,851)</b>	<b>205,510</b>	<b>(2,226,176)</b>	<b>(1,681,380)</b>	<b>(1,681,380)</b>

<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
<b>At December 31, 2010</b>							
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 <sup>(1)</sup>
Other non-current liabilities					(1,874)	(1,874)	(1,874)
Other current liabilities					(335,542)	(335,542)	(335,542)
<b>TOTAL CARRYING AMOUNT</b>	<b>347,539</b>	<b>3,813</b>	<b>(15,687)</b>	<b>176,247</b>	<b>(1,357,893)</b>	<b>(845,981)</b>	<b>N/A</b>

(1) The Group was unable to determine the fair value of these Océane bonds at December 31, 2010 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 2011.

At December 31, 2011 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, 2011 <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	14,382	94,616	0	80,234	3,392	76,842
<b>TOTAL</b>	<b>14,382</b>	<b>94,616</b>	<b>0</b>	<b>80,234</b>	<b>3,392</b>	<b>76,842</b>

Currency hedges had a negative €9,065,000 impact on the Group's income statement in 2011 but a positive €9,408,000 impact on equity.

## FOREIGN EXCHANGE RISK SENSITIVITY

<i>In € thousands</i>	USD
Net position after hedging	76,842
<b>Net position after hedging based on the assumption that the USD exchange rate changes unfavorably for the Group by €0.01</b>	76,703
Sensitivity	139

## 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 €13,524,000 negative impact on equity in 2011.

## Hedges of borrowings

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

The Group's swap contracts in place at December 31, 2011 were as follows:

- 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, 2011 these derivatives had a negative fair value of €36,851,000.

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 90% of the Group's total debt was hedged against changes in interest rates at December 31, 2011.

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, 2011 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	177,125	1,067,841	81,903
Financial assets	16,877	2,304	5,331
<b>Net position before hedging</b>	<b>160,248</b>	<b>1,065,537</b>	<b>76,572</b>
Off-balance sheet position	0	0	0
<b>Net position after hedging</b>	<b>160,248</b>	<b>1,065,537</b>	<b>76,572</b>
<b>Net position to be rolled over within one year and long-term variable rate borrowings (in € thousands)</b>	<b>160,248</b>	<b>36,851</b>	<b>0</b>
<b>Change in interest rate</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>
<b>Average remaining life (in months)</b>	<b>12</b>	<b>12</b>	<b>12</b>
<b>Sensitivity (in € thousands)</b>	<b>1,602</b>	<b>369</b>	<b>0</b>

## 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, 2011 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, 2011:

	Applicable financial ratios	Consequence of breach	Actual ratios at December 31, 2011
• €1,400 million credit facility (Borrower – Iliad)	Leverage ratio < 2.5/3 (depending on the period)		Leverage ratio: 1.12
• €150 million EIB loan (Borrower – Iliad)	Interest cover ratio > 5.1	Early repayment	Interest cover ratio: 18.44

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, 2011 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, 2011 trade receivables represented a gross amount of €149 million and a net amount of €105 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, 2011, the Group's short-term investments amounted to €347 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, 2011 trade receivables totaled €149 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 € millions</i>	<b>2011</b>	<b>2010</b>
• Minimum lease payments	17	17
• Contingent lease payments	0	0
• Sub-leases	11	4
<b>TOTAL</b>	<b>28</b>	<b>21</b>

The table below analyzes the Group's lease commitments at December 31, 2011 by type of asset and maturity.

<b>Type of leased asset</b> <i>(In € millions)</i>	<b>Due within 1 year</b>	<b>Due in 1 to 5 years</b>	<b>Due beyond 5 years</b>	<b>Total</b>
Real estate	17	46	34	97
Vehicles	2	2	0	4
Equipment	16	58	227	301
<b>TOTAL</b>	<b>35</b>	<b>106</b>	<b>261</b>	<b>402</b>

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

**33.2 Network-related commitments****Network investments**

At December 31, 2011 the Group had no commitments in relation to network investments.

**Capacity purchases**

<b>Type of commitment</b> <i>(In € millions)</i>	<b>Due within 1 year</b>	<b>Due in 1 to 5 years</b>	<b>Due beyond 5 years</b>	<b>Total</b>
Capacity purchases	41	75	0	116
<b>TOTAL</b>	<b>41</b>	<b>75</b>	<b>0</b>	<b>116</b>

**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.

**4G license:**

By way of decision 2011-1169 dated October 11, 2011, ARCEP authorized Free Mobile to use a block of frequencies in the 2.6 GHz band in mainland France in order to set up and operate a mobile communications network for public use. The obligations imposed on Free Mobile under this authorization – which has been given for a renewable 20-year period – require the Free Mobile network to cover 25% of the French population by 2015, 60% by 2019 and 75% by 2023.

**Wimax license:**

In a decision dated December 9, 2003 (no. 031294), ARCEP granted IFW the right to use across France a block of frequencies 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 – which varied depending on the region concerned – by December 31, 2011.

**33.3.2 Other commitments**

At December 31, 2011 the Group had access to a €1,400 million credit facility, of which €400 million had been drawn down.

At the same date:

- other commitments given by the Group amounted to €24 million and \$8 million; and
- other commitments received by the Group totaled €20 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, 2011 the Company's employees had accumulated a total of 207,862 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, 2011 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**

On January 10, 2012, Free Mobile launched its mobile telephony network, offering customers a range of straightforward and attractive packages.

In addition, at the beginning of 2012 Free Mobile entered into agreements with manufacturers for the supply of mobile telephones.

**NOTE 35 LIST OF CONSOLIDATED COMPANIES AT DECEMBER 31, 2011**

The following table includes the main legal holdings.

	Registration number	Head office	Percentage control at December 31, 2011	Percentage control at December 31, 2010	Percentage ownership at December 31, 2011	Percentage ownership at December 31, 2010	Consolidation method in 2011
<b>Iliad</b> 16 rue de la Ville l'Evêque 75008 Paris	342,376,332	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>Assunet</b> 16 rue de la Ville l'Evêque 75008 Paris	421,259,797	Paris	89.96%	89.96%	89.96%	89.96%	Full
<b>Callone Bpo</b> 7 Bld Mohamed V 20800 Mohammédia Morocco	/	Morocco	100.00%	100.00%	100.00%	100.00%	Full
<b>Centrapel</b> 8 rue de la Ville l'Evêque 75008 Paris	434,130,860	Paris	100.00%	99.98%	100.00%	99.98%	Full
<b>Certicall</b> 8 rue de la Ville l'Evêque 75008 Paris	538,329,913	Paris	100.00%	0	100.00%	0	Full
<b>Equaline</b> 8 rue de la Ville l'Evêque 75008 Paris	538,330,358	Paris	100.00%	0	100.00%	0	Full
<b>Free</b> 8 rue de la Ville l'Evêque 75008 Paris	421,938,861	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>Freebox</b> 16 rue de la Ville l'Evêque 75008 Paris	433,910,619	Paris	97.14%	96.86%	97.14%	96.86%	Full
<b>F Distribution</b> 8 rue de la Ville l'Evêque 75008 Paris	528,815,376	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>Free Fréquences</b> 16 rue de la Ville l'Evêque 75008 Paris	529,917,833	Paris	100.00%	0	100.00%	0	Full
<b>Free Infrastructure</b> 16 rue de la Ville l'Evêque 75008 Paris	488,095,803	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>Free Mobile</b> 16 rue de la Ville l'Evêque 75008 Paris	499,247,138	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>IFW</b> 8 rue de la Ville l'Evêque 75008 Paris	400,089,942	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>IH</b> 8 rue de la Ville l'Evêque 75008 Paris	441,532,173	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>Iliad 1</b> 16 rue de la Ville l'Evêque 75008 Paris	537,915,019	Paris	100.00%	0	100.00%	0	Full
<b>Iliad 2</b> 16 rue de la Ville l'Evêque 75008 Paris	537,915,050	Paris	100.00%	0	100.00%	0	Full
<b>Iliad Gaming</b> 8 rue de la Ville l'Evêque 75008 Paris	522,418,250	Paris	100.00%	100.00%	100.00%	100.00%	Full

	Registration number	Head office	Percentage control at December 31, 2011	Percentage control at December 31, 2010	Percentage ownership at December 31, 2011	Percentage ownership at December 31, 2010	Consolidation method in 2011
<b>Immobilière Iliad</b> 16 rue de la Ville l'Evêque 75008 Paris	501,194,419	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>IRE</b> 16 rue de la Ville l'Evêque 75008 Paris	489,741,645	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>MCRA</b> 8 rue de la Ville l'Evêque 75008 Paris	532,822,475	Paris	100.00%	0	100.00%	0	Full
<b>Mobipel</b> 142-160 avenue de Stalingrad 92700 Colombes	538,168,675	Colombes	100.00%	0	100.00%	0	Full
<b>Online</b> 8 rue de la Ville l'Evêque 75008 Paris	433,115,904	Paris	95.18%	95.18%	95.18%	95.18%	Full
<b>One.Tel</b> 16 rue de la Ville l'Evêque 75008 Paris	419,392,931	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>Protelco</b> 8 rue de la Ville l'Evêque 75008 Paris	509,760,948	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>Qualipel</b> 61 rue Julien Grimaud 94400 Vitry sur Seine	533,513,958	Vitry sur Seine	100.00%	0	100.00%	0	Full
<b>Total Call</b> Technoparc Route de Nouceur Sidi Maar Casablanca Morocco	/	Morocco	100.00%	100.00%	100.00%	100.00%	Full
<b>Telecom Academy "Privé"</b> Lotissement Attaoufik Lot n° 9 & 10 Immeuble Le Shadow Sidi Maarouf Casablanca – Morocco	/	Morocco	100.00%	0	100.00%	0	Full

**NOTE 36 LIST OF CONSOLIDATED COMPANIES AT DECEMBER 31, 2010**

	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
<b>Iliad</b> 8 rue de la Ville l'Evêque 75008 Paris	342,376,332	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>Assunet</b> 8 rue de la Ville l'Evêque 75008 Paris	421,259,797	Paris	89.96%	89.96%	89.96%	89.96%	Full
<b>Callone Bpo</b> 7 Bld Mohamed V 20800 Mohammedia Morocco	/	Morocco	100.00%	0%	100.00%	0%	Full
<b>Centrapel</b> 8 rue de la Ville l'Evêque 75008 Paris	434,130,860	Paris	99.98%	99.98%	99.98%	99.98%	Full
<b>Free</b> 8 rue de la Ville l'Evêque 75008 Paris	421,938,861	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>Freebox</b> 8 rue de la Ville l'Evêque 75008 Paris	433,910,619	Paris	96.86%	96.86%	96.86%	96.86%	Full
<b>Free Infrastructure</b> 8 rue de la Ville l'Evêque 75008 Paris	488,095,803	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>Free Mobile</b> 8 rue de la Ville l'Evêque 75008 Paris	499,247,138	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>IFW</b> 8 rue de la Ville l'Evêque 75008 Paris	400,089,942	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>IH</b> 8 rue de la Ville l'Evêque 75008 Paris	441,532,173	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>Iliad Gaming</b> 8 rue de la Ville l'Evêque 75008 Paris	522,418,250	Paris	100.00%	0%	100.00%	0%	Full
<b>Immobilière Iliad</b> 8 rue de la Ville l'Evêque 75008 Paris	501,194,419	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>Ire</b> 8 rue de la Ville l'Evêque 75008 Paris	489,741,645	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>Online</b> 8 rue de la Ville l'Evêque 75008 Paris	433,115,904	Paris	95.18%	95.18%	95.18%	95.18%	Full
<b>One.Tel</b> 8 rue de la Ville l'Evêque 75008 Paris	419,392,931	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>Protelco</b> 8 rue de la Ville l'Evêque 75008 Paris	509,760,948	Paris	100.00%	100.00%	100.00%	100.00%	Full
<b>Total Call</b> Technoparc Route de Nouceur Sidi Maar Casablanca Morocco	/	Morocco	100.00%	100.00%	100.00%	100.00%	Full



**NOTE 37 CHANGES IN SCOPE OF CONSOLIDATION AND PERCENTAGE CONTROL IN 2011****Main consolidated companies**

	Percentage control at December 31, 2010	Consolidation method at December 31, 2010	Acquisition/ incorporation date	Percentage control at December 31, 2011	Consolidation method at December 31, 2011
<b>Certicall</b>	0	N.C.	December 12, 2011	100%	Full
<b>Equaline</b>	0	N.C.	December 12, 2011	100%	Full
<b>Free Fréquences</b>	0	N.C.	February 3, 2011	100%	Full
<b>Iliad 1</b>	0	N.C.	November 21, 2011	100%	Full
<b>Iliad 2</b>	0	N.C.	November 21, 2011	100%	Full
<b>MCRA</b>	0	N.C.	June 8, 2011	100%	Full
<b>Mobipel</b>	0	N.C.	November 29, 2011	100%	Full
<b>Qualipel</b>	0	N.C.	July 11, 2011	100%	Full
<b>Telecom Academy "Privé"</b>	0	N.C.	April 25, 2011	100%	Full

**STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended December 31, 2011

*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**

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, 2011, 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, 2011 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 and judgments 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 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 7, 2012

The Statutory Auditors

PricewaterhouseCoopers Audit  
Frédéric Charcosset

Boissière Expertise Audit  
Tita Zeitoun

**20.2 PARENT COMPANY FINANCIAL STATEMENTS FOR 2011****DETAILED SUMMARY NOTES**

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## 20.2.1 BALANCE SHEET – ASSETS

<i>In € thousands</i>	Gross	Depr., amort. and provisions	Net at December 31, 2011	Net at December 31, 2010
<b>INTANGIBLE ASSETS</b>				
Start-up costs	0	0	0	0
Research and development costs	0	0	0	0
Concessions, patents and trademarks	51	50	1	3
Business goodwill	0	0	0	0
Other	172	83	89	31
<b>PROPERTY, PLANT AND EQUIPMENT</b>				
Land	119	0	119	119
Buildings	356	322	34	52
Fixtures and fittings	5,062	902	4,160	121
Technical equipment	0	0	0	0
Computer equipment	529	249	280	106
Furniture	606	160	446	91
Assets under construction	55	0	55	
Advances and prepayments	0	0	0	0
<b>LONG-TERM INVESTMENTS</b>				
Investments in subsidiaries and affiliates	986,260	52,674	933,586	928,676
Loans and advances to subsidiaries and affiliates	987,043	3,500	983,543	508,157
Other investment securities	3,253	1,738	1,515	15
Other loans	3,130	3,130	0	3,084
Other long-term investments	3,811	0	3,811	3,802
<b>TOTAL FIXED ASSETS</b>	<b>1,990,447</b>	<b>62,808</b>	<b>1,927,639</b>	<b>1,444,257</b>
Inventories	0	0	0	0
Advances and prepayments on orders	5	0	5	0
Trade receivables	3,679	175	3,504	3,216
Receivables from suppliers	4,423	0	4,423	0
Employee-related receivables	3	0	3	0
Recoverable corporate income tax	40,809	0	40,809	41,459
Recoverable sales taxes	1,743	0	1,743	669
Other receivables	117,056	1,220	115,836	5,871
Other advances and prepayments made	0	0	0	0
Marketable securities	311,036	680	310,356	320,860
Cash and cash equivalents	5,349	0	5,349	25,226
Prepaid expenses	3,371	0	3,371	633
<b>TOTAL CURRENT ASSETS</b>	<b>487,474</b>	<b>2,075</b>	<b>485,399</b>	<b>397,934</b>
<b>ACCRUALS</b>				
Deferred charges	20,984	0	20,984	22,670
Conversion losses	0	0	0	0
<b>TOTAL ASSETS</b>	<b>2,498,905</b>	<b>64,883</b>	<b>2,434,022</b>	<b>1,864,861</b>

## 20.2.2 BALANCE SHEET – EQUITY AND LIABILITIES

<i>In € thousands</i>	<b>At December 31, 2011</b>	<b>At December 31, 2010</b>
Share capital	12,641	12,121
Additional paid-in capital	304,987	98,660
Legal reserve	1,218	1,213
Regulated reserves	0	0
Other reserves	111,788	111,788
Retained earnings	18,012	73
Interim dividends	0	0
<i>Profit for the year</i>	<i>329,751</i>	<i>39,829</i>
<b>TOTAL EQUITY</b>	<b>778,397</b>	<b>263,684</b>
<b>OTHER EQUITY</b>	<b>0</b>	<b>0</b>
Provisions for contingencies	0	0
Provisions for charges	0	226
<b>TOTAL PROVISIONS</b>	<b>0</b>	<b>226</b>
Convertible bonds	131,272	337,912
Ordinary bonds	514,291	0
Bank borrowings	556,471	604,031
Bank overdrafts	0	3,459
Other borrowings	520	552
Current accounts with subsidiaries	324,286	620,929
Trade payables	10,074	4,368
Employee-related payables	332	300
Accrued payroll and other employee-related taxes	412	399
Accrued corporate income tax	71,975	0
Accrued sales taxes	564	715
Other accrued taxes	227	560
Amounts due on fixed assets	209	6
Other liabilities	44,992	27,720
Deferred income	0	0
<b>TOTAL ACCRUALS AND OTHER LIABILITIES</b>	<b>1,655,625</b>	<b>1,600,951</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2,434,022</b>	<b>1,864,861</b>

## 20.2.3 INCOME STATEMENT

<i>In € thousands</i>	2011	2010
Sales of services in France	27,249	31,916
<b>TOTAL REVENUES</b>	<b>27,249</b>	<b>31,916</b>
Reversals of depreciation, amortization and provisions, expense transfers	226	12
Other income	202	186
<b>TOTAL OPERATING INCOME</b>	<b>27,677</b>	<b>32,114</b>
Rebilled purchases	14,445	19,700
Other purchases and external charges	18,925	13,037
Taxes other than on income	419	381
Wages and salaries	3,584	3,214
Payroll taxes	1,699	1,593
Depreciation and amortization of fixed assets	6,432	4,572
Additions to provisions for impairment of current assets	124	2
Additions to provisions for contingencies and charges	0	226
Other expenses	430	2,342
<b>TOTAL OPERATING EXPENSES</b>	<b>46,058</b>	<b>45,067</b>
<b>NET OPERATING EXPENSE</b>	<b>(18,381)</b>	<b>(12,953)</b>
Interest and other financial income	393,053	124,146
Reversals of provisions	10,399	0
Net gains on disposals of marketable securities	7,446	3,252
<b>TOTAL FINANCIAL INCOME</b>	<b>410,898</b>	<b>127,398</b>
Interest and other financial expense	83,931	48,823
Additions to provisions	8,308	51,283
Foreign exchange losses	4	0
Net losses on disposals of marketable securities	733	1,202
<b>TOTAL FINANCIAL EXPENSE</b>	<b>92,976</b>	<b>101,308</b>
<b>NET FINANCIAL INCOME</b>	<b>317,922</b>	<b>26,090</b>
<b>OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS AND TAX</b>	<b>299,541</b>	<b>13,137</b>

<i>In € thousands</i>	2011	2010
Exceptional income from operating transactions	0	12,500
Exceptional income from capital transactions	782	0
Reversals of provisions	0	0
<b>TOTAL EXCEPTIONAL INCOME</b>	<b>782</b>	<b>12,500</b>
Exceptional expense on operating transactions	0	264
Exceptional expense on capital transactions	750	2
Exceptional depreciation, amortization and provision expense	0	0
<b>TOTAL EXCEPTIONAL EXPENSE</b>	<b>750</b>	<b>266</b>
<b>NET EXCEPTIONAL INCOME</b>	<b>32</b>	<b>12,234</b>
Corporate income tax	(30,178)	(14,448)
<b>TOTAL INCOME</b>	<b>439,357</b>	<b>172,012</b>
<b>TOTAL EXPENSE</b>	<b>109,606</b>	<b>132,183</b>
<b>PROFIT FOR THE YEAR</b>	<b>329,751</b>	<b>39,829</b>

## 20.2.4 STATEMENT OF CHANGES IN EQUITY

<i>In € thousands</i>	Share capital	Additional paid-in capital	Retained earnings and reserves	Profit for the year	Total equity
<b>EQUITY AT DECEMBER 31, 2009</b>	<b>12,096</b>	<b>93,362</b>	<b>115,984</b>	<b>17,264</b>	<b>238,706</b>
<b>Movements in 2010</b>					
• Proceeds from share issues	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
<b>EQUITY AT DECEMBER 31, 2010</b>	<b>12,121</b>	<b>98,660</b>	<b>113,074</b>	<b>39,829</b>	<b>263,684</b>
<b>Movements in 2011</b>					
• Proceeds from share issues	520	206,327			206,847
• Appropriation of 2010 profit			39,829	(39,829)	0
• Dividends paid			(21,885)		(21,885)
• Profit for the year				329,751	329,751
• Other					
<b>EQUITY AT DECEMBER 31, 2011</b>	<b>12,641</b>	<b>304,987</b>	<b>131,018</b>	<b>329,751</b>	<b>778,397</b>

## 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, 2011**;
- accounting period: **12 months**;
- previous accounting period: **12 months**;
- total assets at December 31, 2011: **€2,434,022,000**;
- 2011 revenues: **€27,249,000**;
- number of employees at December 31, 2011: **57**.

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 disclosures have 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 – 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 estimated useful lives:

• software	2 years
• trademarks	2 to 10 years
• buildings	20 to 30 years
• fixtures and fittings	5 to 15 years
• computer equipment	1 to 4 years
• furniture	5 to 6.5 years

### 1.3.2 Investments in subsidiaries and affiliates, loans and advances to subsidiaries and affiliates, and other investment securities

Investments in subsidiaries and affiliates, loans and advances to subsidiaries and affiliates, and other investment securities are stated at the lower of cost (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 for impairment is recorded when the fair value of a receivable – determined based on the risk of non-recovery – is lower than its carrying amount.

### 1.3.4 Foreign currency transactions

Income and expenses denominated in foreign currencies are converted at the exchange rate prevailing on the transaction date.

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, 2011****2.1 Intangible assets****2.1.1 Movements in 2011**

Movements in intangible assets in 2011 can be analyzed as follows:

<i>In € thousands</i>	At January 1, 2011	Acquisitions	Disposals	At December 31, 2011
Software	88	8	0	96
Trademarks	51	0	0	51
Intangible assets in progress	0	76	0	76
<b>TOTAL</b>	<b>139</b>	<b>84</b>	<b>0</b>	<b>223</b>

**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 2011**

Movements in property, plant and equipment in 2011 can be analyzed as follows:

<i>In € thousands</i>	At January 1, 2011	Acquisitions	Disposals	At December 31, 2011
Land	119	0	0	119
Buildings	356	0	0	356
Fixtures and fittings	931	4,131	0	5,062
Computer equipment	291	238	0	529
Furniture	224	382	0	606
Assets under construction	0	55	0	55
<b>TOTAL</b>	<b>1,921</b>	<b>4,806</b>	<b>0</b>	<b>6,727</b>

**2.2.2 Analysis of property, plant and equipment**

- **Land and buildings**

The Company owns a building at Rue de Crimée in Paris.

- **Fixtures and fittings**

A number of fixtures and fittings have been recognized in the Company's financial statements due to refurbishment works carried out following the lease of new premises at 16 rue de la Ville l'Evêque, 75008 Paris, which are intended to become the Company's new headquarters.

- **Computer equipment**

This item corresponds to purchases of computer equipment.

## 2.3 Long-term investments

### 2.3.1 Movements in 2011

<i>In € thousands</i>	At January 1, 2011	Acquisitions	Disposals	At December 31, 2011
Investments in subsidiaries and affiliates	<b>982,653</b>	6,588	2,981	<b>986,260</b>
Loans and advances to subsidiaries and affiliates	<b>515,575</b>	521,522	50,054	<b>987,043</b>
Other investment securities	<b>1,753</b>	1,500	0	<b>3,253</b>
Other loans	<b>3,084</b>	46	0	<b>3,130</b>
Guarantee deposits	<b>3,802</b>	9	0	<b>3,811</b>
<b>TOTAL</b>	<b>1,506,867</b>	<b>529,665</b>	<b>53,035</b>	<b>1,983,497</b>

### 2.3.2 Investments in subsidiaries and affiliates

The main movements in this item during the year are described below:

- the formation in January 2011 of Free Fréquences, a simplified joint-stock company (société par actions simplifiée) that is wholly owned by Iliad S.A. through both direct and indirect interests. Free Fréquences' corporate purpose is to supply certain assets (through leases, sub-leases etc.) and generally to carry out any actions required for enabling the use of any radio frequencies that it holds;
- the formation in May 2011 of Management Centre de Relation Abonné (MCRA), a simplified joint stock company which is wholly owned by Iliad S.A. MCRA's corporate purpose is to create and operate call centers as well as to provide all types of service in the area of communications.

### 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, Immobilière Iliad and IRE and for Free Mobile's investments in the mobile business.

### 2.3.4 List of subsidiaries and affiliates

See table below.

	Share capital (In € thousands)	Retained earnings and reserves (In € thousands)	% ownership	2011 profit/ (loss) (In € thousands)	Gross value of shares held (In € thousands)	Net value of shares held (In € thousands)	Loans and advances granted by the Company (In € thousands)	Commitments given (In € thousands)	2011 revenues (In € thousands)	Dividends received during the year (In € thousands)
Assunet SAS	38	37	89.96	468	34	34	0	/	1,223	472
Call One <sup>(1)</sup>	MAD 100,000	MAD (279,000)	100.00	MAD 348,000	10	10	1,660	/	MAD 37,620,000	0
Centrapel SAS	100	5	99.98	405	383	383	183	/	20,602	0
F. Distribution SAS	1,000	(4)	100.00	(31)	1,000	1,000	70	/	401	0
Free SAS	3,442	1,054,300	100.00	336,804	497,298	497,298	0	6,185	2,098,557	350,000
Freebox SAS	50	3,128	97.14	(7,283)	4,116	4,116	24,987	\$58,000,000	608,726	0
Free Fréquences SAS	5,000	0	95.00	32	4,750	4,750	0	/	0	0
Free Infrastructure SAS	1,000	(28,973)	100.00	(41,119)	31,378	31,378	532,366	3,000	7,511	0
Free Mobile SAS	365,139	(3,381)	100.00	(6,914)	365,278	365,278	295,491	460	161	0
IFW SAS	2,584	541	100.00	(1,888)	68,397	16,021	0	/	90	0
IH SAS	39	4	100.00	86	39	39	0	/	1,118	v90
Iliad 1 SAS	2	0	100.00	0	2	2	0	/	0	0
Iliad 2 SAS	2	0	100.00	0	2	2	0	/	0	0
Iliad Gaming SAS	1,000	(1,302)	100.00	(2,875)	1,000	1,000	4,794	/	1,214	0
Immobilière Iliad SARL	1,000	(2,363)	100.00	(9,070)	6,520	6,520	79,941	/	26,470	0
IRE SAS	100	(5,716)	100.00	(5,751)	3,954	3,954	26,081	/	9,630	0
MCRA SAS	1,000	0	100.00	185	1,000	1,000	0	/	2,436	0
Online SAS	214	6,125	95.18	867	341	341	11,952	13,500	20,188	2,380
One Tel SAS	2,511	251	100.00	2,390	0	0	0	/	5,992	3,133
Protelco SAS	37	65	100.00	328	37	37	2,971	/	53,050	0
SNDM EURL	2	(392)	100.00	4	297	0	0	/	0	0
Telecom Academy "Privé" <sup>(1)</sup>	MAD 100,000	0	100.00	MAD 725,000	10	10	312	/	MAD 10,018,000	0
Total Call <sup>(1)</sup>	MAD 4,600,000	MAD 19,608,000	100.00	MAD (10,818,000)	414	414	967	/	MAD 248,226,000	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	987,043	
Trade receivables	2,886	4,460
Business premises deposits received		509
Other borrowings		324,286
Trade payables		163
Other receivables/payables	115,764	38,750
Financial expense	18,191	
Financial income		391,634

## 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, 2011	Increases (additions for the year)	Decreases depreciation and amortization written off on divested assets)	Depreciation and amortization at December 31, 2011
<b>Intangible assets</b>				
<b>SUB-TOTAL I</b>	<b>105</b>	<b>28</b>	<b>0</b>	<b>133</b>
Buildings	304	18	0	322
Other property, plant and equipment:				
Fixtures and fittings	810	92	0	902
Furniture, office and computer equipment	318	91	0	409
<b>SUB-TOTAL II</b>	<b>1,432</b>	<b>201</b>	<b>0</b>	<b>1,633</b>
<b>TOTAL (I+II)</b>	<b>1,537</b>	<b>229</b>	<b>0</b>	<b>1,766</b>

## 2.5 Other assets

### 2.5.1 Analysis of receivables by maturity

At December 31, 2011

In € thousands

	Gross amount	Due within 1 year	Due beyond 1 year
<b>Fixed assets</b>			
• Loans and advances to subsidiaries and affiliates	987,043	987,043	0
• Other loans	3,130	0	3,130
• Other long-term investments	3,811		3,811
<b>Current assets</b>			
• Advances and prepayments on orders	5	5	0
• Trade receivables	3,559	3,559	0
• Doubtful and disputed receivables	120	120	0
• Accrued payroll and other employee-related taxes	0	0	0
• Employee-related receivables	3	3	0
• Recoverable corporate income tax	40,809	40,809	0
• Recoverable VAT	1,743	1,743	0
• Other receivables (including inter-company current accounts)	121,479	121,479	0
• Prepaid expenses	3,371	3,371	0
<b>TOTAL</b>	<b>1,165,073</b>	<b>1,158,132</b>	<b>6,941</b>

### 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 2011:

In € thousands	Amount
• Debt issuance costs	37,727
• Prior period amortization	(10,540)
• Amortization charge for the year	(6,203)
<b>NET AT DECEMBER 31, 2011</b>	<b>20,984</b>

### 2.5.3 Marketable securities

Marketable securities break down as follows:

In € thousands	Dec. 31, 2011		Dec. 31, 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Certificates of deposit				
<b>Net value</b>	<b>45,000</b>	<b>45,000</b>	<b>45,000</b>	<b>45,000</b>
Mutual funds (UCITs)				
<b>Net value</b>	<b>258,252</b>	<b>258,252</b>	<b>267,401</b>	<b>267,401</b>
Own shares				
<b>Net value</b>	<b>2,136</b>	<b>2,136</b>	<b>3,479</b>	<b>3,479</b>
Treasury instruments				
<b>Net value</b>	<b>4,968</b>	<b>4,968</b>	<b>4,980</b>	<b>4,980</b>
<b>TOTAL, NET</b>	<b>310,356</b>	<b>310,356</b>	<b>320,860</b>	<b>320,860</b>

Iliad's policy is to invest its cash in instruments that qualify as cash equivalents. As a result, these investments:

- have a short maturity;
- are highly liquid;
- are easily convertible into a known amount of cash; and
- are subject to an insignificant risk of changes in value.

Consequently, the Company 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" classification of the French securities regulator (AMF).

## 2.6 Share capital and changes in capital

### 2.6.1 Share capital

At December 31, 2011 the Company's share capital amounted to €12,641,000, divided into 57,042,092 fully paid-up shares, compared with €12,121,000 at December 31, 2010.

### 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

#### *Capital increase following the conversion of Océane bonds*

In June 2006, Iliad carried out an issue of Océane bonds convertible into new shares and/or exchangeable for existing shares.

The bonds were convertible/exchangeable at any time from the bond issue date (June 29, 2006) until the seventh working day preceding their maturity and redemption date (December 22, 2011).

Based on the conversion requests received by the December 22, 2011 final exercise date, and taking into account the delivery of 35,700 existing Iliad shares held by the Company, the number of new shares issued for allocation to Océane bondholders amounted to 2,260,524. The issuance of these new shares resulted in a €501,000 increase in the Company's capital from €12,121,000 to €12,622,000. The amount of their par value as well as an issue premium totaling €202,924,000 have been paid up in full.

#### *Capital increase following exercise of stock options*

Stock options granted by Iliad S.A. 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 2011, 84,828 stock options were exercised for the same number of new shares. The Company's share capital therefore increased by €19,000 from €12,622,000 to €12,641,000 at December 31, 2011.

### 2.6.4 Ownership structure

At December 31, 2011 Iliad's ownership structure was as follows:

Shareholder	Number of shares	%
Executive Management	36,093,445	63.28
Public	20,948,647	36.72
<b>TOTAL</b>	<b>57,042,092</b>	<b>100.00</b>

### 2.6.5 Own shares

At December 31, 2011 Iliad held 23,571 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 2011 and prior years, and outstanding at the year-end.

AT DECEMBER 31, 2011:

Date of Shareholders' Meeting	Date of plan launch	Exercise price (In €)	Number of options outstanding at January 1, 2011	Number of options granted in 2011	Number of options forfeited in 2011	Number of options exercised in 2011	Number of exercisable options outstanding at December 31, 2011	Number of non-exercisable options outstanding at December 31, 2011
<b>Iliad</b>								
12/12/2003	01/20/2004	16.30	28,245	0	0	21,375	6,870	0
12/12/2003	12/20/2005	48.44	227,712	0	0	63,453	164,259	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	680,300	0	17,078	0	0	663,222
05/29/2008	11/05/2008	53.79	577,400	0	13,200	0	0	564,200
05/29/2008	08/30/2010	67.67	182,250	0	19,800	0	0	162,450
05/29/2008	08/30/2010	67.67	425,250	0	46,200	0	0	379,050
05/24/2011	11/07/2011	84.03	0	404,800	6,600	0	0	398,200

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

Date of plan launch	Exercise terms and conditions
January 20, 2004	Options exercisable since January 20, 2008
December 20, 2005	Half of the options exercisable since December 20, 2009 and half since December 20, 2010
June 14, 2007	Options exercisable from June 13, 2012
August 30, 2007	Options exercisable from August 30, 2012
November 5, 2008	Options exercisable from November 5, 2013
August 30, 2010	30% of the options exercisable from August 29, 2014 and the remaining 70% exercisable from August 29, 2015
November 7, 2011	Options exercisable from November 6, 2016

## 2.7 Provisions for contingencies and charges

### 2.7.1 Movements in 2011

Movements in provisions for contingencies and charges in 2011 can be analyzed as follows:

In € thousands	At January 1, 2011	Additions	Reversals (utilizations)	Reversals (surplus provisions)	At December 31, 2011
Provisions for contingencies and charges	226	0	191	35	0
<b>TOTAL</b>	<b>226</b>	<b>0</b>	<b>191</b>	<b>35</b>	<b>0</b>

### 2.7.2 Recognition of provisions for contingencies and charges

The provisions for contingencies and charges set aside at December 31, 2011 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 concerned 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, 2011***In € thousands*

	Gross amount	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years
• Bonds:				
– due within one year at issue date	0	0	0	0
– due beyond one year at issue date	645,563	145,563	500,000	0
• Bank borrowings:				
– due within one year at inception of loan	0	0	0	0
– due beyond one year at inception of loan	556,471	6,471	450,000	100,000
• Bank overdrafts	0	0	0	0
• Other borrowings	0	0	0	0
• Guarantees and deposits received	520	0	520	0
• Current accounts with subsidiaries	324,286	324,286	0	0
• Trade payables	10,074	10,074	0	0
• Employee-related payables	332	332	0	0
• Accrued payroll and other employee-related taxes	412	412	0	0
• Other accrued taxes:				
– corporate income tax	71,975	71,975	0	0
– value-added tax	564	564	0	0
– other	227	227	0	0
• Amounts due on fixed assets	209	209	0	0
• Other liabilities	44,992	44,992	0	0
<b>TOTAL</b>	<b>1,655,625</b>	<b>605,105</b>	<b>950,520</b>	<b>100,000</b>

**Issuance of Océane convertible/exchangeable bonds**

In June 2006, Iliad issued 3,754,968 Océane bonds convertible into new shares and/or exchangeable for existing shares. The bonds – which matured on January 1, 2012 – were convertible/exchangeable for Iliad shares at any time from the bond issue date (June 29, 2006) until the seventh working day preceding their maturity and redemption date (December 22, 2011), with the Company making the decision on whether to allocate newly issued or existing shares, or a combination of new and existing shares.

Based on the conversion requests received by the December 22, 2011 final exercise date and taking into account the delivery of 35,700 existing shares, Iliad issued 2,260,524 shares for allocation to Océane bondholders.

The 1,458,744 remaining Océane bonds were redeemable in cash on January 2, 2012 at face value (€88.05 per bond) plus an interest payment of €1.94 per bond.

**Ordinary bonds**

On May 26, 2011 the Company issued €500 million worth of bonds paying interest at 4.875% per year. These bonds will be redeemed at face value on June 1, 2016.

**Other borrowings****Loan granted by the European Investment Bank (EIB)**

The EIB has granted Iliad a €150 million loan in order to help finance the rollout of the Group's ADSL and FTTH networks. The loan – which has a 10-year term and is repayable in installments – had been fully drawn down at December 31, 2011.



**A €1,400 million syndicated credit facility**

On June 9, 2010 Iliad set up a €1,400 million syndicated credit facility with a pool of 11 international banks. This facility comprises two tranches:

- a €600 million loan tranche to refinance the Group's net debt, of which €400 million had been drawn down at December 31, 2011;
- a revolving tranche of €800 million expiring in June 2015. None of this tranche had been drawn down at December 31, 2011.

The applicable interest rate is based on Euribor plus a margin of between 2.05% and 1.10% per year depending on the Group's leverage ratio.

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 swap contracts in place at December 31, 2011 were as follows:

- 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 2011 REVIEW OF OPERATIONS****3.1 Revenues**

2011 revenues can be analyzed as follows by segment:

*In € thousands*

• Minitel services	365
• Iliad Telecom services	2,899
• Inter-company re-invoicing	23,626
• Other revenues	359
<b>TOTAL</b>	<b>27,249</b>

All of the Company's revenues are generated in France.

**3.2 Number of employees**

At December 31, 2011, Iliad S.A. had 57 employees, breaking down as follows by category:

	Men	Women	Total
• Management	26	16	42
• Other	5	10	15
<b>TOTAL</b>	<b>31</b>	<b>26</b>	<b>57</b>

**3.3 Net financial income**

Net financial income came to €317,922,000 in 2011, breaking down as follows by category:

*In € thousands*

Net interest on subsidiaries' current accounts	17,836
------------------------------------------------	--------

Interest income from loans and other receivables	1,408
Income from securities	356,085
Overdraft charges, interest on borrowings and other financial expenses	(54,218)
Net gains on disposals of marketable securities	5,020
Additions to provisions	(8,308)
Net gains on disposals of own shares	1,693
Losses on investments in and loans and advances to subsidiaries and affiliates (net of provision reversals)	(1,594)
	<b>317,922</b>

### 3.4 Exceptional items

In 2011 exceptional items represented a net expense of €32,000.

### 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.

<b>Administrative bodies</b> <i>In €</i>	<b>2011</b>	<b>2010</b>
• Salaries, commission and other remuneration (including lump-sum expense allowances), and paid leave	884,640	884,640
• Directors' fees: . Exempt from payroll taxes	100,000	100,000

<b>Management bodies</b> <i>In €</i>	<b>2011</b>	<b>2010</b>
• Salaries, commission and other remuneration (including lump-sum expense allowances), and paid leave	154,800	154,800
• Benefits-in-kind	0	0

## NOTE 4 FINANCIAL ITEMS

#### 4.1 Finance leases

Iliad S.A. had no outstanding finance leases at December 31, 2011.

#### 4.2 Financial commitments

Iliad S.A. had not given any financial commitments at December 31, 2011.

##### 4.2.1 Commitments given by Iliad on behalf of Group companies

At December 31, 2011, Iliad S.A. had given the following commitments on behalf of Group companies:

Subsidiary	
Free	€6,185,000
Free Infrastructure	€3,000,000
Freebox	\$58,000,000
Free Mobile	€460,000
Online	€13,500,000
Other (sub-subsidiaries)	€950,000

##### 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 Company'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 Company'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 €76,000 at December 31, 2011. This obligation was not recognized in the 2011 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, 2011 the Company's employees had accumulated a total of 4,295 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 a tax group in place, which at December 31, 2011 included all of its consolidated companies apart from companies (i) that are less than 95%-owned by Iliad, (ii) that were newly formed in 2011, 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 €38,750,000 at December 31, 2011;

- 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
<b>Deferred tax liabilities</b>	/
<b>TOTAL</b>	/
<b>Total deferred tax liabilities</b>	/
<b>Deferred tax assets</b>	
Government housing levy	5
"Contribution sociale" surtax	17
Fair value adjustments to UCITS	38
<b>TOTAL</b>	<b>60</b>
<b>Total deferred tax assets</b>	<b>60</b>
Tax loss carryforwards for the Company	None
<b>Tax group</b>	
Long-term capital losses	None

### 5.2.3 Corporate income tax relating to exceptional items

Corporate income tax payable for 2011 amounted to €30,178,000, breaking down as follows:

- corporate income tax relating to ordinary activities: €(30,178,000)
- corporate income tax relating to exceptional items: None

## 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>	
<i>Balance sheet item</i>	<i>Amount</i>
Loans and advances to subsidiaries and affiliates	0
Other long-term investments	0
Trade receivables	74
Other receivables	12
Cash and cash equivalents	95
<b>TOTAL</b>	<b>181</b>

### 5.3.2 Accrued expenses

Accrued expenses included in balance sheet items can be broken down as follows:

<i>In € thousands</i>	
<i>Balance sheet item</i>	<i>Amount</i>
Convertible bonds	2,830
Other bonds	14,291
Bank borrowings	6,471
Other borrowings	0
Trade payables	7,958
Accrued taxes and payroll costs	698
Other liabilities	0
<b>TOTAL</b>	<b>32,248</b>

### 5.3.3 Deferred income and prepaid expenses

Deferred income and prepaid expenses break down as follows:

<i>In € thousands</i>	<i>Prepaid expenses</i>	<i>Deferred income</i>
Operating expense/income	1,304	0
Financial expense/income	2,067	0
Exceptional expense/income	0	0
<b>TOTAL</b>	<b>3,371</b>	<b>0</b>

## 5.4 Events after the balance sheet date

Between January 1, 2012 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, 2011.

**STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS****For the year ended December 31, 2011****ILIAD**

16, rue de la Ville l'Evêque  
75008 Paris  
France

*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.*

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, 2011, 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, 2011 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, March 7, 2012

The Statutory Auditors

**PricewaterhouseCoopers Audit**

Frédéric Charcosset

**Boissière Expertise Audit**

Tita Zeitoun

## 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, 2012, the Board will recommend the payment of a €0.37 dividend per share (excluding taxes) for all the shares making up the Company's share capital at that date, and carrying rights to the 2011 dividend.

The Company expects its dividend policy to be consistent with its expansion strategy in 2012. This does not, however, represent any commitment on the part of the Company, 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 end 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 (2007, 2008, 2009, 2010 and 2011).

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).

The Annual General Meeting of May 24, 2011 resolved to pay a total dividend of €21,884,296 (€0.40 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 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, 2011 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 2012 are described in Section 9 (notably Section 9.5.2) and were disclosed by the Company during the presentation of Iliad's 2011 results on March 8, 2011.



# 21

## ADDITIONAL INFORMATION

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## 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 €12,640,544.80, divided into 57,042,092 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 eighth resolution of the May 24, 2011 Annual General Meeting granted the Board of Directors and authorization – which may be delegated under the terms provided for 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 23, 2012.

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:

- to maintain a liquid market in the Company's shares through market-making transactions carried out by an independent investment services provider acting in the name and on behalf of the Company under a liquidity contract that complies with the Code of Ethics approved by the AMF (French securities regulator);
- to allocate shares to employees and 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 plan or a Group savings plan in accordance with the applicable legislation, in particular Articles L. 3332-14 *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), representing up to 5% of the Company's share capital;
- to allocate, in accordance with the law, shares on the exercise of stock options granted to the Company's employees and officers, on the dates set by the Board of Directors or any representative duly authorized by the Board;
- to cancel all or some of the shares purchased, in accordance with the terms and conditions set out in the fourteenth resolution of the May 24, 2011 Annual General Meeting;
- to attribute shares on redemption, conversion, exercise or exchange of securities carrying rights to the Company's shares, in accordance with the applicable regulations, and to carry out any hedging transaction relating to such operations, on the dates set by the Board of Directors or any representative duly authorized by the Board.

The Company carried out the following transactions in connection with the share buyback program during 2011:

	Purchases	Sales
Number of shares	621,061	622,729
Average unweighted transaction price ( <i>in €</i> )	84.70	85.05
Total ( <i>in €</i> )	52,013,147.98	52,181,968.80

Following the above transactions, the Company held the following Iliad shares at December 31, 2011:

Percentage of capital held directly or indirectly by the Company	0.04%
For the purpose of:	
• maintaining a liquid market	0.04%
• for allocation on exercise of stock options	0.00%
Number of shares cancelled in the past 24 months	0
Number of shares held in the portfolio	22,932
Carrying amount of the portfolio (in €)	
Market value of the portfolio (in €) <sup>(1)</sup>	2,186,566

(1) Based on the Iliad closing share price on December 31, 2011, i.e., €95.35.

At its meeting on March 6, 2012, the Board of Directors decided to recommend to shareholders at the Annual General Meeting to be held on May 24, 2012 that they renew the authorization to carry out 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, 2011.

	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	November 7, 2011 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	05/24/2011
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	11/07/2011
Total number of shares under option	485,769	541,515 <sup>(1)</sup>	162,455	162,455	541,505	80,000	516,600	610,500 <sup>(6)</sup>	404,800
Total number of beneficiaries	22	84	1	1	95	1	120	160	117
O/w corporate officers <sup>(2)</sup>	N/A	Cyril Poidatz (40,614)	Maxime Lombardini	Thomas Reynaud	N/A	Maxime Lombardini	Thomas Reynaud (80,000)	N/A	N/A
		Olivier Rosenfeld <sup>(3)</sup> (40,614)							
		Michaël Boukobza <sup>(4)</sup> (40,614)							
		Antoine Levavasseur (40,614)							
Start date of exercise period		1 <sup>st</sup> tranche 12/20/2009						1 <sup>st</sup> tranche 08/29/2014	
		2 <sup>nd</sup> tranche						2 <sup>nd</sup> tranche	
	01/20/2008	12/20/2010	06/14/2012	08/30/2012	08/30/2012	11/05/2013	11/05/2013	08/29/2015	11/06/2016
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	11/06/2021
Exercise price (in €)	16.30	48.44	74.62	68.17	68.17	53.79	53.79	67.67	84.03
Number of options exercised	402,564	227,454	0	0	0	0	0	0	0
Total number of options canceled or forfeited	76,335	149,802 <sup>(5)</sup>	0	0	40,738	0	32,400	69,000	6,600
Outstanding options at year-end	6,870	164,259	162,455	162,455	500,767	80,000	484,200	541,500	398,200
Dilutive impact	0.01%	0.29%	0.28%	0.28%	0.88%	0.14%	0.85%	0.95%	0.70%

(1) O/w half exercisable at each exercise date.

(2) Officers of the Company at the grant date.

(3) Olivier Rosenfeld stepped down from his position as Senior Vice-President on January 3, 2008.

(4) Michaël 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.

(6) 30% exercisable on the first exercise date and 70% on the second exercise date.

At December 31, 2011:

- 2 Group employees held 6,870 options exercisable for the same number of new Iliad shares at a unit price of €16.30;
- 46 Group employees including two corporate officers held 164,259 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;
- 84 Group employees including a corporate officer held 663,222 options exercisable for the same number of new Iliad shares at a unit price of €68.17;
- 106 Group employees including two corporate officers held 564,200 options exercisable for the same number of new Iliad shares at a unit price of €53.79;
- 145 Group employees held 541,500 options exercisable for the same number of new Iliad shares at a unit price of €67.67;
- 116 Group employees held 398,200 options exercisable for the same number of new Iliad shares at a unit price of €84.03.

#### 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.

In view of the number of conversion requests received by the final exercise date of December 22, 2011, the Group issued a total of 2,260,524 new shares to the bondholders (based on a conversion ratio of one Iliad share for one Océane bond), which enabled it to increase its equity by some €200 million. The new shares were delivered and listed on January 2, 2012.

The 1,458,744 remaining Océane bonds were redeemed in cash on January 2, 2012 at face value plus an interest payment of €1.94 per bond.

#### 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	6,870	0.01%
Stock options	12/20/2005	48.44	12/19/2015	164,259	0.29%
Stock options	06/14/2007	74.62	06/13/2017	162,455	0.28%
Stock options	08/30/2007	68.17	08/29/2017	162,455	0.28%
Stock options	08/30/2007	68.17	08/29/2017	500,767	0.88%
Stock options	11/05/2008	53.79	11/04/2018	564,200	0.99%
Stock options	08/30/2010	67.67	08/29/2020	162,450	0.28%
Stock options	08/30/2010	67.67	08/29/2020	379,050	0.66%
Stock options	11/07/2011	84.03	11/06/2021	398,200	0.70%
<b>TOTAL</b>				<b>2,500,706</b>	<b>4.38%</b>

**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 €)
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
01/30/2012	Capital increase following conversion of Océane bonds	2,260,524	500,932.80	202,923,621.96	301,583,792.87	12,621,746.90	56,957,264	0.22
01/30/2012	Capital increase following exercise of stock options	84,828	18,797.91	3,403,278.94	304,987,070.78	12,640,544.81	57,042,092	0.22

### 21.1.8 AUTHORIZED UNISSUED SHARE CAPITAL

At the Extraordinary Shareholders' Meeting of May 24, 2011, the shareholders authorized the Board of Directors to increase the Company's capital as follows:

Authorization given to the Board of Directors at the AGM	Date of the AGM (resolution no.)	Duration (Expiration date)	Maximum nominal amount authorized	In use
<b>To increase the Company's capital, with pre-emptive subscription rights</b>				
To increase the Company's capital through the issue of shares and/or securities carrying rights to shares or debt securities, with pre-emptive subscription rights for existing shareholders	05/24/2011 (9 <sup>th</sup> resolution)	26 months (07/23/2013)	5,000,000 1,000,000,000	N/A
To increase the Company's capital through capitalization of reserves, profits or premiums	05/24/2011 (16 <sup>th</sup> resolution)	26 months (07/23/2013)	75,000,000	N/A
<b>To increase the Company's capital without pre-emptive subscription rights</b>				
To increase the Company's capital by way of a public offering, through the issue of shares and/or securities carrying rights to shares or debt securities, without pre-emptive subscription rights for existing shareholders	05/24/2011 (10 <sup>th</sup> resolution)	26 months (07/23/2013)	5,000,000 <sup>(1)</sup> 1,000,000,000 <sup>(2)</sup>	N/A
To increase the Company's capital by way of a private placement, through the issue of shares and/or securities carrying rights to shares or debt securities, without pre-emptive subscription rights for existing shareholders	05/24/2011 (11 <sup>th</sup> resolution)	26 months (07/23/2013)	5,000,000 <sup>(1)</sup> 1,000,000,000 <sup>(2)</sup>	N/A
To set the issue price of shares to be issued as part of a capital increase carried out by way of a public offering without pre-emptive subscription rights for existing shareholders	05/24/2011 (12 <sup>th</sup> resolution)	26 months (07/23/2013)	5,000,000 <sup>(1)</sup> 1,000,000,000 <sup>(2)</sup>	N/A
To increase the Company's capital as consideration for in-kind contributions made to the Company	05/24/2011 (14 <sup>th</sup> resolution)	26 months (07/23/2013)	1,212,081 <sup>(1)</sup>	N/A
To increase the Company's capital through the issue of shares and/or securities carrying rights to shares in the event of a public offering with a share exchange component initiated by the Company	05/24/2011 (15 <sup>th</sup> resolution)	26 months (07/23/2013)	1,500,000 <sup>(1)</sup>	N/A
<b>To increase the Company's capital, with or without pre-emptive subscription rights</b>				
To increase the number of securities to be issued as part of a capital increase – either with or without pre-emptive subscription rights – in the event of oversubscription	05/24/2011 (13 <sup>th</sup> resolution)	26 months (07/23/2013)	15% of the initial issue <sup>(1)</sup>	N/A
<b>To carry out employee share issues</b>				
To carry out a share issue for employees of the Group	05/24/2011 (17 <sup>th</sup> resolution – rejected)	N/A	N/A	N/A
<b>To set up stock option and share grant plans</b>				
To issue shares for allocation on exercise of stock options	05/24/2011 (18 <sup>th</sup> resolution)	38 months (07/23/2014)	3% of the Company's share capital at the allocation date (e.g. 1,711,263 shares at December 31, 2011)	404,800
To grant shares free of consideration	05/24/2011 (19 <sup>th</sup> resolution)	38 months (07/23/2014)	0.5% of the Company's share capital at the grant date (e.g. 285,210 shares at December 31, 2011)	N/A

(1) This amount is included in the overall ceiling applicable to issues of shares and/or securities carrying rights to shares as set in the ninth resolution of the Annual General Meeting of May 24, 2011.

(2) This amount is included in the overall €1,000,000,000 ceiling applicable to issues of debt securities as set in the ninth resolution of the Annual General Meeting of May 24, 2011.

## 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 Executive 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 discretionary 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 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.

These 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 carrying rights to shares or voting rights of the Company. 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, 2011	57,042,092
Closing price at December 31, 2011	€95.35
52-week high	€95.57
52-week low	€74.76
Market capitalization at December 31, 2011	€5,439 million
Average 6-month daily trading volume	118,236
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, 2011**

	Price per share (in €) <sup>(1)</sup>	
	High	Low
<b>2011</b>		
January	82.42	75.00
February	82.00	76.93
March	87.30	75.68
April	88.29	84.00
May	89.89	85.50
June	92.76	86.02
July	92.78	85.18
August	90.80	74.76
September	91.45	83.50
October	87.99	80.27
November	90.63	80.27
December	95.57	88.54
<b>2012</b>		
January	97.67	90.71
February	99.55	93.13

(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 buyback 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 2011:

	Purchases			Sales		
	Number of shares	Unweighted average price (in €)	Amount (in €)	Number of shares	Unweighted average price (in €)	Amount (in €)
<b>2011</b>						
January	85,888	78.024	6,699,170.61	78,730	78.331	6,135,536.50
February	52,907	78.205	4,135,429.08	67,854	78.614	5,330,671.85
March	72,530	81.479	5,853,789.95	74,547	82.047	6,014,225.42
April	40,815	86.339	3,526,892.31	35,422	86.619	3,064,475.66
May	54,587	87.257	4,767,148.72	51,525	87.567	4,503,822.49
June	21,216	89.381	1,909,192.08	22,944	90.086	2,071,010.54
July	26,446	89.608	2,371,267.42	24,494	89.705	2,190,150.26
August	43,897	82.187	3,651,069.36	37,243	82.852	3,107,335.47
September	67,895	86.678	5,880,009.13	67,746	86.887	5,875,714.54
October	60,741	83.786	5,067,093.31	57,729	84.017	4,831,745.65
November	57,158	84.996	4,794,976.30	65,426	85.128	5,505,534.18
December	36,981	90.491	3,357,109.71	39,069	90.900	3,551,746.24
<b>TOTAL</b>	<b>621,061</b>	<b>84.704</b>	<b>52,013,147.98</b>	<b>622,729</b>	<b>85.049</b>	<b>52,181,968.80</b>





# 22

## MATERIAL CONTRACTS

22.1 FINANCIAL CONTRACTS

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22.2 OPERATING CONTRACTS

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## 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). These Océane bonds matured on January 1, 2012.

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.

On May 26, 2011, the Group issued €500 million worth of bonds paying interest at 4.875% per year. These bonds will be redeemed at face value on June 1, 2016.

## 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 has provided the roaming services since the launch of Free Mobile.

Free Mobile has entered into agreements with several mobile telephone suppliers in order to market its offering.

Free Mobile has also entered into agreements with financial partners and insurers to set up deferred payment plans and insurance for subscribers.

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 (16, 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](http://www.iliad.fr)) as well as from the website of the AMF ([www.amf-france.org](http://www.amf-france.org)).





# 25

## INFORMATION ON SHAREHOLDINGS

The Company only has shareholdings in Group companies. These shareholdings are described in Section 7 “Organizational Structure”, and their financial impact is described in the notes to the consolidated financial statements included in Section 20 of this registration document (“Financial information concerning the Company’s assets and liabilities, financial position and profits and losses”).

See Note 2.3.4 of Section 20.2 of this registration document for a list of the Company’s subsidiaries and affiliates.





## GLOSSARY

The glossary below is provided as a supplement and as an aid to understanding this registration document. Some of the definitions below therefore give only a summary of the technical processes described, without providing details as to the functioning of such processes.

**Add/Drop Multiplexer (ADM):** Equipment on a telecommunications network used for inserting or extracting data packets.

**ADM (Add/Drop Multiplexer):** See Add/Drop Multiplexer.

**ADSL (Asymmetrical Digital Subscriber Line):** ADSL is an xDSL technology used for high-speed data transmission, in particular when using a subscriber's conventional telephone line consisting of a pair of copper wires. By using two modems, one installed on the subscriber's premises and the other in a DSLAM located in the main distribution frame, ADSL technology is able to increase network bandwidth considerably and obtain transmission speeds up to 160 times faster than with a conventional analog modem. The principle behind ADSL is that part of the bandwidth is reserved for transporting voice traffic (low frequencies) while another part is used for transporting data (high frequencies) either in the direction of the network backbone (upload) or in the direction of the subscriber (download). The technology is asymmetrical in the sense that the upload bit rate (data sent by the user) is lower than the download rate (data received by the user). For the correct representation of voice traffic (using the low frequency spectrum), splitters located at each end of the line eliminate those parts of the signal which are not needed.

The bandwidth of the line is divided as follows:

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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](http://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. fees for migration from one offer to another or subscription and 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 220 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's 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'Audiotvisuel – <http://www.csa.fr/>):** The CSA is a French 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's 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's 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 xDSLtype 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 the former Article L. 33-1 of the 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 the former Article L. 34-1 of the 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.

**MMS (Multimedia Messaging Service):** Extends the core SMS capability by enabling users to send to and from mobile phones messages that include photos as well as audio or video content.

**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. These exchanges take place at exchange nodes called peering points and may be invoiced if they are not fully reciprocal.

**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's 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 alphanumerical 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:** Represents at the end of a period the total number of subscribers identified by their individual "phone lines" who have signed up for Free's or Alice's broadband 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's 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 Seine *département* (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.



## GLOSSARY



# 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,

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 2011 within the Iliad Group (the “**Group**”), as submitted for the Board’s approval.

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 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<sup>(1)</sup>, the Company confirmed that it would use the Corporate Governance Code as its basis of reference for the preparation of this report on risk management and internal control procedures.

### 1. CORPORATE GOVERNANCE

#### 1.1. Governance structure: separation of the duties of Chairman and Chief Executive Officer

On December 12, 2003, the Board of Directors decided to separate the duties of Chairman and Chief Executive Officer with a view to ensuring transparency of corporate governance within the Company.

This separation of duties enables the Board to operate more effectively, as it means that only one person is responsible for chairing it, 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 within the remit specified in Article 3 of the Board of Directors’ internal rules, 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. 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 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.

<sup>(1)</sup> Available on Iliad’s website.

## 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

## 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 their implementation.

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 – almost 30% of the Board's members are women.

The Board's members are elected by the shareholders on the recommendation of the Board of Directors.

At the date this report was prepared the Board comprised the following 11 members:

Name	Date first elected	Start date of current term	Expiration date of current term
<b>Chairman of the Board of Directors</b>			
Cyril Poidatz	December 12, 2003	June 23, 2009	December 31, 2012
<b>Chief Executive Officer and a director</b>			
Maxime Lombardini	May 29, 2007	May 24, 2011	December 31, 2014
<b>Senior Vice-President and a director</b>			
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
<b>Director</b>			
Olivier Rosenfeld	December 12, 2003	June 23, 2009	December 31, 2012
<b>Independent director</b>			
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 order to comply with the recommendations of the Corporate Governance Code, at the Annual Shareholders Meeting on June 23, 2009 the Company's shareholders approved the proposal put forward by the Board of Directors to reduce the term of office of all directors from six to four 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 freely exercising their judgment.

Accordingly, each year the Board carries out a review of the independence of its members by examining on a case-by-case basis whether each 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 with a corporate officer;
- is or has been an auditor of the Company during the past five years;
- has been a director of the Company for more than twelve years;
- represents a significant shareholder of the Company, taking into account that:
  - (i) a shareholder who owns over 10% of the Company's capital or voting rights is considered significant, and
  - (ii) below this threshold, the Board of Directors systematically reviews whether the director is independent, taking into account the composition of the Company's share capital and any potential conflicts of interest.

The Board of Directors reviews the independence of its members by reference to the criteria set out in the Board's internal rules, as well as each director's specific circumstances. The findings of the review are published in this report.

At its March 6, 2012 meeting, the Board of Directors carried out its annual review of the independence of the following members: Alain Weill, Pierre Pringuet, Marie-Christine Levet, Orla Noonan and Virginie Calmels.

Independent directors made up 45.5% 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 last amended on April 4, 2001. 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 sets out the duties and obligations of directors in compliance with the principles of the Corporate Governance Code, particularly those concerning professional diligence, loyalty, confidentiality and conflicts of interest. The Code of Conduct also sets blackout periods during which the directors are prohibited from carrying out transactions in the Company's shares, and provides a summary of the directors' obligations in terms of compliance with stock market regulations and the prevention of 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 2011 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.





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### 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

Additional and/or special meetings are called if there are any issues that need to be urgently addressed.

In 2011, Iliad's Board of Directors met nine times, with an average attendance rate of around 95.95%.

#### Work of the Board of Directors in 2011

In 2011 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 concerning the rollout of the mobile network and the launch of new commercial offerings);
- approved the annual and interim financial statements and the related reports drawn up for 2011, after review by the Audit Committee;
- determined the Chief Executive Officer's authorizations and powers in terms of granting guarantees and deposits and the issuance of bonds;
- validated the internal rules of the Board of Directors and of the Compensation Committee;
- allocated directors' fees among the individual members of the Board based on the recommendation put forward by the Compensation Committee;
- set the terms and conditions applicable to the termination benefit that may be payable to the Chief Executive Officer;
- authorized the transfer of the Company's head office, which will be ratified at the forthcoming Annual Shareholders' Meeting.

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, and each director has a duty to request from the Chairman any information that they consider would be useful for performing their role. Any such requests must be made 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

Until November 1, 2011, Board meetings took place at 8 rue de la Ville l'Évêque – 75008 Paris and since that date they have been held at the Company's new head office at 16 rue de la Ville l'Évêque.

In accordance with Article L. 823-17 of the French Commercial Code (*Code de Commerce*), in 2011 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 director 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 6, 2012, 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. The results of this self-assessment showed that the directors were satisfied with the Board's operating procedures and particularly appreciated the presentation given by senior management as well as the ensuing discussions concerning numerous aspects of the Group's strategy and outlook. These findings therefore show that in 2011 the Board was regularly provided with reliable data on the Group's operations. The Board assessed the regularity, frequency and format of the information it received. Receiving documentation prior to Board committee meetings – while maintaining the confidentiality and deadlines imposed on the Company – improves the quality of the Board's discussions. This self-assessment process enabled the Group to verify that the issues deemed to be important were effectively reported, debated and dealt with in a satisfactory way during the Board's meetings during the year.



### 1.2.3 Committees of the Board of Directors

The Board of Directors may be assisted by specialist committees in performing its duties. Members of the Board Committee may be allocated specific compensation by the Board for their work carried out in this capacity.

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 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 its August 26, 2009 meeting, the Board of Directors (i) set up an Audit Committee within the Company to comply with the provisions of French Law 2008-649 dated July 3, 2008, governmental order 2008-1278 dated December 8, 2008, and the decree issued on December 30, 2008, and (ii) appointed Marie-Christine Levet (independent director) and Olivier Rosenfeld, in their capacity as directors, as members of the Audit Committee.

In addition to these appointments, at its October 28, 2009 meeting, the Board of Directors also appointed Orla Noonan (independent director) as a member of the Audit Committee.

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 – which is chaired by Marie-Christine Levet – is currently responsible for:

- examining Iliad's scope of consolidation and analyzing the draft financial statements of the Company and the Group – as well as the related reports – prior to their submission to the Board for approval;
- analyzing and ensuring the relevance of the accounting principles, methods and rules used to prepare the financial statements and the various accounting treatments applied, as well as any changes thereto;
- examining and monitoring the procedures applied to produce and process the accounting and financial information used to prepare the financial statements;
- analyzing and assessing the efficiency and effectiveness of the internal control and risk management procedures set up by the Company;
- reviewing and commenting on the draft report of the Chairman of the Board of Directors on the Company's internal control and risk management procedures;
- overseeing tender processes for selecting Statutory Auditors 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 five times in 2011, with the meeting dates coinciding with the Company's major financial reporting dates. All of the committee members attended these five meetings.

The meetings held in 2011 were devoted to various subjects falling within the committee's remit, notably reviewing the annual and interim financial statements, discussing the Group's financial management and cash management policy, and examining accounting standards.

Any requisite accounting and financial documents – particularly relating to the close of the annual accounts – were provided to the committee's members prior to the meetings concerned.

During its meetings, the Audit 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 2011.

#### The Compensation Committee

The Compensation 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 Compensation Committee members must be independent directors as defined above.

At its December 14, 2010 meeting the Board of Directors decided to set up a specific Compensation Committee comprising the following three members: Pierre Pringuet, Alain Weil and 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 Virginie Calmels as Chair of the committee.



## 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 Compensation Committee is responsible for:

- studying and making recommendations to the Board 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 free 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) corporate officers' compensation, (ii) the policy for granting stock options and/or free 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 Compensation Committee held a specific meeting on April 3, 2011 in connection with the renewal of Maxime Lombardini's term of office as Chief Executive Officer in order to put forward recommendations to the Board on how to determine the termination benefit that may be payable to Mr. Lombardini if he is subsequently removed from office.

The Board of Directors may set up other specialist committees whenever it deems it appropriate.

#### 1.2.4 Organization of senior management structures

##### Organizational framework and restrictions on the powers of the Chief Executive Officer

Since June 14, 2007, the Company's management has been placed under the responsibility of the Chief Executive Officer, Maxime Lombardini.

The Chief Executive Officer has the broadest power to act on behalf of the Company in all circumstances except for those matters which may only be dealt with in Shareholders' Meetings or by the Board of Directors. However the Board of Directors' internal rules provide that the Chief Executive Officer must obtain approval from the Board for any external growth transaction entailing an outlay of more than €200 million, as well as for any material transaction that does not form part of the Company's stated business strategy.

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:

- Rani Assaf;
- Antoine Levavasseur;
- Thomas Reynaud;
- Xavier Niel.

As the terms of office of the Chief Executive Officer and the Senior Vice-Presidents expired during the year they were renewed 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 policy for 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 24, 2011 the annual fees to be allocated among the Company's independent directors were set at €100,000. Pursuant to this decision, at its July 4, 2011 meeting the Board of Directors resolved to allocate this amount equally among the independent non-executive directors who were members of the Board during 2011, 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 2011.

#### 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.

#### Termination benefits

The Company has not given any commitments to corporate officers that provide for the payment of indemnities and/or benefits relating to or resulting from the termination of their duties within the Company, except in relation to the termination benefit that may be payable to Maxime Lombardini as approved by the Board of Directors on April 4, 2011.

At its April 4, 2011 meeting, the Board of Directors approved the recommendation put forward by the Compensation Committee and (i) set Maxime Lombardini's fixed annual compensation in his capacity as Chief Executive Officer at €384,000 and (ii) put in place a termination benefit that would be payable to Mr. Lombardini if is removed from office and which is subject to performance conditions in accordance with Article L. 225-42-1 of the French Commercial Code and the recommendations of the Corporate Governance Code. This termination benefit will correspond to 1.5 times Mr. Lombardini's total annual compensation in his capacity as Chief Executive Officer. However, the payment of the termination benefit will be subject to the achievement of at least three of the five performance conditions listed below, as placed on record by the Board of Directors in accordance with the conditions required by the applicable law on the date the Chief Executive Officer is removed from office. The assessment of whether these performance conditions have been achieved will not take into account the impact of any regulatory changes.

- positive free cash flow from ADSL operations;
- Ebitda margin on the landline business maintained at the level recorded in 2010;
- average revenue growth of at least 5% over the reference period;
- 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;

The benefit would be payable if the Chief Executive Officer's duties are terminated in any of the following circumstances:

- if the Chief Executive Officer is removed from office, except in the event of willful misconduct (*faute lourde*, as defined under French social security law);
- a forced departure, defined as the Chief Executive Officer stepping down from his position within twelve months of:
  - a decision taken in a General Shareholders' Meeting to merge or demerge the Company, or
  - the effective date of a change in control of the Company (within the meaning of Article L. 233-3 of the French Commercial Code),
  - the date of a significant change in the Group's business strategy as announced by the Company's governance bodies,
  - the effective date of a significant change in the Chief Executive Officer's powers or the organizational structure of the Company's Senior Management, as decided by the Board of Directors against the opinion of the Chief Executive Officer.

The termination benefit will not be payable if Maxime Lombardini steps down of his own accord from his position as Chief Executive Officer.

## 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

#### No-compete commitment

No indemnities are payable to corporate officers under no-compete clauses.

#### Stock option and share grant 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 2011 the Board of Directors authorized stock option grants to a number of the Group's employees, excluding corporate officers.

In 2010, the Group's subsidiary Free Mobile decided to set up an incentive plan for a number of its officers and employees, involving share grants representing up to 5% of Free Mobile's capital. The plan was authorized by Iliad's Board of Directors on May 3, 2010.

Following a decision by the sole shareholder of Free Mobile, on May 12, 2010 the Chairman used this authorization to set up a share grant plan.

In accordance with Article L. 225-197-1 II paragraph 4 of the French Commercial Code concerning shares granted free of consideration to corporate officers, at the grant date the grantor is required to either (i) set the number of shares that beneficiaries must hold in registered form until they leave their position as an executive officer, or (ii) decide that the shares cannot be sold by the beneficiaries until the end of their term of office as an executive officer.

Consequently, under the May 12, 2010 plan, at the grant date the Chairman decided that each executive officer is required to hold in registered form at least 5% of the shares awarded under the plan until such time as they no longer hold the position of executive officer.

#### Service agreements

Apart from the contracts described in Sections 15.2 and 16.2 of this registration document, during the year ended December 31, 2011 neither the Company nor any of its subsidiaries entered into a service contract with a corporate officer 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.

## 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

The Group's senior management teams and corporate functions are based in the same building, which simplifies the tasks of relaying information and monitoring and harmonizing internal control procedures. Until November 2011, these head office departments were located at 8 rue de la Ville l'Évêque in Paris, and since November 2011 have been moved to 16 rue de la Ville l'Évêque.

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 Internal control objectives

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 in this document 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 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.



## 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

#### Risks relating to the Group's operations and business strategy

An analysis of the Group's risk exposure concerning revenue protection is carried out jointly – under the supervision of Senior Management – by the IT teams, for areas such as automated controls, and the finance teams, who are responsible for consistency checks and manual controls.

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 managing and properly accounting for data and other flows transiting on the Group's network are also identified and assessed by the IT and finance teams under the supervision of Senior Management.

In terms of subscriber relations risks, 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 waiting time. The reporting schedules are relayed regularly to Senior Management.

Lastly, the Group's research and development team – which reports directly to Senior Management – helps to ensure that Iliad remains technologically innovative.

#### Risks relating to the Internet and telecommunications sectors

As the Group is subject to the specific laws and regulations applicable to the telecommunications sector, the Company's compliance department carries out regular controls to ensure that these laws and regulations are respected. Risks relating to the Group's business sectors are principally monitored by an internal team dedicated to tracking regulations within the Internet and telecommunications sectors as well as the financial and legal impact of these regulations on the Group's operations.

In addition, the rollouts of the Group's optical fiber network and third- and fourth-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. The sustainability of the Group's mobile business depends on Iliad's ability to achieve a high direct coverage rate and to control the operational risks inherent to this new business. The teams responsible for rolling out the Group's networks and ensuring that the relevant regulations are respected meet regularly in order to analyze the risks related to the network 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 drawn up by the Finance Department, including press releases, management reports, and financial statements, is 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 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 information that is released outside the Group. Furthermore, in accordance with this 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 plan for the Group, which is regularly updated. This plan 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, incorporating the main operating and financial indicators related to the Broadband business and the rollout of the optical fiber and mobile networks. The reports drawn up by the financial controllers are transmitted to the Finance Department and incorporated into the overall Group reporting schedule, which contains the key data used 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 main 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 monthly 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 monthly 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 controls of Internet operating costs and fixed telephony costs carried out 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.

These procedures are controlled by the Finance Department with the help of operations staff, based on tests that are regularly performed by the Company, with a view to ensuring that the verification procedures set up within the Group are effective.

### 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

**For the year ended December 31, 2011**

*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, 2011.

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, March 7, 2012

The Statutory Auditors

**PricewaterhouseCoopers Audit**

Frédéric Charcosset

**Boissière Expertise Audit**

Tita Zeitoun

# CROSS-REFERENCE TABLES

## INFORMATION REQUIRED IN THE ANNUAL FINANCIAL REPORT

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8° Welfare	5.3 and 17.5
9° Subcontracting	17.1.3
<b>Environmental data</b>	
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2° Measures taken to minimize damage to biological diversity	8.2
3° Environmental evaluation and certification procedures	N/A
4° Regulatory compliance	N/A
5° Expenditure devoted to preventing the Group's business from having an adverse impact on the environment	N/A
6° Existence of internal environmental management departments	N/A
7° Amounts of provisions and guarantees for environmental risks	N/A
8° Amounts of any compensation or fines paid following court orders regarding the environment	N/A
9° Information on targets set for foreign subsidiaries	N/A









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