iliad

2012 REGISTRATION DOCUMENT FINANCIAL REPORT

Summary

2012 REGISTRATION DOCUMENT

FINANCIAL REPORT

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.

AUTORITÉ DES MARCHÉS FINANCIERS

AMF

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 9, 2013.

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**) as well as on the website of the AMF (**www.amf-france.org**).

1

PERSONS RESPONSIBLE

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 2012 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 248 provides a fair review of the business, results and financial position of the Company and its subsidiaries, as well as a description of the principal risks and uncertainties that they face.

The Statutory Auditors' report on the consolidated financial statements for the year ended December 31, 2012 included in this registration document (on page 175) contains the following observation: "Without qualifying their opinion on the consolidated financial statements, the Statutory Auditors draw attention to Note 1.2 to the consolidated financial statements regarding the early adoption of the amendment to IAS 19, Employee benefits (IAS 19R).

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'Evêque

75008 Paris, France

Telephone: + 33 1 73 50 20 00

www.iliad.fr

1.4 PROVISIONAL TIMETABLE FOR FINANCIAL COMMUNICATIONS

By May 15, 2013:	First-quarter 2013 revenues
May 22, 2013:	Annual Shareholders' Meeting
By August 30, 2013:	First-half 2013 revenues and earnings
By November 15, 2013:	Revenues for the first nine months of 2013

2

AUDITORS

2.1 STATUTORY AUDITORS

PricewaterhouseCoopers Audit Represented by Xavier Cauchois 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 24, 2012 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, 2017.	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

Étienne Boris 63, rue de Villiers 92208 Neuilly-sur-Seine Cedex, France	PSK Audit Represented by Pierre Kuperberg 134, rue de Courcelles 75017 Paris, France
First appointed at the Annual Shareholders' Meeting of May 29, 2006. Current term expires at the close of the Annual Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2017.	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, 2012

TABLE OF FEES PAID TO THE STATUTORY AUDITORS

	PricewaterhouseCoopers Audit				Boissière Expertise Audit			
	Amount		%		Amount		%	
In € thousands – excluding tax	2012	2011	2012	2011	2012	2011	2012	2011
Audit								
Statutory and contractual audits	283.2	375.5	93%	94%	215.0	215.0	100%	100%
Issuer	80.4	195.0	26%	49%	100.0	100.0	47%	47%
Fully-consolidated subsidiaries	202.8	180.5	67%	45%	115.0	115.0	53%	53%
Audit-related work	20.8	23.0	7%	6%	0.0	0.0	0%	0%
Issuer	18.0	23.0	6%	6%	0.0	0.0	0%	0%
Fully-consolidated subsidiaries	2.8	0.0	1%	0%	0.0	0.0	0%	0%
SUB-TOTAL	304.0	398.5	100%	100%	215.0	215.0	100%	100%
Other services provided by the networks to fully-consolidated subsidiaries								
Legal and tax advisory services								
IT consulting								
SUB-TOTAL	0.0	0.0	0%	0%	0.0	0.0	0%	0%
TOTAL	**304.0**	**398.5**	**100%**	**100%**	**215.0**	**215.0**	**100%**	**100%**

3

SELECTED FINANCIAL INFORMATION

In € millions	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
INCOME STATEMENT			
Revenues	3,153.3	2,122.1	2,038.3
Ebitda [(1)]	***921.4***	***833.4***	***798.1***
Profit from ordinary activities	411.7	498.2	477.9
Other operating income and expense, net	(6.4)	(4.6)	61.0
Operating profit	405.3	493.6	538.9
Finance costs, net	(56.8)	(46.8)	(41.7)
Other financial income and expense, net	(34.3)	(34.0)	(7.8)
Corporate income tax	(127.7)	(161.0)	(176.3)
Profit for the period	**186.5**	**251.8**	**273.2**
BALANCE SHEET			
Non-current assets	3,924.4	3,204.0	1,904.4
Current assets	772.6	600.5	516.2
Of which cash and cash equivalents	*384.2*	*357.4*	*347.5*
Assets held for sale	50.0	54.9	71.6
Total assets	**4,747.0**	**3,859.4**	**2,492.2**
Total equity	1,726.7	1,523.9	1,078.3
Non-current liabilities	1,679.8	1,466.3	1,016.0
Current liabilities	1,340.5	869.2	397.9
Total equity and liabilities	**4,747.0**	**3,859.4**	**2,492.2**
CASH FLOWS			
Net cash generated from operating activities	921.5	779.6	874.9
Net cash used in investing activities	(945.2)	(1,156.4)	(793.7)
Net change in cash and cash equivalents (excluding financing activities and dividends)	(38.0)	(391.0)	54.2
Dividends	(21.2)	(21.9)	(21.2)
Cash and cash equivalents at year-end	382.6	350.5	337.5

(1) See definition in the glossary on page 219 of this registration document.

KEY FIGURES FOR 2012

The year 2012 was marked by the Group's transformation from a landline operator to an integrated (landline and mobile) player, thanks to the launch of its mobile offerings. This change was accompanied by very strong growth, driven by (i) the commercial success of our mobile offerings, with 5.2 million subscribers in less than a year, (ii) an outstanding showing from the landline business, with net adds coming in at 515,000, and (iii) another robust financial performance which enabled us to maintain a solid balance sheet structure.

- **A successful debut for the Group's mobile offerings**, with over 5.2 million subscribers in less than a year – representing a near 8% market share – and over €840 million in revenues.
- **Continuation and acceleration of the landline business's virtuous circle of profitable growth.** In line with Group objectives, 2012 saw our landline business step up its pace of growth, with revenue climbing 9.4% versus 4.1% in 2011. At the same time, the Group boosted its profitability by continuing to focus on unbundling and optimizing the fixed cost base. As a result, Ebitda margin for the landline business came in at a record 41.7%.
- **Solid financial structure and performance.** At over €921 million, consolidated Ebitda was up 11% on 2011, with sharp growth in the landline business enabling the Group to offset the adverse impact of the negative Ebitda contribution from its mobile business.
- Profit from ordinary activities amounted to €412 million in 2012, down 17% year on year. The decrease was primarily due to the beginning of depreciation/amortization for the Group's mobile assets (network, license, roaming charges etc.) and, to a lesser extent, depreciation/amortization related to optical fiber and the Freebox Revolution.

  In view of the above, profit for the period stood at €187 million versus €252 million in 2011.

  At a negative €38 million, consolidated Free Cash Flow (excluding financing activities and dividends) was more or less at breakeven and reflected the combined impacts of the following:

  - a 28% rise in operating Free Cash Flow, which topped €1.1 billion in 2012, including a €131 million change in working capital requirement;
  - total capital outlay of €945 million during the year due to an ongoing proactive capital expenditure policy;
  - a sharp 66% jump in Free Cash Flow from ADSL operations to €509 million. This brought the aggregate figure for the 2010-2012 period to €1.25 billion, in excess of the Group's original target of at least €1.1 billion;
  - payment of the 2011 dividend amounting to €21 million.

PRINCIPAL FINANCIAL INDICATORS

In € millions	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Consolidated revenues	**3,153.3**	**2,122.1**	**2,038,3**
- Landline	2,321.4	2,122.1	2,038,3
- Mobile	843.9	-	-
- Inter-segment sales	(12.0)	-	-
Consolidated Ebitda	**921.4**	**833.4**	**798,1**
- Landline	967.5	833.4	798,1
- Mobile	(46.1)	-	-
Profit from ordinary activities	**411.7**	**498.2**	**477,9**
Profit for the period	**186.5**	**251.8**	**273,2**
Free Cash Flow from ADSL operations (1)	**508.8**	**307.0**	**436,0**
LEVERAGE RATIO (2)	**1.16X**	**1.16X**	**0,87X**

(1) See definition on page 219 of this registration document.
(2) See definition on page 219 of this registration document.

4

RISK FACTORS

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 the share capital of Iliad and/or its subsidiaries, which significantly contributes to building 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 platforms and network, and on designing and developing hardware such as the Freebox modem and the Freebox DSLAM are skilled in a number of different areas. The Group's future success will depend in particular on its ability to attract, train, retain and motivate highly qualified employees and managers. However, since competition to attract employees with such qualifications is intense, there can be no assurance that the Group will be able to do so.

The loss of one or more key employees or a manager, or 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 and strategic decisions and in particular those requiring shareholder approval (such as the election 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 network equipment such as Freebox modems, Freebox DSLAMs and SIM cards 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 subscribers, in a timely manner, with the equipment required to access value-added 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 electronic communications 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 GROUP'S INDUSTRY AND STRATEGY

Risks relating to the growth of the Internet market in France

A major portion of the Group's revenues depends on the number of subscribers to its Internet access service, which is closely linked, directly or indirectly, to the increase in France in the number of Internet users in general and particularly the number of users with landline broadband access. The level of future revenues generated through subscriptions is therefore difficult to predict, especially in a mature market like that in France. 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.

Risks relating to the Group's highly competitive operating environment

The landline Internet market

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 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.

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.

Competition was fierce in 2012 for television, video and games services via ADSL, and is likely to intensify. Although the Group considers that it has a number of competitive advantages in this market, particularly through the use of its HD Freebox and the new-generation Freebox Revolution, 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.

The mobile telephony market

The Group launched its first commercial mobile telephony offerings on January 10, 2012. The arrival of Free Mobile as the fourth mobile operator in an already mature French market heightened competition and has prompted the market's incumbent mobile operators – notably the multinationals that have greater financial resources than those of the Group – to launch a marketing offensive. In addition, the incumbent mobile operators and MVNOs have begun to respond to Free Mobile's attractive packages. The Group's success will therefore depend on its ability to ensure that its offerings and services are sufficiently appealing compared with those of its competitors.

Other services

The on-line gaming and betting services offered by Iliad Gaming were faced with intense competition in 2012 amid a regulatory environment which granted little leeway to operators in the sector. Consequently, the Group terminated these services during the year.

Risks relating to the rapid changes in pricing and technical aspects of access offerings

The market for landline and mobile services is characterized by very rapidly changing pricing structures (such as usage-based charges, unlimited use packages and free access) and technical access methods (including dial-up access, ADSL, FTTH, 2G, HSPA, 3G, H+ and 4G). The development of new pricing structures within a competitive market characterized by sharp downward pricing trends and new access methods in line with different economic models, or any unforeseen changes in the relative weighting of the various existing access offerings or growth in 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, financial position and image as well as on its ability to meet its objectives.

4.2.2 OPERATING RISKS

4.2.2.1 Rollout risks

Risks relating to the rollout of the optical fiber-to-the-home network

The rollout of the optical fiber-to-the-home (FTTH) network is conditional upon (i) obtaining the necessary authorizations (occupancy of public property, right of entry into buildings, etc.), (ii) the completion of the work entrusted to third party service providers, and (iii) in very densely populated areas, the implementation of Decision 2009-1106 issued by the French electronic communications regulatory authority (*Autorité de Régulation des Communications Electroniques et des Postes* - ARCEP) on December 22, 2009 concerning the rollout of optical fiber in these areas and resource-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.

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.

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

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 have a negative effect on the Group's business, results of operations, financial position and image, as well as on its ability to achieve its objectives.

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

4.2.2.2 Risks relating to the operation of networks

Until now, the Group has been able to upgrade the capacity of its technical platforms 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 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.

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 landline or mobile electronic networks and/or information systems could render its services unavailable and therefore negatively affect the number of new subscribers as well as the Group's image, financial position and targets.

4.2.2.3 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 invested in, and will continue to invest in, the measures required 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 takes 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.

4.2.2.4 Other operating risks

As is the case for the industry's other operators, the Group 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.

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. Its financial position could be affected if it is unable to meet its customers' expectations.

4.3 FINANCIAL RISKS

4.3.1 FOREIGN EXCHANGE, INTEREST RATE, LIQUIDITY, AND CREDIT AND/OR COUNTERPARTY RISKS

These risks are described in full in Notes 28 and 32 to the consolidated financial statements for the year ended December 31, 2012.

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 28, 2013, Xavier Niel, the Company's principal shareholder held 58.59% of the capital and 56.80% 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 landline and mobile electronic communications 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;
- announcements concerning the telecoms and 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 currently 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 the sale.

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 experienced fiscal pressure, with operators being subject to a number of specific taxes and contributions. In addition, in 2013 the French government plans to set up a system whereby registered consumer associations will be able to initiate class action lawsuits.

Any unfavorable change in the regulations applicable to the Group's operations could have a significant 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 could 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, 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. The contract is for six years as from the commercial launch.

In Opinion 13-A-08 of March 11, 2013 relating to the terms and conditions of the joint usage and roaming on mobile networks, the competition authorities recommended that national 3G roaming agreement not be extended beyond a reasonable limit, i.e., at the end of the agreement. 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 could 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 Chapter 6, 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 AND INDUSTRIAL 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, Free Mobile and ANNU – and other forms of intellectual and industrial property, could be distributed in countries offering less legal 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 possible 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 or industrial 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 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 and industrial property rights 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 electronic communications networks belonging to other operators such as France Télécom Orange, SFR 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 Chapter 6, Section 6.4.3 of this registration document.

4.4.7 OPERATING ASSETS NOT OWNED BY ILIAD

Other than networks to which Iliad is interconnected as well as certain interconnection equipment and the dark fibers used by its network under long-term Indefeasible Right of Use (IRU) agreements[1] (described in Chapter 6, Section 6.4.3 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, 2012, the Group had access to almost 68,000 kilometers of fibers, including 34,200 under IRU agreements.

By way of Decision 2011-1169 dated October 11, 2011, ARCEP authorized the Group to use a block of frequencies in the 2.6 GHz band 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 SFR, whose license includes blocks of spectrum in the 800 MHz 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 electronic communications, prevent the installation of mobile communication 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, its financial position and its ability to meet its objectives.

The main licenses held by the Group are the authorizations required under Articles L. 33 and L. 34 of the French Post and Telecommunications Code (*Code des postes et des communications électroniques*), as well as the authorization to operate the 3G, 4G and BLR (known as the Wimax license) networks. The Group's related commitments are defined in decisions issued by ARCEP.

Free Mobile has made a number of commitments to the French State in relation to its license to operate a 3G and 4G mobile communications network, particularly concerning population coverage and quality of service. The most significant of these commitments are described in Chapter 6, Section 6.6 of this registration document. If Free Mobile fails to respect its commitments, ARCEP may impose the sanctions provided for in the French Post and Electronic Communications Code, as described in Chapter 6, Section 6.6 below.

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. The most recent ARCEP inspection on IFW's compliance with its commitments took place 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.

At the date of this registration document, Company does not consider that it is exposed to any specific risks in relation to the other regulatory requirements described in Chapter 6, Section 6.6 below.

(1) See definition on page 219 of this registration document.

4.5 RISKS RELATING TO CLAIMS AND LITIGATION

In the normal course of its business, the Group is involved in a certain number of legal proceedings. The Group considers that the provisions set up to cover the related 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 or assets and liabilities of the Company or the Group.

The Group's companies are involved in inquiries, disputes and legal proceedings with regulatory authorities, competitors and other parties. The Group considers that the provisions set up to cover the related contingencies, litigation or disputes known of or in progress at December 31, 2012 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 that each of these claims represents would not have a material impact on the Group's business or financial position. However, any proliferation of such claims or the filing of class action in France 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 about 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.

Lastly, the Group's entry into the mobile market has led to a number of lawsuits, particularly suits filed by its competitors which have been widely reported in the French media. The Group has a number of arguments that it can put forward in its defense in relation to these lawsuits. The Group considers that the provisions set up to cover the related contingencies, litigation or disputes of which it is aware 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. Nevertheless, the outcome of these lawsuits could have a negative impact on Iliad's share price.

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.

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 the premises it owns which are occupied by the Group.

The rollout of the networks is covered by principal contractor, site works damage and "property developer" (*constructeur non-réalisateur*) insurance policies.

The Group has taken out specific insurance policies to cover the operation of active and inactive electronic communications networks. Its business as a landline 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 of its fixed sites (Points of Presence, subscriber connection nodes and LTO-ON sites) as well as for its mobile sites (base station sites) and its head office. Lastly, 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

INFORMATION ABOUT THE COMPANY AND THE GROUP

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 French company law and notably the French Commercial Code (*Code de commerce*).

5.1.5 KEY DATES

1996

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

1999

- Creation of the Internet service provider Free.

2002

- Launch of Free's broadband service and the Freebox.

2004

- Iliad's initial public offering. Listing on the Euronext Paris *Premier Marché* (January).

2005

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

2006

- Issue of bonds convertible for new shares and/or exchangeable for existing shares (OCEANE) representing a total nominal value of €330,624,932.40 (June);
- Free announces its fiber-to-the-home (FTTH) rollout program (September).

2008

Iliad acquires the entire capital and voting rights of Liberty Surf Group SAS (Alice).

2010

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

2011

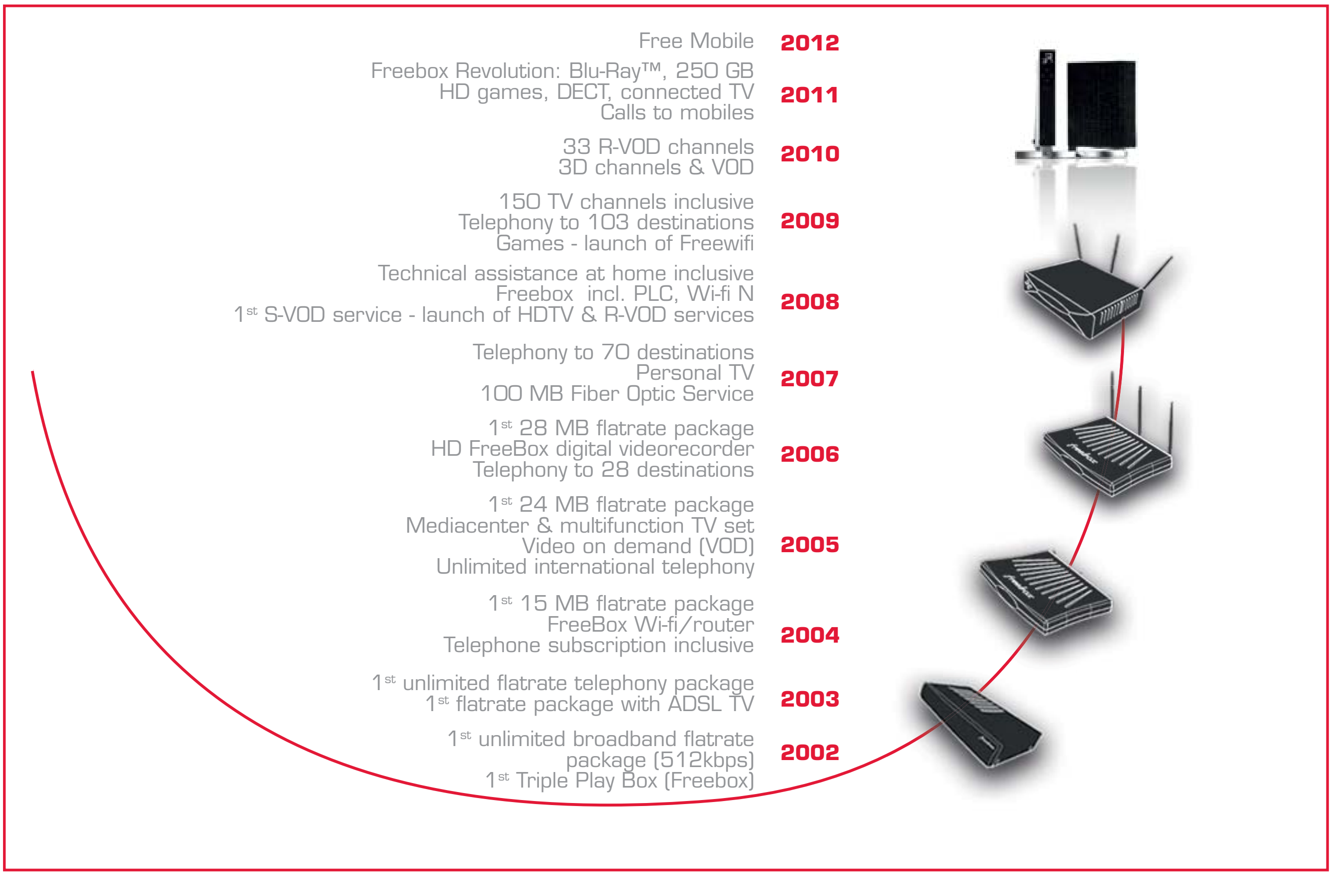
- The Group carries out a €500 million inaugural bond issue (May);
- Free Mobile obtains a license for 20 MHz of spectrum in the new generation 4G (2.6 GHz) frequency band (September);
- Conversion of a significant portion of Iliad's OCEANE bonds leading to a €200 million increase in consolidated equity (December).

2012

- Commercial launch of mobile offerings (January);
- €200 million loan granted by the EIB (August).

5.1.6 FROM AN INTERNET SERVICE PROVIDER TO AN INTEGRATED OPERATOR (LANDLINE AND MOBILE)

Since its formation in 1991, thanks to its expertise in electronic communications networks and the commercial appeal of its mass-market offerings provided under the Free brand, the Group has become a major Internet and electronic communications player (landline and mobile) 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 compared to its competitors.

After completing the rollout of its electronic communications 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, first posting 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 followed by the Freebox Revolution in late 2010.

Today Iliad has a number of different Internet access offerings marketed under the Free brand, all of which are characterized by their simplicity, attractive pricing and recognized technical quality.

5.1.6.2 Local loop unbundling and the rollout of the FTTH network: key strategies for the profitable growth of the Group’s landline business

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 high 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. Most of the recurring charges paid to the incumbent operator concerning the unbundled local loop relate to the rental of equipment used for connecting the subscriber's modem to the corresponding DSLAM belonging to the Group.

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 in order to improve service quality and deliver 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 high-density" and "low-density" areas and the related regulatory framework, the Group has focused its FTTH rollout on high-density areas. For areas that do not fall within this category Iliad has signed an FTTH co-financing agreement with Orange covering around four million homes under which it has committed to rollouts in the Brest, Reims, Le Havre and Dijon areas of France. Many other towns and urban areas will follow in the course of 2013. The first subscribers in these low-density areas should be connected in early 2013.

5.1.6.3 The Group becomes a major mobile telephony player

On January 12, 2010, Iliad's subsidiary Free Mobile was authorized to operate a third-generation mobile communications network. In accordance with its commitments under its license and with a view to effectively managing its subscribers' traffic (Internet, voice, SMS, etc.), the Group started the rollout of its own mobile network.

On January 10, 2012, with a direct coverage of over 27% of the French population, the Group launched its commercial mobile offerings, using roaming services for areas not directly covered by its own mobile network.

The Group intends to pursue its mobile network rollout in order to extend its direct coverage which will mean a reduction in the use of roaming services. Extending the network coverage is a determining factor for the Group's profitability as margins generated from traffic carried by the Free Mobile network are much higher than those generated under roaming agreements.

5.2 CAPITAL EXPENDITURE

5.2.1 MAIN CAPITAL EXPENDITURE IN THE LAST THREE 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 principal investments described below, which are also disclosed in Note 19 to the consolidated financial statements.

Since the launch of its commercial mobile offerings, the Group has become a fully integrated operator, present in both the landline and mobile markets and drawing on a single IP telecommunications network. In view of the convergence of landline and mobile offerings and the use of one and the same asset base, the Group's capital expenditure is intended to serve all of its businesses. The main capital expenditure incurred since 2010 comprises:

- network expenditure, which includes investments for the core network, backhaul points and information systems in relation to the Group's extension of unbundled areas and areas covered by an FTTH local loop, as well as for connections of mobile sites;
- expenditure directly related to growth of the subscriber base, mainly the costs of Freebox modems and SIM cards sent to subscribers;
- the acquisitions of the 3G and 4G licenses in 2010 and 2011.

Acquisitions of property, plant and equipment and intangible assets (net of asset disposals) break down as follows since 2010:

In € millions	2012	2011	2010
TOTAL CAPITAL EXPENDITURE	**945**	**1,154**	**783**

5.2.2 MAIN CAPITAL EXPENDITURE IN PROGRESS

During 2012, the Group's main capital expenditure corresponded to (i) expansion expenditure (SIMs, Freebox modems, etc.), which directly depends on the number of new subscribers who sign up for the Group's landline and mobile offerings, and (ii) expenditure related to expanding the Group's network, including extending unbundled areas, pursuing the rollout of the optical fiber local loop, reinforcing interconnection and backhaul links and continuing to roll out the third- and fourth-generation mobile network.

5.2.3 MAIN FUTURE CAPITAL EXPENDITURE

The Group intends to continue to invest in its network:

- for its core network and transit networks, by using the best technologies to partner high growth in usage (mobile Internet, television, video on demand, etc.);
- by continuing its efforts to create optical fiber local loops in very high-density areas of population and by co-financing the rollout of a single shared network with Orange and other operators for low-density areas;
- by continuing the unbundling of new distribution frames to increase the unbundling rate. In September 2012, the Group announced that it had ordered the connection and unbundling of around 1,500 new central offices covering more than 2,660 small towns, which will enable more than 1.5 million previously ineligible households to access unbundled offers;
- by continuing the rollout of its 3G mobile network with the aim of reaching a 90% population coverage level. The Group has estimated the total amount of this investment at €1 billion.

In view of the Group's aim of pursuing its growth, it will continue to invest in the production and marketing of Freebox modems, especially the Freebox Revolution.

Financing

The combination of the significant amount of Free Cash Flow at end-2012, the more than €100 million increase in consolidated equity, the new financing put in place, 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 2012, the Free Corporate Foundation supported more than 25 projects carried out by charities, associations, schools and other social-interest organizations, including:

- the Apprentis d'Auteuil Foundation;
- the Dauphine Foundation;
- the Lecture Jeunesse not-for-profit organization;
- the Ateliers sans Frontieres not-for profit organization;
- the Emaho not-for-profit organization (Bastia Digitale).

During the year the Free Corporate Foundation also donated computers to several not-for-profit organizations, a large number of which were for schools.

The Foundation's initiatives are presented in Section 17.4.1.

6

OVERVIEW OF THE GROUP'S BUSINESS

6.1 PRINCIPAL MARKETS

At end-2012, the Group was an integrated player operating in the Internet access market (Landline business) and mobile telephony market (Mobile business) in France.

6.1.1 THE LANDLINE INTERNET ACCESS MARKET IN FRANCE

6.1.1.1 General information about the French broadband market

	2012	2011	2010
Revenues *(in millions of euros)*	**10,241**	**9,728**	**9,212**
Number of subscriptions *(in millions)*	**24.0**	**22.7**	**21.3**
of which broadband	22.4	21.4	20.9
of which ultra-fast broadband	1.6	1.3	0.5

Source: ARCEP

The number of broadband subscriptions in France increased by nearly 1.3 million in 2012. With a total of 24 million broadband subscribers at December 31, 2012, 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 92% of broadband connections at December 31, 2012. 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, 2012. The high broadband penetration rate for French households offers attractive prospects for the Group in light of its positioning in this sector.

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

The French ultra-fast 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 ultra-fast broadband subscribers rose by 0.3 million in 2012 to a total of 1.6 million at the year-end.

Revenues generated in the overall broadband market (including ultra-fast broadband) came to €10.2 billion in 2012, up 5.3% on 2011.

6.1.1.2 Players in the landline 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 positions in their domestic markets and 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 in 2007 and Iliad's acquisition of Alice in 2008.

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

- Internet service providers associated 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 lower tariff mobile phone subscription). These offerings have met with growing success, making landline/mobile integration essential.

6.1.2 THE MOBILE TELEPHONY MARKET IN FRANCE

6.1.2.1 General information about the French mobile telephony market

	2012	2011	2010
Revenues *(in millions of euros, excluding revenues from incoming calls)*	**17,575**	**18,964**	**19,512**
Number of subscriptions *(in millions)* **– Mainland France only**	**70.5**	**65.9**	**62.5**
o/w with-contract plans	35.9	38.1	36.7
o/w no-contract plans	17.7	9.6	8.4
o/w prepaid plans	16.9	18.2	17.4
Average bill *(in euros per month – on a rolling annual basis)*	**21.9**	**24.9**	**26.4**

Source: ARCEP

At end-2012, the French mobile telephony market counted over 70.5 million subscriptions (corresponding to SIM cards in use), up almost 7.0% on 2011[(1)]. The penetration rate of mobile telephony for the population in mainland France was 108.0% at December 31, 2012.

The main changes in the mobile networks services market in 2012 were as follows:

- a move towards mobile plans and away from prepaid cards. This is illustrated by (i) a combined 12.2% year-on-year increase in the number of "voice" and "voice-data" plans in 2012 compared with historical growth of around 4.0% and 5.0% for these two types of plans since 2008 before the launch of Free Mobile, and (ii) a falloff in the number of prepaid cards in 2012 versus a rise in previous years;
- a rise in the number of no-contract plans, which represented a total of 17.7 million subscribers at end-2012, up 84.4% on 2011;
- higher consumption, with the increase in the number of plans and the proliferation of unlimited plans leading to record growth in the consumption of minutes: 120 billion minutes used in 2012, representing growth of 13% (versus average annual growth of 1% during the past five years). For the first time ever, voice traffic from mobiles was structurally and significantly higher than traffic from landlines;
- a fall in prices, with the average bill down by 12% in 2012, compared with 5.7% in 2011. There are three main reasons for the lower contraction in prices seen in 2011:
  - an increase in the applicable VAT rate in France for audiovisual access services, which the operators did not pass on to their customers,
  - an increase in the number of unlimited offers,
  - a change in the way consumers use their mobiles, with a rapid rise in non-voice communication such as SMS messaging (183 billion SMS messages in 2012, up 24.5%) and data (data volumes up 70.4% in the space of a year). Almost half of active customers now use some form of multimedia services.

  In 2012, this downward pricing trend was significantly accentuated by the introduction of new no-contract premium limited plans encompassing voice, SMS messages and data, which were targeted at lower-volume consumers and offered at much cheaper prices than previously[(2)].

The Group's launch in January 2012 as France's fourth mobile network operator (see *Chapter 6, Section 6.2.1.2.1. Presentation of the Group's offerings*) played a significant role in shaping trends in France's mobile telephony market in 2012.

6.1.2.2 Mobile telephony players in France

	2012	2011	2010
Number of subscriptions *(in millions)* – Mainland France only	70.5	65.9	62.5
o/w mobile network operators	62.8	58.4	57.9
o/w MVNOs	7.7	7.5	4.7
Mobile network operators' market share	89.1%	88.6%	92.5%
MVNOs' market share	10.9%	11.4%	7.5%

Source: ARCEP

In 2012, the Group became France's fourth mobile network operator when it launched its mobile offer through Free Mobile. The main players in the French mobile telephony market are:

- the four mobile network operators: SFR, Orange, Bouygues Telecom, and Free Mobile (since early 2012), who together account for 62.8 million SIM cards and hold an 89.1% market share;
- mobile virtual network operators (MVNOs), such as Virgin Mobile, NRJ Mobile, La Poste Mobile, Numericable and Prixtel. At end-2012, MVNOs represented 7.7 million SIM cards and held a 10.9% share of the market.

The launch of Free Mobile heightened competition in the French mobile telephony market in 2012. Against this backdrop, SFR, Orange and Bouygues Telecom have created sub-brands to market their no-contract no-phone plans: Sosh for Orange, B&You for Bouygues Telecom and Red and Joe Mobile (launched in the third quarter of 2012) for SFR.

(1) Source: ARCEP.

(2) Source: INSEE - average annual consumer price index for 2011 and 2012.

6.2 PRINCIPAL ACTIVITIES

6.2.1 DESCRIPTION OF THE GROUP'S PRINCIPAL ACTIVITIES

Prior to the launch of its mobile offerings in early 2012, the Group's operations were split into two segments – Broadband and Traditional Telephony (with this segment's contribution to consolidated revenues becoming increasingly lower over time). Since the launch of its mobile offerings, the Group has redefined its business segments, with the creation of a single new segment called Retail Telecom.

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

At December 31, 2012, the Group had 5.3 million landline subscribers and 5.2 million mobile subscribers, representing market shares of 24% in the ADSL segment and around 8% in the mobile segment (Iliad estimate).

6.2.1.1 Landline business

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 (at prices ranging from €9.99 to €35.98 per month), 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 (observed) in areas where the local loop is unbundled, and 22 in non-unbundled areas (depending on whether a subscriber's line is eligible);
- **FTTH ultra-fast broadband**. This offering – which is available in selected areas chosen by Free – provides subscribers with ultra-fast 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 between 60 and 108 foreign countries depending on the terms of their offer. In addition, certain of the Group's landline telephony offers include free calls or packaged deals for calls to mobile numbers in mainland France;
- Free proposes the broadest **television offering** in the market, comprising over 400 channels (of which some 60 or 185 are included in the basic packages) with 50 high definition channels;
- Free also offers its subscribers **numerous value added services** including catch-up TV, video on demand (VOD or S-VOD), subscription to Canal+ channels, video games, etc.

In line with its image as a pioneer in technological innovation, in December 2010 Free launched the **Freebox Revolution**, which allows subscribers to connect all of their terminals and offers optimal Internet access. The Freebox Revolution also includes many innovative new services, such as the NAS server which has storage capacity of up to 250 GB accessible from anywhere at any time, a Blu-Ray™ player, and calls to all mobile numbers in mainland France.

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

The Group's 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 website hosting and the purchase and resale of domain names. These services are invoiced to customers based on an annual subscription and are 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 dedicated servers to private individuals as well as SMEs that wish to secure their data. This offering is invoiced based on a monthly subscription;
- **server collocation services**, which consist of providing physical space in fully secure and accessible data centers.

6.2.1.1.2 Manufacturing operations for the Landline business

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:

- launched in 2004, the Freebox V4 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):

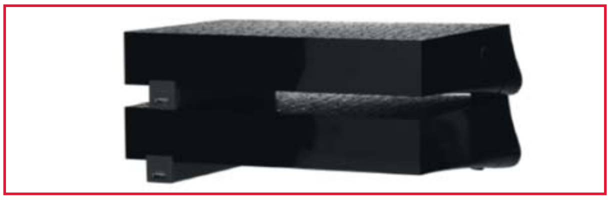
Freebox V4

- launched in 2006, the Freebox HD or V5 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 offering 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.

6.2.1.2 Mobile business

6.2.1.2.1 Presentation of the Group's offerings

Since January 10, 2012, the Group has proposed two simple value-for-money mobile offerings:

- **a €2/month no-contract offering (€0 for Freebox subscribers)** which includes 120 minutes of voice calls per month in mainland France to French overseas departments (*départements d'outre-mer* – DOM), to 40 foreign countries and to mobiles in the United States, Canada, Alaska and Hawaii as well as unlimited SMS messages in mainland France and unlimited access to the FreeWifi network. This plan – which also includes services such as voice mail, caller display and usage monitoring – was primarily designed for subscribers wanting to make voice calls at competitive prices. Under the plan, subscribers can opt for extra minutes as well as for calls to and from additional foreign countries and access to the Data (Internet and MMS) option;
- **a €19.99/month no-contract offering (€15.99/month for Freebox subscribers)** with unlimited voice calls, SMS, MMS and Internet (3Go fair usage policy with speeds slowed once 3Go is reached). All subscribers to this plan can make unlimited calls to landlines in 40 foreign countries and to mobiles in Canada, the United States (including Alaska and Hawaii) and French overseas departments, and also have unlimited access to the FreeWifi network.

In tandem, the Group **offers a selection of the best mobile phones** on the market, including the Apple and Samsung ranges. With a view to being as transparent as possible, Free sells its phones separately from its subscriptions, which means that subscribers can opt for whichever plan and phone they prefer, or can choose not to purchase a phone at all. Subscribers who do purchase a phone can either pay for it upfront or in several installments (over 3, 12, 24 or 36 months). In both cases, the Group recognizes the corresponding revenue when the phone is sold.

6.2.1.2.2 The Group's manufacturing operations

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.

6.2.1.2.2.1 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 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;
- monitoring the operation and maintenance of radio equipment at sites where it has been installed.

By putting in place this structure the Group has been able to achieve direct coverage of more than 27% of the French population in less than two years. 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. This meant that Free Mobile was permitted to launch its first commercial offerings.

During 2012, the Group intensified its rollout measures, focusing wherever possible on high-density population areas. Consequently, by December 31, 2012 the Group had deployed around 2,200 sites, giving it a population coverage level of over 40%.

In view of the progress of its rollouts, the Group is standing by the objectives set in connection with Free Mobile's commitments to ARCEP, namely to achieve coverage levels of 75% of the French population by 2015 and 90% by 2018.

During the year, the Group stepped up its capital spending for the Mobile business, with the deployment and connection of almost 1,500 new sites and payment of part of the fixed portion of the charges due for the year under the roaming agreement signed with Orange France in March 2011.

6.2.1.2.2.2 4G mobile services

In addition to its above-described 3G license, in Decision 2011-1169 issued on October 11, 2011 ARCEP authorized Free Mobile to use a block of frequencies in the 2.6GHz band in mainland France in order to set up and operate a fourth-generation (4G) ultra-fast mobile network.

Thanks to the frequencies allocated under this license, Free Mobile will be able to propose 4G mobile telecommunications 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.

In accordance with the conditions applicable for the 4G license bidding process, as a shareholder of Free Fréquences – which submitted an unsuccessful bid – Free Mobile has a roaming right on the 4G network that will be rolled out in the 800MHz band by SFR.

6.2.1.3 Subscriber relations and physical distribution network

6.2.1.3.1 Support services and subscriber relations

The Group's landline and mobile 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.

The Group's subscriber support centers seek to recruit helpdesk staff who have completed two years of post high-school 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, Alice and Free Mobile websites. This service provides answers to user FAQs and allows subscribers to ask the support service specific questions via email or chat.

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

6.2.1.3.2 The Free Center retail network

In 2011, Iliad also began the rollout of a retail network based on physical sales outlets. At end-2012, the Group had a network of 15 Free stores (Free Centers) located throughout France, with a flagship store of over 600 sq.m based in central Paris, which opened in June 2012.

The Free Centers have a three-fold objective:

- to increase the Group's subscriber base by attracting new subscribers or by encouraging existing landline subscribers to add mobile services and vice versa;
- to provide after-sales services to subscribers and reassurance through one-on-one contact;
- showcase the Free brand by bringing it physically closer to subscribers and promoting the breadth of its offering.

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

A presentation of the Group's network is provided in Chapter 8, Section 8.1.

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 continue to grow its Mobile business.

Free – a strong brand

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 launches 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. Free has very strong brand recognition, as illustrated by the fact that the "free.fr" domain name is one of the top ten in France in terms of visitor numbers with almost 5.9 million unique visitors per month. The considerable success of the Group's mobile offerings since their launch in early 2012 has also helped to build Free's brand image and the values that consumers associate with it.

Technically sophisticated and attractively priced service offerings

The Group's landline and mobile networks enable it to design sustainable service offerings that are easy to understand, technically sophisticated and attractively priced. Its broadband and ultra-fast broadband Internet access offerings as well as its mobile plans 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.

An ultra-fast integrated national network adapted to the needs of both the Landline and Mobile businesses

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 roll out its own electronic communications 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 high level of quality and connection speeds. 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.

Research and development capabilities serving the retail market

The Group's investment in research and development of hardware and software products has enabled it to position itself as a front runner in implementing innovative technological solutions for the retail 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 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.

Simplicity as a watchword

In a sector well known for its complexity, the Group proposes straightforward comprehensive offerings that meet the market's expectations. Consequently, the Group's catalog only includes four offers for the retail market which are available to all: two in the Landline business and two in the Mobile business. These offers are essentially distributed online, through the mobile.free.fr and free.fr websites. In addition, the Group has an organizational structure that is simple, horizontal, centralized and reactive. Consequently, our objective of achieving simplicity can be seen at all levels of the organization and is one of the keys to the Group's success.

Founders with a majority stake in the Company's capital

The Group's founders hold almost 63% of Iliad's capital. This gives us the independence to deliver on our long-term vision which is sometimes radically different to that of our competitors. It also enables us to be highly reactive when taking decisions and putting them into action. The management and results of the Group's projects are a daily reminder of the competitive advantage that this ownership structure gives us.

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 landline and mobile electronic communications sector, in-depth understanding of key regulatory issues, retail 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 above, the Group's strategy is based on the principles described below.

Continuing to provide the most attractive landline and mobile offerings in the market

The Group plans to pursue its strategy of winning new landline and mobile 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.

Continuing to increase 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.

Increasing the number of mobile subscribers

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 broadband and ultra-fast broadband markets of proposing access to mobile services to the greatest number of people for the best possible all-inclusive prices. Based on these offerings the Group intends to continue to grow its Mobile subscriber base, with the objective of reaching a 15% market share in the medium term and 25% in the long term.

Rolling out an FTTH local loop

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 high-density population areas (4 million homes).

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

The Group also intends to continue its optical fiber rollouts outside high-density areas based on a co-financing and resource sharing agreement signed with France Telecom in August 2012.

Pursuing the rollout of the mobile communications network

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

- to ensure network coverage for areas where there are peak concentrations of mobile subscriber traffic as well as continuity of coverage between these areas, with a view to reducing the costs of mobile services, notably those generated in connection with the company's roaming agreement;

- 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.

The 3G network rollout is necessary to increase the proportion of traffic of Free Mobile subscribers carried directly on its own network, which will in turn push up profit margins.

As the Group was awarded a 4G mobile license in September 2011 it can now roll out a mobile network using the 2,600 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 ultra-fast mobile services.

Distribution policy

The Group has established itself as a benchmark operator in the distribution of triple play ADSL offers through online and telephone sales.

These non-physical channels still represent its primary distribution method but the Group has put in place a multi-channel strategy via a targeted rollout of a network of stores of varying sizes, with a view to having a physical sales presence in all of France's major towns and cities. This distribution strategy will enable the Group to increase its subscriber base while providing cross-selling opportunities between its landline and mobile offerings.

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 THE GROUP'S DEGREE OF DEPENDENCE

6.4.1 DEPENDENCE ON PATENTS AND SOFTWARE AND BRAND LICENSES

The Group uses licenses for software owned by third parties. 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.

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 ADMINISTRATIVE AUTHORIZATIONS

In order to roll out both its landline and mobile networks, the Group is dependent on official operating and installation authorizations which are granted by various entities. 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 town halls, building owners, joint owners or property managers. When connecting to subscribers' homes it is the homeowner's agreement that is required. Lastly, an authorization from France's National Frequencies Agency (*Agence Nationale des Fréquences* – ANFR) is required in order to operate mobile phone masts.

6.4.3 DEPENDENCE ON MAIN SUPPLIERS

The main contracts entered into with suppliers can be divided into several categories:

- agreements entered into by the Group through its subsidiary, Free, granting it Indefeasible Rights of Use ("IRU") relating to the dark optical fibers it uses, notably for its long-distance network. Most of these agreements were signed with other operators such as the SFR group and Completel, but some were entered into with local authorities;
- interconnection and unbundling agreements, primarily signed with the incumbent operator to give the Group access to the incumbent operator's local loop. As described more fully in Section 6.6.1 below, these 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;
- contracts with optical fiber suppliers as well as with service providers involved in rolling out the optical fiber;
- contracts with suppliers of equipment and external service providers selected as part of the rollout of the third-generation and fourth-generation networks;
- the roaming agreement signed on March 2, 2011 ensuring coverage for Free Mobile subscribers on Orange France's 2G and 3G 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 optical fiber cables in the incumbent operator's ducts;
- contracts enabling the Group to propose payments in installments and insurance offerings;
- contracts for the supply of mobile telephones and SIM cards.

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 FRAMEWORK

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 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). This code sets out the applicable formal legal framework and transposes the related EU Directives into French law. The last major changes to this regulatory framework took place in 2011 by way of governmental order 2011-1012 dated August 24, 2011 which transposed into French law the EU's "Telecoms Package" published in 2009. This transposition process continued in 2012 with the publication of Decree 2012-436 of March 30, 2012 and Decree 2012-488 of April 13, 2012.

The French national regulatory framework was also amended during the year – albeit slightly – by two other Decrees:

- Decree 2012-513 dated April 18, 2012 concerning the reporting of information to the public authorities – at both a local and national level – on infrastructure and networks set up in the areas falling within the scope of their jurisdiction, published in the *Journal Officiel* (French official legal journal) on April 20, 2012. This decree sets down a procedural framework and lists the type of information that operators are required to provide to local government agencies;
- Decree 2012-1266 dated November 15, 2012 relating to safety and integrity controls for the equipment, networks and services of electronic communications operators, published in the *Journal Officiel* on November 17, 2012. This decree provides that the French government may carry out audits and controls on the safety and security of operators' networks.

The French regulatory framework also includes decisions made by ARCEP. These decisions may relate to asymmetric regulation – i.e., applying to operators that occupy a dominant market position – or symmetric regulation, i.e., applying to all operators. Certain symmetric regulation decisions have to be approved by the French Minister for Electronic Communications. In 2012, the main decisions issued by ARCEP were as follows:

- ARCEP Decision 2012-0997 dated July 24, 2012 relating to an analysis of the wholesale mobile voice call termination markets of new entrant operators, including Free Mobile, and the related obligations required of these operators for the period covering 2012-2013. This decision provided for asymmetrical treatment of Free Mobile's termination rates, allowing a difference between Free Mobile's rates and the rates of the three incumbent operators. This difference corresponds to 0.6 euro cents per minute for the second half of 2012 and 0.3 euro cents per minute for the first half of 2013. Beyond that period, Free Mobile's call termination prices will be the same as the three incumbent operators;
- ARCEP Decision 2012-0007 dated January 17, 2012 amending the depreciation periods used for France Telecom's copper local loop assets, as previously provided for in decision 05-0834 dated December 15, 2005. The 2012 decision led to a reduction in the unbundling fee from €9 to €8.80 in 2012. However, this impact will be partly offset by the effect of ARCEP decision 2013-0001 dated January 29, 2013 concerning the rate of return on capital employed to be applied for accounting for costs, and controlling the fees for France Telecom's regulated landline activities for 2013 to 2015, which will result in the unbundling fee being increased to €8.90 on May 1, 2013;
- ARCEP Decision 2012-0576 dated May 10, 2012 setting the terms and conditions applicable to mobile number portability. This decision generalized the principle of the one-step procedure, set a legally-required timeframe for portability, imposed a single procedure for accessing the operator identity statement (RIO) by calling an information server on 3179 and standardized the text message sent to subscribers requesting their operator identity statement;
- ARCEP Decision 2012-1546 dated December 4, 2012 setting the provisional contributions of operators to the cost of the universal service for 2013. The Iliad Group's contribution amounts to €765,893;
- ARCEP decisions 2012-0856, 2012-0855, 2012-0574 and 2012-0573, reorganizing the ranges of mobile phone numbers, which did not have a significant impact on the Group's operations.

The main changes in European telecommunications law were as follows in 2012:

- EU Regulation no. 531/2012 of the European Parliament and of the Council dated June 13, 2012 on roaming on public mobile communications networks within the Union. This regulation provides for two successive decreases in the maximum wholesale and retail roaming charges that may be applied, with the first decrease taking place in the summer of 2013 and the second in the summer of 2014. The 2014 maximum charge will then remain in effect until 2017 (€0.19 per minute for outgoing calls, €0.05 for incoming calls, €0.06 for SMS messages and €0.02 per Mb of data transferred). These rate caps were extended to the French overseas territories by way of a Law dated November 20, 2012;
- during the year the European Commission published on its website and submitted for an opinion to the Body of European Regulators of Electronic Communications (BEREC) a draft recommendation on the convergence of national practices concerning costing methodologies for access to landline networks. In its current form, the recommendation provides that access prices should be calculated using a bottom-up modeling approach based on a model that includes existing civil engineering assets as well as ones that will have to be constructed from scratch when building a next-generation access network. The recommendation states that the Commission expects the average monthly rental access price of the full unbundled copper local loop in the EU which will result from the application of the recommended methodology to fall within a band of prices between €8 and €10 (consequently the €8.90 price currently applicable in France already falls into this range). The recommendation also sets the costing methodology to be used for the asymmetric regulation of fiber but does not set out how the methodology for the symmetric regulation of fiber (see above for details on the symmetric model in force in France).

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. The main ARCEP decisions currently in force that are relevant to the Iliad Group 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;
- Decision 2012-0997 dated July 24, 2012 relating to an analysis of the wholesale mobile voice call termination markets of new entrant operators, including Free Mobile. Pursuant to this decision, Free Mobile has been permitted to apply asymmetric pricing until the end of the first half of 2013;
- 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. Pursuant to 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. Free Mobile's termination prices are not regulated by ARCEP. For its first year of operations in 2012, Free Mobile set its termination rate at a level slightly higher than the incumbent operators but will apply the same rate as the regulated operators in 2013. In 2013 ARCEP will embark on a further cycle of market reviews in order to assess whether call terminations of mobile operators should be regulated over the coming years;
- 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;
- Decisions adopted in the summer of 2011 and applicable until summer 2014 concerning the regulation of the broadband and ultra-fast broadband markets. ARCEP identified France Telecom Orange as the sole operator with significant power in the landline market and imposed specific obligations on it concerning access to its infrastructures (unbundling the copper local loop and access to civil engineering infrastructures). The provisions relating to the asymmetric regulation system for ducts was extended to overhead 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, ARCEP stated that bitstream pricing is now required to be cost-oriented. In late 2012 ARCEP issued an interim scorecard in which it stated that there was no need to make any adjustments to the applicable regulations until the end of the current round of market reviews. The possible adjustments required to the regulatory framework for the period from 2014 through 2016 will be made by ARCEP in 2013.

Symmetric regulation

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

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

For the optical fiber networks located in France's 148 most densely populated cities, Decision 2009-1106 regulates access to the terminal section of networks installed by operators in the risers of buildings. If they so wish, operators can co-invest in networks installed by other operators and can ask to have access to a dedicated fiber. In 2010, ARCEP issued a further decision (2010-1232) clarifying the scope of these access rights following a request to settle a dispute between Bouygues Telecom and France Telecom. 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 ultra-fast optical fiber electronic communications lines in those parts of France other than high-density population 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 Mobile 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 is required to respect the obligations applicable to all network operators pursuant to Article L. 33-1 of the French Post and Electronic Communications Code. This Code – and particularly Articles D. 98-3 to D. 98-12 – sets 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 3G network covering at least 27% of the French population by early 2012, 75% by 2015 and 90% by 2018;
- roll out a 4G network covering at least 25% of the French population by the end of 2015, 60% by 2018 and 75% by 2023;
- allow MVNOs access to its 3G and 4G mobile networks;
- 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.

In accordance with the conditions applicable for the 4G license bidding process, as a shareholder of Free Fréquences – which submitted an unsuccessful bid – 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

The applicable regulations provide that any operator of a network open to the public must enable any other operator that so wishes to interconnect with its voice network. Interconnection agreements are subject to private law but the main tariffs are set by ARCEP. Free and Free Mobile have entered into interconnection agreements with France's three incumbent mobile operators and the main national landline operators. Interconnection with other operators' networks or international networks is achieved through commercial transit agreements.

Free Mobile has also entered into reciprocal SMS and MMS interconnection agreements with France's three incumbent mobile operators as well as with several international operators and operators in the French overseas territories. SMS and MMS messages to other operators' networks are connected through the BICS international transit platform. MMS prices are not regulated and the flows exchanged between operators are generally more or less symmetrical.

Free also has access to Internet interconnections provided through (i) free peering agreements (for operators with symmetrical flows of traffic), (ii) paid peering agreements (for content suppliers with more outbound than inbound traffic), and (iii) international transit agreements enabling traffic to be exchanged with all Internet users. Internet interconnection is not regulated but in accordance with governmental order 2011-1012 dated August 24, 2011, ARCEP has the power to arbitrate any disputes.

Portability

Number portability is a symmetric obligation that applies to all operators connecting end-subscribers. Free is a member of *l'Association de la Portabilité des Numéros Fixes* (APNF) which brings together the main French operators and organizes the information flows required to ensure portability for landline numbers. 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. In 2012, ARCEP adopted a decision strengthening the regulatory framework for the mobile portability process.

Directories and provision of subscriber lists

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 sets out the technical and pricing terms and conditions applicable to supplying subscriber lists.

The Group has an electronic directory business operated under the "ANNU" brand and has entered into agreements with France's main 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 the main players operating in the directory and/or information service markets under which Free supplies a list of its subscribers (subject to any restrictive options chosen by subscribers).

Contribution to universal service funding

The operator or operators required to guarantee the provision of the 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. A new tender process will be carried out in 2013.

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'Audiovisuel,* to cover all radio and television services and set up a more flexible regulatory framework for the distribution of these services.

In its capacity as a 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 (which includes Free) has to carry certain channels, including free-to-air terrestrial channels, the TV5 channel and local public channels that provide information on local activities, and (ii) the must-carry channels have to agree to be carried by the service provider, except if they consider that the service provider's service offering is incompatible with their public service objective. This must-carry obligation also requires service providers to bear the technical costs of broadcasting the channels concerned.

Under Law no. 2007-309, like all television distributors, broadcasters of television channels 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 is calculated based on the revenue generated by broadcasting television channels via ADSL. 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.

Providers of audiovisual services on demand, such as Free, are also required to pay a tax on these services, corresponding to 2% of the related revenues net of tax (10% for adult programs).

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 OEuvres 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 relating to a communication once the communication concerned has been carried out.

Statutory provisions have also been introduced in France 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 ARJEL (France's online gaming regulator) or the Ministry of the Interior (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).

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. 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 rights-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 Oeuvres 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 offenses 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. 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 DC 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. 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 which have been recognized as assets. The French courts have now strengthened the protection of domain names as they consider that a domain name can infringe trademark rights.

7

ORGANIZATIONAL STRUCTURE

7.1 BRIEF DESCRIPTION OF THE GROUP

An overview of the Group's principal activities is provided in Chapter 6, Section 6.2 of this registration document.

The Group is organized around Iliad S.A. which acts as a holding company and performs a strategic coordination role. In this role it defines the Group's overall corporate strategy and manages its equity interests and financial strategy, including sources of financing.

The financial relations between the Group's holding company and its subsidiaries mainly consist of (i) rebillings by Iliad S.A. to subsidiaries for services and support provided in the areas of training, financial management, accounting and legal matters and (ii) dividends received by Iliad S.A. from subsidiaries.

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. Group Management is structured around a Management Committee which constitutes the Group's operational decision-making body. 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.

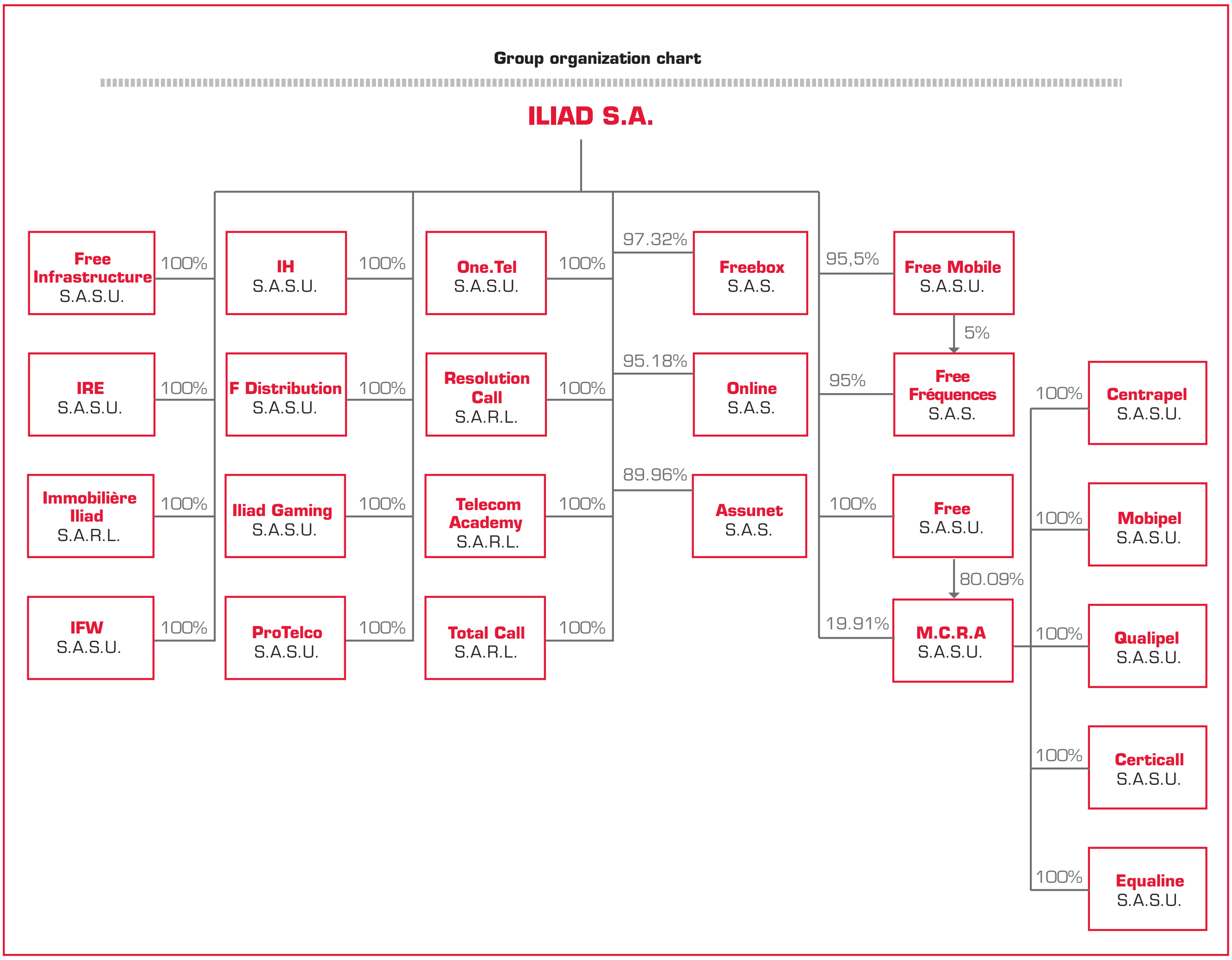
There are strong operating links between the Group's subsidiaries at several levels: (i) the Group's telecommunications network is lodged within Free and Free Mobile, which are responsible for carrying the traffic of all the Group's entities, (ii) Free and Free Mobile manage all services relating to 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.

With a view to streamlining subscriber relations operations, Iliad has reorganized its call center activities around its subsidiary MCRA which has the skills required to draw up a consistent subscriber relations strategy to be applied throughout the Group. Consequently, MCRA owns the entire share capital of the call centers.

The Group does not have any significant minority shareholders.

7.2 GROUP ORGANIZATION CHART AT DECEMBER 31, 2012

The percentage interests shown below correspond to the Company's ownership interests in the main fully consolidated companies at December 31, 2012.



See Note 35 to the consolidated financial statements (Chapter 20, Section 20.1) and Note 2.3.4 to the parent company financial statements (Chapter 20, Section 20.2) for a list of the Group's consolidated companies at December 31, 2012.

8

PROPERTY, PLANT AND EQUIPMENT

8.1 EXISTING OR PLANNED MATERIAL TANGIBLE FIXED ASSETS

The Group provides its subscribers with equipment (Freebox/AliceBox) 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. See Chapter 6, Section 6.2.1.1.2 of this registration document for further details.

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 Chapter 9, Section 9.2.3. All of these items (access and logistics fees, modem and DSLAM costs) are capitalized and depreciated over a period of five years as from the date the related assets are brought into service.

Information on the Group's other items of property, plant and equipment is provided below.

8.1.1 LONG-DISTANCE TRANSMISSION INFRASTRUCTURE

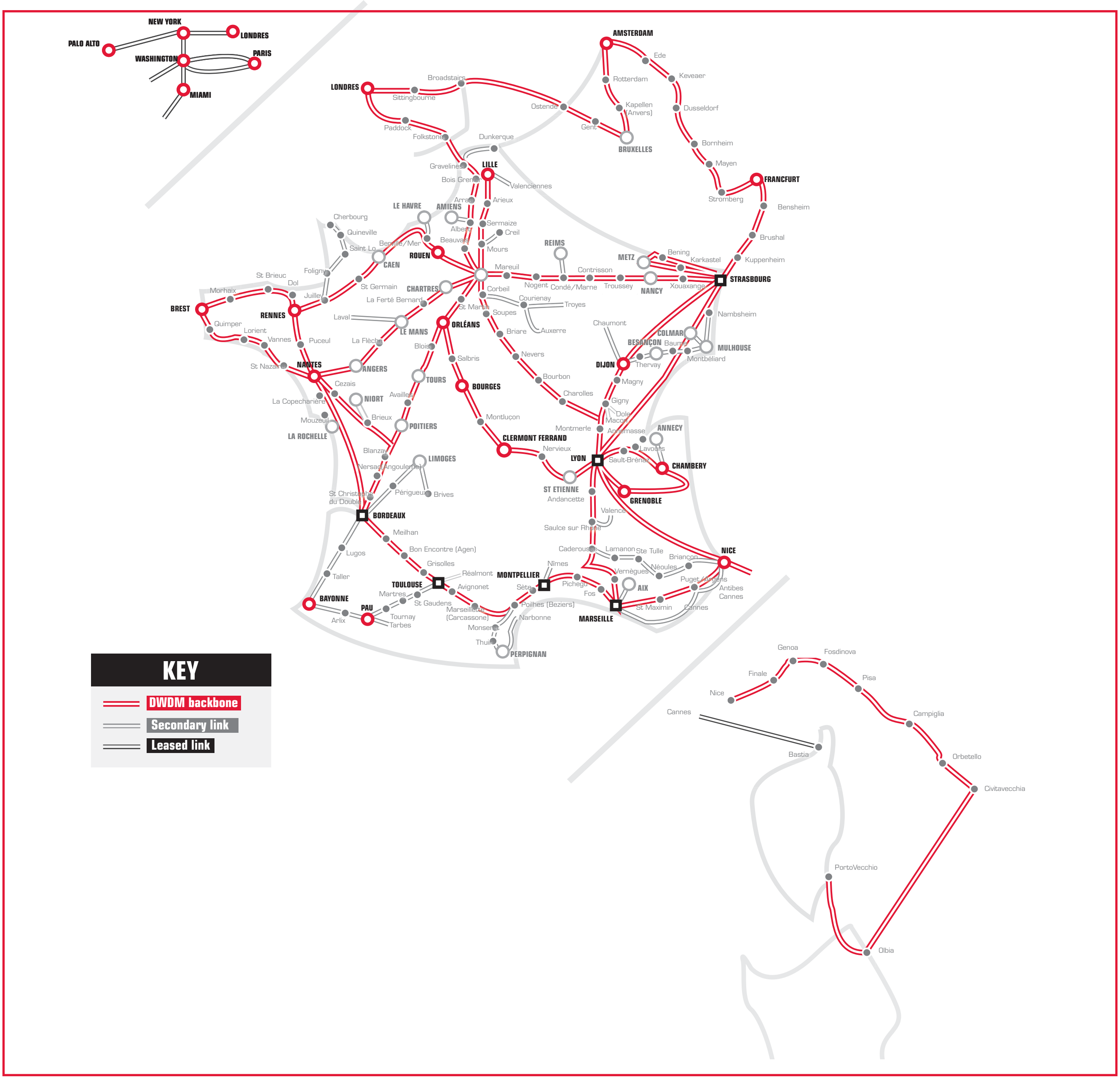
8.1.1.1 Long-distance transmission network technology

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 100 Gbits), and at least 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, 2012



The Group's network comprised some 68,400 linear km of optical fiber at December 31, 2012, compared with around 64,000 km at December 31, 2011.

8.1.1.2 Ownership of the network

The majority of the network is held under 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.

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

8.1.2 LANDLINE NETWORKS AND LOCAL LOOPS

8.1.2.1. Network interconnections and unbundling the local loop

As part of its landline business, an alternative operator has to interconnect its long-distance transmission infrastructure with local networks, up to the subscriber. This interconnection means linking together several telecommunications networks 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.

8.1.2.2 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.

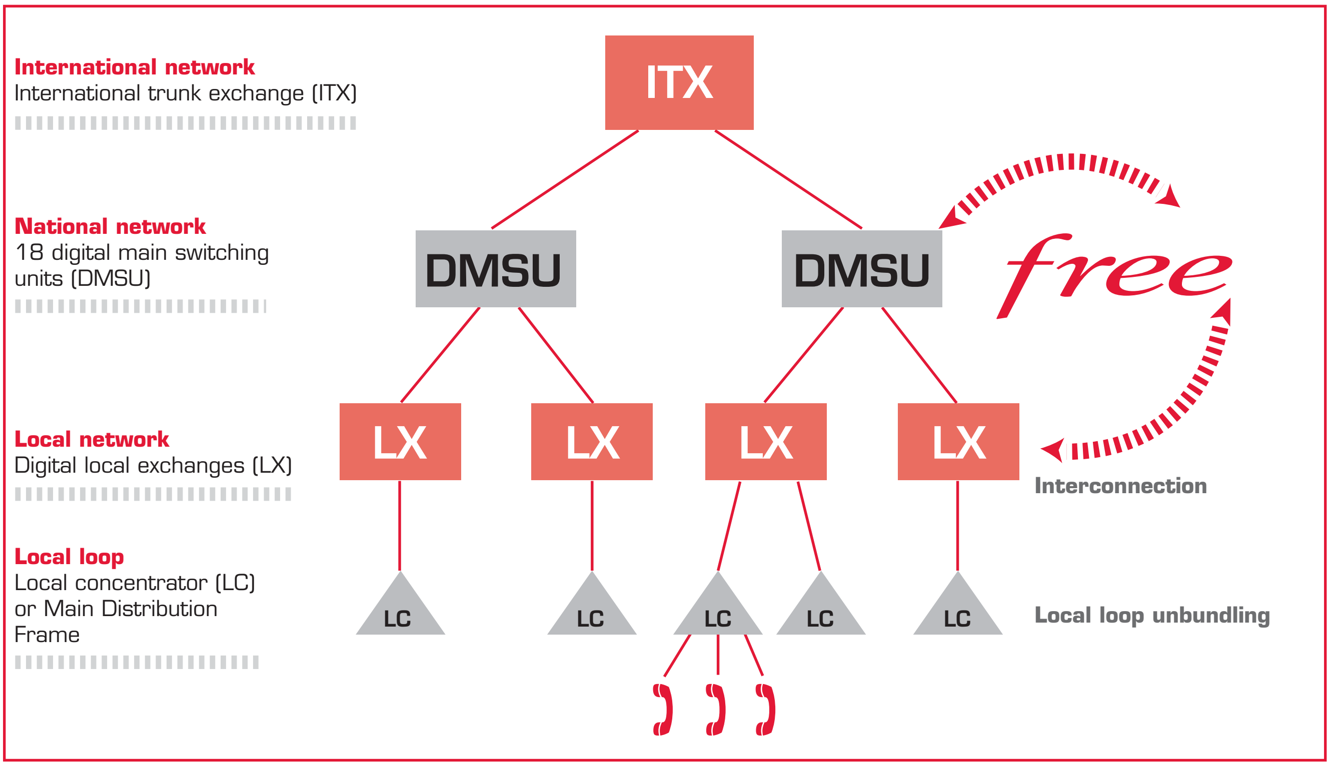
The alternative operator may also connect to the lowest hierarchical level of switches installed on the network, i.e., the digital local exchange, which is the switch closest to the user.

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 sites	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	346	371

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.



8.1.2.3 Local loop unbundling

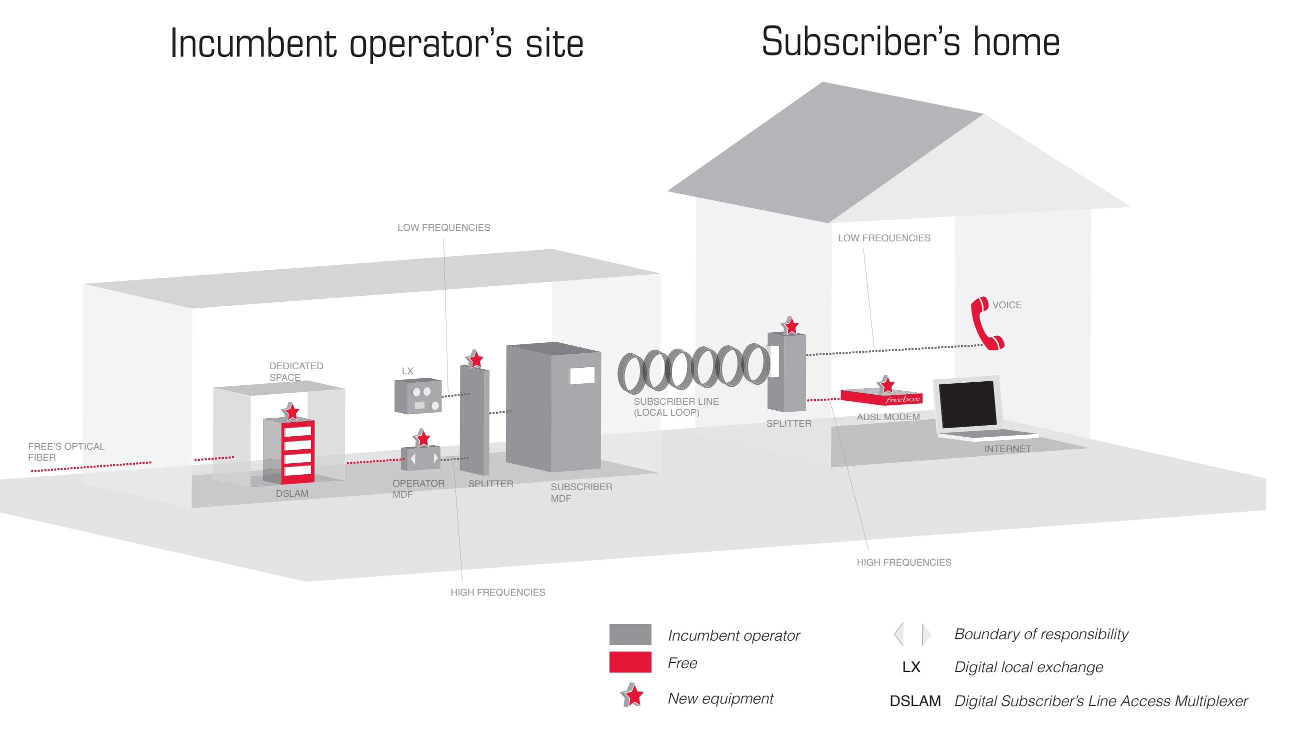
The local loop is the part of the network located between the telephone socket on the subscriber's premises and the main distribution frame (or local concentrator) to which the subscriber's line is connected.

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 diagram below 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.

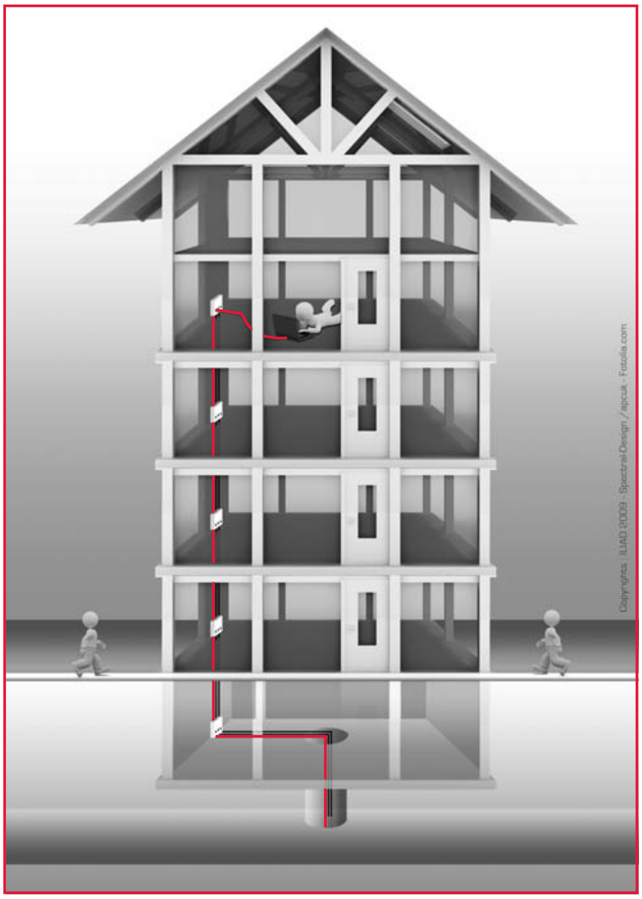
8.1.2.4 Rollout of an optical fiber local loop

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");
- "vertical rollout", i.e.:
  - laying optical fiber within buildings up to the front doors of each household or business for which the Group holds the connection agreement, or
  - connecting buildings made available by third-party operators under resource-sharing agreements;
- 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 elsewhere in France and using the incumbent operator's service offering allowing access to its existing cable ducts.

Following ARCEP's finalization in 2011 of the regulatory framework for "very high-density" areas, in 2012 the Group set up a dedicated organizational structure and specific industrial production processes for connecting up buildings made available by third-party operators through resource-sharing agreements. Consequently, Iliad expects its connections to buildings and subscribers to gradually pick up pace.

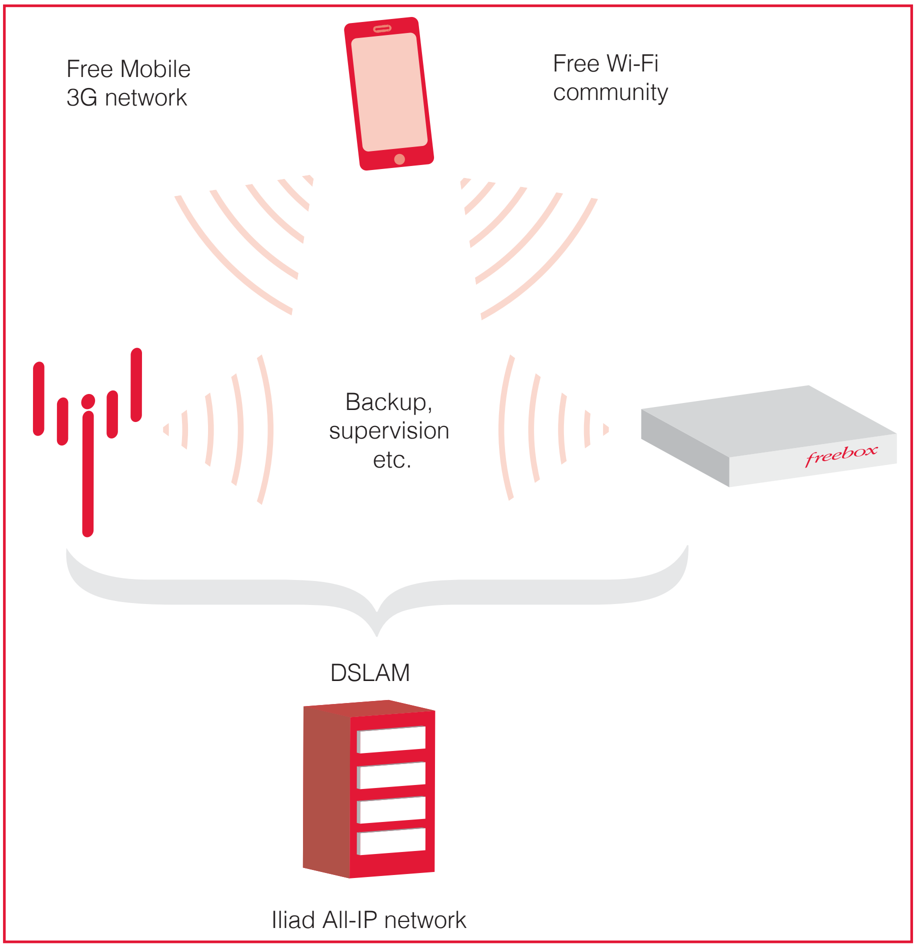
In August 2012, the Iliad Group was the first operator to take up France Telecom's third-party operator access offer for its FTTH network outside very high-density areas and therefore the first operator to commit to co-financing the FTTH network in certain urban areas proposed by the incumbent operator. This offer enables each operator to co-finance the rollout only to the extent of the lines required to serve its subscribers in the local area concerned. This pooling of resources to introduce a single network shared among the fiber optic providers and subscribers is aimed at expanding the service to a wider population.

8.1.3 ROLLOUT OF A THIRD- AND FOURTH-GENERATION MOBILE COMMUNICATIONS NETWORK

In line 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 has therefore simply been grafted onto the Group's existing network infrastructure.

Since it acquired its 3G license in January 2010, the Group has put in place a specific organizational structure to manage and oversee its network rollout process, which notably involves:

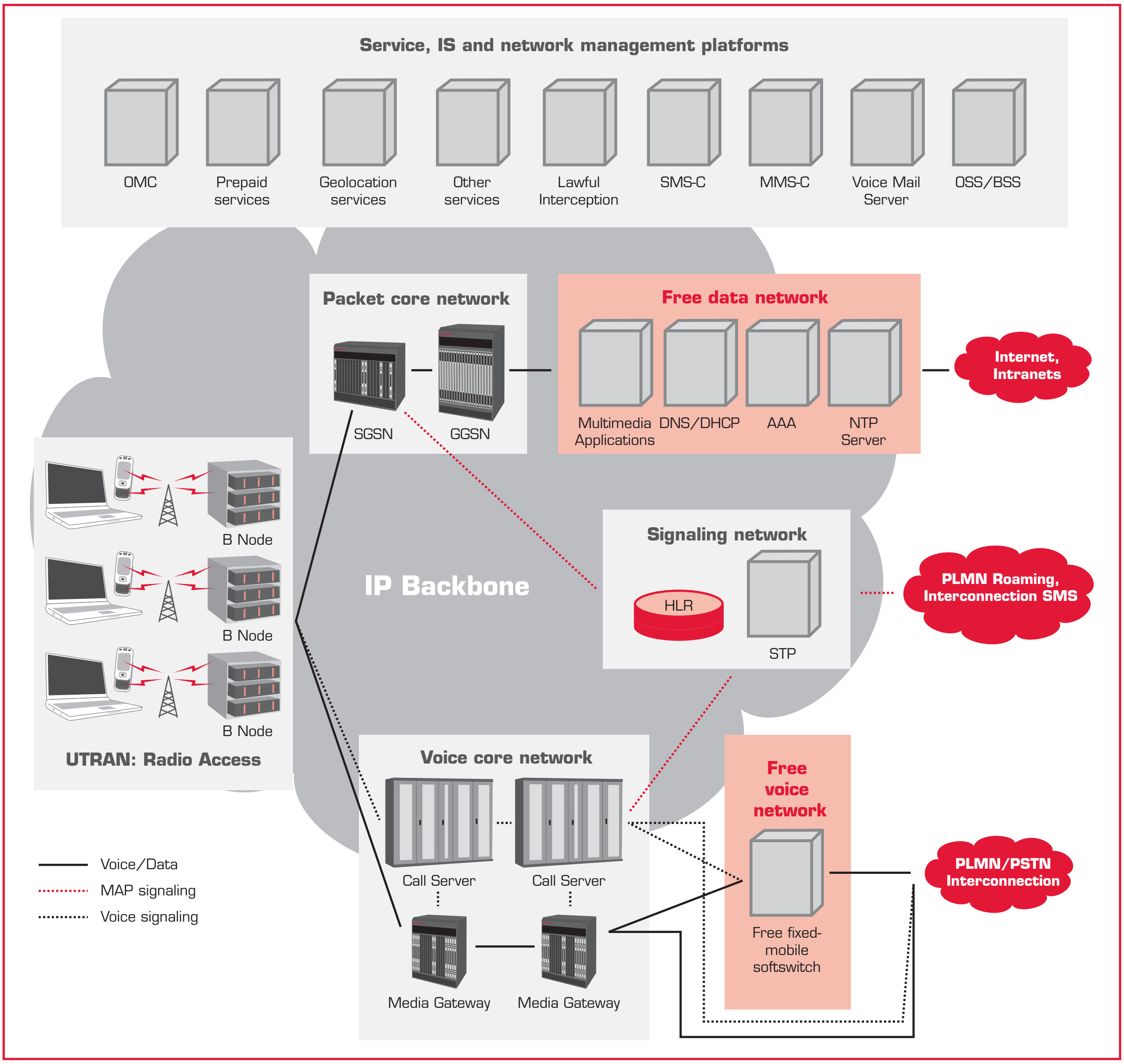
- seeking out sites, which entails site identification and reporting on each site's mobile coverage potential;
- undertaking discussions with all types of lessors, including private individuals, condominium owners, housing associations, corporate and institutional lessors, mobile operators and companies 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 permits, 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;
- monitoring the operation and maintenance of radio equipment at sites where it has been installed.

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. During 2012, the Group intensified its rollout measures, focusing wherever possible on very high-density areas. Consequently, by December 31, 2012 the Group had deployed almost 2,200 sites, giving it a population coverage level of over 40% (according to ARCEP).

8.1.3.1 Architecture of the 3G mobile network

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

DIAGRAM OF THE ARCHITECTURE OF FREEMOBILE'S 3G MOBILE NETWORK



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.

In addition, since 2011, as part of the roaming agreement signed with Orange France, the Free Mobile network has been interconnected with the Orange mobile network at three points for voice and two points for data. These interconnections between the Free Mobile and Orange France networks are necessary for carrying traffic (Internet, voice, SMS etc.) of subscribers in areas not covered by the Free Mobile network.

8.2 REAL ESTATE

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 real estate see Note 19 to the 2012 consolidated financial statements in Chapter 20, Section 20.1 of this registration document.

9

ANALYSIS OF THE GROUP'S BUSINESS AND RESULTS

9.1 KEY CONSOLIDATED FINANCIAL DATA

In € millions	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
INCOME STATEMENT			
Revenues	3,153.3	2,122.1	2,038.3
Ebitda	***921.4***	***833.4***	***798.1***
Profit from ordinary activities	411.7	498.2	477.9
Other operating income and expense, net	(6.4)	(4.6)	61.0
Operating profit	405.3	493.6	538.9
Finance costs, net	(56.8)	(46.8)	(41.7)
Other financial income and expense, net	(34.3)	(34.0)	(7.8)
Corporate income tax	(127.7)	(161.0)	(176.3)
Profit for the period	**186.5**	**251.8**	**273.2**
BALANCE SHEET			
Non-current assets	3,924.4	3,204.0	1,904.4
Current assets	772.6	600.5	516.2
Of which cash and cash equivalents	*384.2*	*357.4*	*347.5*
Assets held for sale	50.0	54.9	71.6
Total assets	**4,747.0**	**3,859.4**	**2,492.2**
Total equity	1,726.7	1,523.9	1,078.3
Non-current liabilities	1,679.8	1,466.3	1,016.0
Current liabilities	1,340.5	869.2	397.9
Total equity and liabilities	**4,747.0**	**3,859.4**	**2,492.2**
CASH FLOWS			
Net cash generated from operating activities	921.5	779.6	874.9
Net cash used in investing activities	(945.2)	(1,156.4)	(793.7)
Net change in cash and cash equivalents (excluding financing activities and dividends)	(38.0)	(391.0)	54.2
Dividends	(21.2)	(21.9)	(21.2)
Cash and cash equivalents at year-end	382.6	350.5	337.5

9.2 OVERVIEW

9.2.1 BREAKDOWN OF REVENUES

9.2.1.1 Landline revenues

Offerings and services available under the Free and Alice brands

The Group offers its subscribers the following different Internet access solutions (at prices ranging from €9.99 to €35.98 per month), 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);
- **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 60 or 108 destinations outside mainland France 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;
- Free proposes the broadest **television offering** in the market, comprising over 400 channels (of which some 60 or 185 are included in the basic packages) with 50 high definition channels;
- Free also offers its subscribers **numerous value added services** including catch-up TV, video on demand (VOD or S-VOD), subscription to Canal+ channels and video games.

In line with its image as a pioneer in technological innovation, in December 2010 Free launched the **Freebox Revolution**, which allows subscribers to connect all of their terminals and offers optimal Internet access. The Freebox Revolution also includes many innovative new services, such as the NAS server which has storage capacity of up to 250 GB accessible from anywhere at any time, a Blu-Ray™ player, and calls to all mobile numbers in mainland France.

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

The Group's 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 website hosting and the purchase and resale of domain names. These services are invoiced to customers based on an annual subscription and are 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 dedicated servers to private individuals as well as SMEs that wish to secure their data. This offering is invoiced based on a monthly subscription;
- **server collocation services**, which consist of providing physical space in fully secure and accessible data centers.

9.2.1.2 Mobile revenues

Since January 10, 2012, the Group has proposed two simple value-for-money mobile offerings:

- **a €2/month no-contract offering (€0 for Freebox subscribers)** for 120 minutes of voice calls per month in mainland France and to French overseas departments (*départements d'outre-mer* – DOM) and 40 destinations outside mainland France, as well as unlimited SMS messages in mainland France and unlimited access to the FreeWiFi network. This plan – which also includes services such as voice mail, caller display and usage monitoring – was primarily designed for subscribers wanting to make voice calls at competitive prices. Under the plan, subscribers can opt for extra minutes as well as for calls to additional foreign countries and access to the Data 3G and MMS option;
- **a €19.99/month no-contract offering (€15.99/month for Freebox subscribers)** with unlimited voice calls, SMS, MMS and Internet upto 3 Go (fair usage policy with speeds slowed once 3 Go is reached). All subscribers to this plan can make unlimited calls to landlines in 40 destinations outside mainland France and to mobiles in Canada and the United States (including Alaska and Hawaii) and French overseas departments, and also have unlimited access to the FreeWiFi network.

In tandem, the Group offers a **selection of the best mobile phones in the market**, including top of the range Apple and Samsung phones. With a view to being as transparent as possible, Free sells its phones separately from its subscriptions, which means that subscribers can opt for whichever plan and phone they prefer, or can choose not to purchase a phone at all. Subscribers who do purchase a phone can either pay for it upfront or in several installments (over 4, 12, 24 or 36 months). In both cases, the Group recognizes the corresponding revenue when the phone is sold.

9.2.2 THE GROUP'S MAIN OPERATING COSTS

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

- **Option 1** (subscribers on an unbundled line), whereby the Group markets services entirely on its own network (excluding the local loop).

  Under Option 1, direct costs per subscriber and per month, as mentioned in the basic unbundling offer, were as follows at December 31, 2012:

  - **operating costs (partial unbundling):**
    - rental of the copper pair and the ADSL splitter: €1.57,
    - other costs (backhaul cables, room rental, optical fiber leasing payments, etc.): €1.86,
  - **operating costs (full unbundling):**
    - rental of the copper pair: €8.80 (1),
    - other costs (backhaul cables, room rental, optical fiber leasing payments, etc.): €1.86,
- **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 respective monthly fees for the "DSL Access" and "DSL Access Only" services are €4.21 (applicable since January 1, 2012) and €12.55 (since February 1, 2012).

  Option 5 costs also include IP transit service costs which vary depending on the bit rate used by all Option 5 subscribers. The price terms applicable in 2012 were as follows:

  - usage fee per Mbps: €12.00,
  - access fees: €4.44.

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.

9.2.2.2 Mobile call termination charges

In its decision dated July 27, 2012, ARCEP (the French electronic communications regulatory authority) set the following mobile call termination rates for the period from July 1, 2012 through December 31, 2013.

In € cents	Second-half 2012	First-half 2013	Second-half 2013
Orange	1.0	0.8	0.8
SFR	1.0	0.8	0.8
Bouygues	1.0	0.8	0.8
FREE MOBILE	**1.6**	**1.1**	**0.8**

9.2.2.3 Roaming charges

The Group has to pay roaming charges for areas that are not directly covered by Free Mobile's own network. The roaming services provided to the Group are defined in a roaming agreement signed with France's incumbent operator during the first half of 2011. This agreement has a six-year term commencing from the commercial launch of the Group's mobile offerings and applies to 2G and 3G technologies. It was amended in 2012 – notably in relation to interconnection capacity – to take into account the increase in mobile subscriber numbers.

The charges provided for in the roaming agreement include (i) a fixed portion corresponding to the purchase of a right of use for the period (which is recognized as capital expenditure in accordance with IFRS), and (ii) a variable portion based on volumes (minutes, SMS, MMS, Internet etc.). The volume-based variable portion represents the majority of the roaming charges paid by the Group.

As both gross margin and Ebitda margin are significantly higher for Free Mobile's own-network traffic than for roaming traffic, the Group's objective is to maximize the proportion of traffic carried directly on its own network by pursuing the rollout targets described in section 9.5.1 below.

(1) As from May 1, 2013, the monthly subscription cost will be €8.90.

9.2.3 CAPITAL EXPENDITURE AND DEPRECIATION

9.2.3.1 Broadband

Since the early 2000s, the Group has focused on rolling out its telecommunications network in mainland France, choosing to build a single network based on an 802.3 physical layer (Ethernet) using the various available speeds (100 Mbps, then 1 gigabit, 10 gigabits and 100 gigabits per second). In less than 15 years, having laid over 68,000 km of fiber, it has rolled out one of the largest IP networks in France, both in terms of coverage and traffic volumes.

A portion of the underlying optical fiber for this network is operated 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. In 2012, the cost of a Freebox Revolution was around €275;
- fees invoiced by the incumbent operator for access to unbundling services are €56 per subscriber for full unbundling and €66 for partial unbundling.

All of the above-described items (Freebox modems, access fees and logistics costs) are depreciated over a period of five years.

Under Option 5, total capital expenditure is lower as the majority of new subscribers are provided with Freebox HD version 5 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: €56.00;
- fees for access to the DSL Access Only service: €61.00;
- 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, 2012 the Group had 229 such sites. These ONs represent potential coverage of approximately 3.4 million FTTH plugs.

The horizontal rollouts are undertaken either by the Group's own teams or by subcontractors. In 2012, the Group completed its rollouts in those areas where work had already started in 2011.

Following ARCEP's finalization in 2011 of the regulatory framework for "very densely populated" areas, the Group set up a dedicated organizational structure and specific industrial production processes for connecting up buildings made available by third-party operators through rollout pooling agreements. As a result, the pace of building connections picked up in 2012 in areas where the horizontal rollout process was already completed. Consequently, the number of homes eligible for an FTTH offering is growing, which will in turn push up the level of subscriber connections.

In August 2012, the Iliad Group was the first operator to take up France Telecom's third-party operator access offer for its FTTH network outside very densely populated areas and therefore the first operator to commit to co-financing the FTTH network in certain urban areas proposed by the incumbent operator. This offer enables each operator to co-finance the rollout only to the extent of the lines required to serve its subscribers in the local area concerned. This pooling of resources to introduce a single 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 network of mobile masts

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, 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, mobile operators 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 permits 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;
- monitoring the operation and maintenance of radio equipment at sites where it has been installed.

By putting in place this structure, the Group has been able to achieve direct coverage of more than 27% of the French population in less than two years. 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. This meant that Free Mobile was permitted to launch its first commercial offerings.

During 2012, the Group intensified its rollout measures, focusing wherever possible in densely populated areas. Consequently, by December 31, 2012 the Group had deployed almost 2,200 sites, giving it a population coverage level of over 40% (according to ARCEP"s definition).

In view of the progress of its rollouts, the Group is standing by the objectives set in connection with Free Mobile's commitments to ARCEP, namely to achieve coverage levels of 75% of the French population by 2015 and 90% by 2018.

The Group continued to proactively invest in its mobile business throughout the course of 2012. The main outlay during the year related to the deployment and connection of some 1,500 new sites, rollout of the core and backhaul networks and information systems, and payment of the fixed portion of the charges due for the year under the roaming agreement.

Following the commercial launch of its mobile business, the Group began to depreciate/amortize the various assets brought into service in 2012 (license, radio equipment, etc.) The depreciation/amortization periods applied are as follows:

- 3G license: 18 years;
- network equipment: 4 years;
- other equipment and assets: 6 years.

9.3 SIGNIFICANT EVENTS OF THE YEAR

In € millions	December 31, 2012	December 31, 2011	% change
Consolidated revenues	**3,153.3**	**2,122.1**	**48.6%**
- Landline	2,321.4	2,122.1	9.4%
- Mobile	843.9		
- Inter-segment sales	(12.0)		
Consolidated Ebitda	**921.4**	**833.4**	**10.6%**
- Landline	967.5	833.4	16.1%
- Mobile	(46.1)		
Profit from ordinary activities	**411.7**	**498.2**	**-17.4%**
Profit for the period	**186.5**	**251.8**	**-25.9%**
Free Cash Flow from ADSL operations	**508.8**	**307.0**	**65.7%**
LEVERAGE RATIO	**1.16X**	**1.16X**	**-**

The year 2012 was marked by the Group's transformation from a landline operator to an integrated (landline and mobile) player, thanks to the launch of its mobile offerings. This change was accompanied by very strong growth, driven by (i) the commercial success of our mobile offerings, with 5.2 million subscribers in less than a year, (ii) an outstanding showing from the landline business, with net adds coming in at 515,000, and (iii) another robust financial performance which enabled us to maintain a solid balance sheet structure.

- **A successful debut for the Group's mobile offerings**, with over 5.2 million subscribers in less than a year – representing a near-8% market share – and over €840 million in revenues;
- **Continuation and acceleration of the landline business's virtuous circle of profitable growth.** In line with Group objectives, 2012 saw our landline business step up its pace of growth, with revenue climbing 9.4% versus 4.1% in 2011. At the same time, the Group boosted its profitability by continuing to focus on unbundling and optimizing the fixed cost base. As a result, Ebitda margin for the landline business came in at a record 41.7%;
- **Solid financial structure and performance.** At over €921 million, consolidated Ebitda was up 11% on 2011, with sharp growth in the landline business enabling the Group to offset the adverse impact of the negative Ebitda contribution from its mobile business.

Profit from ordinary activities amounted to €412 million in 2012, down 17% year on year. The decrease was primarily due to the beginning of depreciation/amortization for the Group's mobile assets (network, license, roaming charges etc.) and, to a lesser extent, depreciation/amortization related to optical fiber and the Freebox Revolution.

In view of the above, profit for the period stood at €187 million versus €252 million in 2011.

At a negative €38 million, consolidated Free Cash Flow (excluding financing activities and dividends) was more or less at breakeven and reflected the combined impacts of the following:

- a 28% rise in operating Free Cash Flow, which topped €1.1 billion in 2012, including a €131 million change in working capital requirement,
- total capital outlay of €945 million during the year due to an ongoing proactive capital expenditure policy,
- a sharp 66% jump in Free Cash Flow from ADSL operations to €509 million. This brought the aggregate figure for the 2010-2012 period to €1.25 billion, in excess of the Group's original target of at least €1.1 billion,
- payment of the 2011 dividend amounting to €21 million.

9.4 COMPARISON OF RESULTS FOR 2012 AND 2011

In € millions	December 31, 2012	December 31, 2011	% change
Revenues	**3,153.3**	**2,122.1**	**48.6%**
Purchases used in production	(1,668.4)	(951.7)	75.3%
Gross profit	**1,484.9**	**1,170.4**	**26.9%**
As a % of revenues	***47.1%***	***55.2%***	
Payroll costs	(170.2)	(129.0)	31.9%
External charges	(192.3)	(147.3)	30.5%
Taxes other than on income	(29.8)	(17.3)	72.3%
Additions to provisions	(148.1)	(29.6)	-
Other income and expenses from operations, net	(23.1)	(13.8)	67.4%
Ebitda	***921.4***	***833.4***	***10.6%***
As a % of revenues	***29.2%***	***39.3%***	**-**
Share-based payment expense	(10.4)	(10.0)	4.0%
Depreciation, amortization and provisions for impairment of non-current assets	(499.3)	(325.2)	53.5%
Profit from ordinary activities	**411.7**	**498.2**	**-17.4%**
Other operating income and expense, net	(6.4)	(4.6)	39.1%
OPERATING PROFIT	405.3	493.6	-17.9%
Finance costs, net	(56.8)	(46.8)	21.4%
Other financial income and expense, net	(34.3)	(34.0)	0.9%
Corporate income tax	(127.7)	(161.0)	-20.7%
PROFIT FOR THE PERIOD	**186.5**	**251.8**	**-25.9%**

9.4.1 ANALYSIS OF CONSOLIDATED RESULTS

9.4.1.1 Key indicators

	December 31, 2012	December 31, 2011	December 31, 2010
Total mobile subscribers	**5,205,000**	**-**	**-**
Total broadband subscribers	**5,364,000**	**4,849,000**	**4,534,000**
- Free	5,173,000	4,461,000	3,969,000
of which migrations from Alice to Free	*140,000*	*85,000*	-
- Alice	191,000	388,000	565,000
Percentage of unbundled subscribers	**94.10%**	**92.20%**	**89.20%**

In €	December 31, 2012	December 31, 2011	December 31, 2010
Broadband ARPU	**36.0**	**35.5**	**36.1**
Freebox Revolution ARPU	*> 38.0*	*> 38.0*	-

9.4.1.2 Revenues

Consolidated revenues for the year ended December 31, 2012 topped €3 billion, up by almost 50% on 2011. This very strong increase is attributable to the outstanding sales performance turned in by the landline business as well as the success of the Group's mobile offerings since their launch on January 10, 2012.

The table below shows the breakdown of revenues by business and category for 2012 and 2011 as well as the percentage change between the two years.

In € millions	December 31, 2012	December 31, 2011	% change
Landline	**2,321.4**	**2,122.1**	**9.4%**
Mobile	**843.9**	**-**	**-**
Telecom services	*719.5*		
Terminals	*124.4*		
Intra-group sales	(12.0)	-	-
TOTAL CONSOLIDATED REVENUES	**3,153.3**	**2,122.1**	**48.6%**

Landline revenues

Landline revenues advanced from €2,122 million in 2011 to €2,321 million in 2012, representing growth of more than 9% for the year as a whole and driven by an increase of over 10% in the second half alone. The year-on-year rise primarily reflects the impacts of the following:

- **an outstanding sales performance in 2012.** The Group's landline business delivered a record showing, with 515,000 new subscribers during the year (net of terminations and excluding migrations from Alice) and a market share of net adds at close to 50%. This achievement demonstrates the strong reputation of the Free brand, the appeal of the Freebox Revolution offering and the significant revenue synergies leveraged between our landline and mobile businesses. At December 31, 2012, the Group had a total 5,364,000 broadband subscribers;
- **solid broadband ARPU at end-December 2012**, up by nearly €0.50 year on year to €36. After two years of flat ARPU this rise was achieved thanks to the success of the Freebox Revolution offering and despite revenue pressure triggered by lower call termination charges and an increase in VAT;
- **acceleration 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). Some 140,000 Alice subscribers took up this option during 2012, compared with 85,000 in 2011.

Mobile revenues

The year 2012 saw the commercial success of the Group's mobile offerings. The mobile business generated €844 million in revenues in less than a year, including €124 million from sales of terminals. This performance was propelled by the following factors:

- **the commercial success of the innovative mobile offerings proposed by Fre**e, which enabled the Group to attract 5,205,000 subscribers – representing a near-8% share of the French mobile market – in less than a year;
- **an even distribution of subscriptions** between the two available plans, between the Free community and newcomers, and between subscriptions with mobile number portability and those with a new phone number assigned.

Inter-segment sales

Inter-segment sales correspond to sales between companies from the Group's two different businesses and mainly consist of billings of interconnection operations. They are eliminated in consolidation.

9.4.1.3 Gross profit

Consolidated gross profit came to €1,485 million in 2012, up 27% on 2011. As a percentage of revenues, however, it decreased by nearly 8 points due mainly to the dilutive impact of the mobile business. The main factors affecting gross profit during the year were:

- **the positive effects of lower operating costs and a rise in the unbundling rate.** The Group continued its drive to extend its ADSL network in 2012 and opened over 700 new connection nodes, pushing up its unbundling rate by almost 2 points to over 94% at the year-end;
- **higher gross profit on Freebox Revolution subscriptions.** Following on from the slight reduction in gross profit for the Group's landline business in 2011 – due to the considerable success of the Freebox Revolution offering and the high number of calls made to mobiles – gross profit on Freebox Revolution subscriptions increased in 2012 as a result of the reductions in mobile call termination charges introduced in January and July 2012;
- **dilutive impact of the mobile business on gross margin.** As the Group expected, its mobile business had a dilutive impact on gross margin;
- **synergies leveraged between the landline and mobile businesses.** The rapid development of the Group's mobile business has enabled it to fully leverage its new status as an integrated operator, especially concerning interconnection charges for intra-group calls.

9.4.1.4 Payroll costs

Subscriber relations are a key priority for the Group, which is why it opted from the very beginning to develop its own call centers, which are mainly based in France. A major recruitment campaign was carried out in mainland France in 2012 to support both the rapid development of the mobile business and sustained growth in the landline business.

In addition, with a view to strengthening its local subscriber service, the Group has begun to roll out a distribution network based on physical sales outlets. At end-2012 it had 15 stores (Free Centers) located in France's major towns and cities, with the flagship store based in Paris.

In all, some 900 employees were recruited and trained during the year, raising the Group's total headcount to 6,506 at December 31, 2012.

Consequently, payroll costs (excluding employee benefits and capitalized costs) increased by 32% to €170 million.

All of these efforts to enhance our subscriber relations were recompensed by the high rankings and prizes awarded to the Group in numerous surveys carried out in 2012, including:

- a survey published in May 2012 by France's largest consumer association (UFC – Que Choisir), which ranked Free no. 1 for consumer satisfaction (with a rate of 92.3%);
- a TNS Sofres/Bearing Point survey, which awarded Free first prize in the Podium 2012 customer relationship management awards for mobile telephony[(1)];
- a KPAM survey, which ranked Free the best hotline experience for French consumers in the ISP/telecommunications operator category (June 2012);
- a customer satisfaction survey published by the consumer association 60 millions de consommateurs in September 2012, in which Free ranked number one with a subscriber satisfaction rate of over 94%;
- a TestnTrust survey issued in December 2012, which put Free in first place for subscriber satisfaction in the ISP/telecommunications operator category for the third quarter in a row.

9.4.1.5 External charges

The Group's external charges came to €192 million in 2012 versus €147 million in 2011. This item mainly includes the costs of network maintenance, equipment hosting, insurance, advertising and sub-contracting.

9.4.1.6 Taxes other than on income

Taxes other than on income rose by some €13 million year on year to €30 million.

9.4.1.7 Additions to provisions

Additions to provisions – which include provisions for bad debts, impairment of inventories and contingencies and charges – totaled €148 million in 2012. This reflects the strict policy put in place when the Group's mobile operations were launched concerning the recognition of provisions for certain expenses, claims and litigation, and bad debts, because the mobile business is in its start-up phase and is growing rapidly.

9.4.1.8 Other income and expenses from operations, net

This item represented a net expense of €23 million (€14 million in 2011), corresponding to 0.7% of consolidated revenues.

9.4.1.9 Ebitda

Consolidated Ebitda rose 11% year on year to over €921 million, with the strong performance from the landline business more than offsetting the negative Ebitda contribution from the mobile business, which is in its start-up phase.

However, as a percentage of revenue, Ebitda losses caused by the mobile launch caused the consolidated Ebitda margin to narrow by 10 points to 29.2%.

Landline

Ebitda from the landline business totaled €968 million, up by more than 16% on 2011. In addition, thanks to the increase in gross profit on Freebox Revolution subscriptions, the ongoing rise in the percentage of unbundled subscribers and the economies of scale achieved in relation to the fixed cost base during the year, the landline business posted a 2.4-point year-on-year increase in its Ebitda margin to 41.7%. For the second half alone the Ebitda margin for this business was a record 42.3%.

Mobile

Despite the resounding commercial success and high growth rate of the mobile business in 2012, the Group managed to restrict its start-up Ebitda loss to just €46 million due to (i) major synergies leveraged between the mobile and landline businesses and (ii) the rise in the coverage rate of Free Mobile's network for voice, SMS and data traffic throughout the course of the year.

9.4.1.10 Profit from ordinary activities

Profit from ordinary activities contracted 17% year on year, coming in at €412 million. The decrease was primarily due to the beginning of depreciation/amortization for the Group's mobile assets (network, license, roaming charges etc.) and, to a lesser extent, depreciation/amortization related to optical fiber and the Freebox Revolution.

9.4.1.11 Profit for the period

In view of the above, profit for the period retreated 26% to €187 million in 2012 from €252 million the previous year.

(1) This survey was carried out between March 30 and April 9, 2012 among customers choosing Free mobile call plans taken from a sample of 4,000 individuals.

9.4.2 CASH FLOWS AND CAPITAL EXPENDITURE

In € millions	December 31, 2012	December 31, 2011	% change
Consolidated cash flow	**987.2**	**828.9**	**19.1%**
Change in working capital requirement	130.8	47.9	173.1%
Operating Free Cash Flow	**1,118.0**	**876.8**	**27.5%**
Net cash used in investing activities	(945.2)	(1,154.5)	-18.1%
Income tax paid	(196.5)	(97.1)	102.4%
Other	(14.3)	(16.2)	-11.7%
Consolidated Free Cash Flow (excluding financing activities and dividends)	**(38.0)**	**(391.0)**	**-**
Free Cash Flow from ADSL operations	**508.8**	**307.1**	**65.7%**
Dividends	(21.2)	(21.9)	-3.2%
CASH AND CASH EQUIVALENTS AT YEAR-END	**382.6**	**350.5**	**9.2%**

Consolidated Free Cash Flow

Consolidated Free Cash Flow was almost breakeven in 2012, representing a negative €38 million versus a negative €413 million in 2011. This year-on-year change mainly reflects the following:

- a 28% rise in operating Free Cash Flow, which topped €1.1 billion in 2012, including a €131 million change in working capital requirement;
- total capital outlay of €945 million during the year due to an ongoing proactive capital expenditure policy;
- a sharp 66% jump in Free Cash Flow from ADSL operations to €509 million; this brought the aggregate figure for the 2010-2012 period to €1.25 billion, in excess of the Group's original target of at least €1.1 billion;
- payment of the remaining tax due for 2011 and all of the tax due for 2012, representing a combined amount of €197 million.

Net change in cash and cash equivalents

The Group ended 2012 with €383 million in available cash and cash equivalents. Excluding the operating items presented above, the main changes in cash and cash equivalents during the year related to:

- the redemption on January 2, 2012 of the unconverted portion of the Group's convertible bond issue, representing €128 million;
- the start-up of a commercial paper program, of which €191 million had been used at December 31, 2012;
- a new loan granted by the EIB (€200 million) on August 27, 2012, of which €100 million had been drawn down at December 31, 2012.

9.4.3 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, 2012, the Group had gross debt of €1,448 million and net debt of €1,064 million. Despite the launch of its mobile business during the year and the commercial success of its ADSL offerings, the Group maintained a solid financial structure and kept its leverage ratio stable at 1.16x at December 31, 2012. This very prudent level enabled Iliad to retain its position as one of the European telecom operators with the least amount of debt.

The Group's gross debt primarily comprised the following at December 31, 2012:

A €500 million short-term commercial paper program

During the first half of 2012, the Iliad Group set up a €500 million commercial paper program in order to diversify the sources and maturities of its financing. This program had been used in an amount of €191 million at December 31, 2012.

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 €350 million had been drawn down at December 31, 2012;
- a revolving tranche of €800 million expiring in June 2015. None of this tranche had been drawn down at December 31, 2012.

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.

A €150 million loan granted by the European Investment Bank (EIB) in 2010

The EIB granted Iliad a €150 million loan in order to help finance the rollout of the Group's ADSL and FTTH networks between 2010 and 2012. This loan – which is repayable in installments with a final maturity in July 2020 – had been fully drawn down at December 31, 2012.

A €200 million loan granted by the European Investment Bank (EIB) in 2012

Following on from the loan granted in 2010, the EIB extended its partnership with Iliad in 2012 by granting it another loan (€200 million) to help finance the Group's capital expenditure between 2012 and 2014. This loan – which is also repayable in installments and matures in July 2022 – had been drawn down in an amount of €100 million at December 31, 2012.

At December 31, 2012 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, 2012, the Group's total obligations under finance leases amounted to €95 million.

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 at maturity on June 1, 2016.

9.5 ADDITIONAL INFORMATION

9.5.1 STRATEGIC OBJECTIVES

With a view to continuing to implement its strategy of achieving profitable growth, the Group has set itself the following objectives:

- Landline:
  - achieve a 25% share of the landline broadband market in the long term;
  - pursue horizontal FTTH rollouts and co-financing arrangements;
  - grow revenues by more than 5% in 2013.
- Mobile:
  - continue and intensify site rollouts;
  - reach obligatory coverage rate of 75% of the French population by end-2014;
  - achieve a 15% market share in the medium term with a long-term goal of 25%.
- Group:
  - generate revenues of over €4 billion by 2015.

9.5.2 EVENTS AFTER THE REPORTING PERIOD

None.

10
CAPITAL RESOURCES

The main information on cash flows, debt and equity is provided in Chapter 9 of this registration document, notably in Sections 9.4.2 and 9.4.3.

At December 31, 2012, the Group's leverage ratio (net debt to Ebitda) was 1.16 times.

Further information on capital resources is provided in Chapter 4, Section 4.3.2 of this registration document as well as in Notes 25 and 28 to the consolidated financial statements (Chapter 20, Section 20.1).

11

RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

11.1 RESEARCH AND DEVELOPMENT

The Iliad Group devotes significant resources to creating innovative products and services within the information and communication technologies sector. Its research and development policy is structured around two main objectives: (i) offering differentiated services to subscribers through dedicated equipment, (ii) and reducing costs relating to the construction and operation of its network.

It is with these objectives in mind that the Group develops new generations of Freebox modems that incorporate the latest technical innovations, and is rolling out innovative xDSL, optical fiber and mobile network equipment.

Research an development expenditure includes research work, the costs of creating new products, and expenses incurred for changing and adapting existing products. The Group also 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 Linux software applications which are used by all Group companies.

In 2012 the Group spent €8.5 million on R&D for its broadband, optical fiber and mobile activities.

11.2 INTELLECTUAL PROPERTY

11.2.1 PATENTS

At the date of this registration document, the Group had filed 24 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 Chapter 4, 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 landline business and the development of its Mobile business.

Information concerning events after the balance sheet date of December 31, 2012 is presented in Chapter 9, Section 9.4.2 of this registration document and Note 34 to the consolidated financial statements presented in Chapter 20, Section 20.1.

13

PROFIT FORECASTS OR ESTIMATES

The Company does not issue any profit forecasts or estimates.

However, it has issued the following objectives:

- Landline:
  - Achieve a 25% share of the landline broadband market in the long term;
  - Pursue horizontal FTTH rollouts and co-financing arrangements;
  - Grow revenues by more than 5% in 2013.
- Mobile:
  - Continue and intensify rollouts;
  - Reach a coverage rate of 75% of the French population by end-2014;
  - Achieve a 15% market share in the medium term with a long-term goal of 25%.
- Group:
  - Generate revenues of over €4 billion by 2015.

14

ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

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 General rules relating to Board membership

The Company's Board of Directors considers that its corporate governance practices are in line with the AFEP-MEDEF Corporate Governance Code for listed companies in France.

The Board conducts its work in a collegial way and in an ethical manner, respecting all applicable laws, regulations and recommendations.

It comprises a minimum of three and a maximum of eighteen members elected by shareholders on the Board's recommendation. Directors may be removed from office at any time by a decision of the shareholders. In accordance with the Company's bylaws, each director must own at least 100 of the Company's shares, which must be held in registered form.

At the date this registration document was filed, the Board of Directors had eleven members, listed below, including three women and six independent directors. 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.

14.1.1.2 Senior directors

Iliad's directors come from a wide range of professional backgrounds and have a broad array of complementary skills and expertise, which is a great asset both for the quality of Board discussions and the decisions it has to make.

The following information is presented on an individual basis for each director:

- the names of the members of the Board of Directors at December 31, 2012, the date on which they were first elected and the expiration date of their current term of office, 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;
- their experience and expertise in corporate management.

At the Annual General Meeting of May 24, 2012, shareholders renewed the directorships of Marie Christine Levet and Thomas Reynaud for four-year terms, expiring at the close of the Annual General Meeting to be called to approve the financial statements for the year ending December 31, 2015.

Cyril Poidatz

Chairman of the Board of Directors since December 12, 2003

Aged 51, 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.

Expiration of current term(1)	Main positions and directorships held outside the Group	Positions and directorships that have expired in the past five years(2)
2012	N/A	N/A

(1) Term of office expiring at the close of the Annual General Meeting called to approve the financial statements for the year stated.
(2) In companies other than Group subsidiaries.

Maxime Lombardini

Chief Executive Officer and a director since May 29, 2007

Aged 47, French nationality

Maxime Lombardini has been Chief Executive Officer and a director of the Iliad Group since 2007. Before joining Iliad he was with the Bouygues group in which he held successive positions from 1989 as General Secretary of TPS (satellite television), Development Director of TF1 and Chief Executive Officer of TF1 Production. Mr. Lombardini is a graduate of Sciences Po Paris and holds a degree in business and tax law from the University of Paris II.

Expiration of current term(1)	Main positions and directorships held outside the Group	Positions and directorships that have expired in the past five years(2)
2014	N/A	N/A

(1) Term of office expiring at the close of the Annual General Meeting called to approve the financial statements for the year stated.
(2) In companies other than Group subsidiaries.

Antoine Levavasseur

Senior Vice-President and a director since May 27, 2005

Aged 36, 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 as well as operating and developing the email platforms, web servers and applications used by subscribers.

Expiration of current term(1)	Main positions and directorships held outside the Group	Positions and directorships that have expired in the past five years(2)
2012	N/A	N/A

(1) Term of office expiring at the close of the Annual General Meeting called to approve the financial statements for the year stated.
(2) In companies other than Group subsidiaries.

Xavier Niel

Senior Vice-President and a director since December 12, 2003

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.

In March 2013, Mr. Niel created 42 – a revolutionary IT school which strives to train large numbers of computer specialists required by innovative companies.

42 is based on the "peer-to-peer learning" strategy and offers free training to everyone.

Expiration of term of office(1)	Main positions and directorships held outside the Group	Positions and directorships that have expired in the past five years(2)
2012	Director of Ateme S.A. Legal Manager of Élysées Capital Legal Manager of Sons Member of the Supervisory Board of Le Monde S.A. Member of the Supervisory Board of Éditrice du Monde S.A. Chairman of NJJ Holding S.A.S. Chairman of NJJ Capital S.A.S. Chairman of NJJ Immobilier S.A.S. Chairman of NJJ Market S.A.S. Chairman of NJJ INVEST TEL. S.A.S Chairman of Kima Ventures S.A.S.	N/A

(1) Term of office expiring at the close of the Annual General Meeting called to approve the financial statements for the year stated.
(2) In companies other than Group subsidiaries.

Thomas Reynaud

Senior Vice-President and a director since May 29, 2008

Aged 39, 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 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.

Expiration of current term(1)	Main positions and directorships held outside the Group	Positions and directorships that have expired in the past five years(2)
2015	N/A	N/A

(1) Term of office expiring at the close of the Annual General Meeting called to approve the financial statements for the year stated.
(2) In companies other than Group subsidiaries.

Virginie Calmels

Independent director since June 23, 2009

Aged 42, French nationality

Virginie Calmels is a graduate of Toulouse École 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 of Endemol France since October 2007 and Chief Executive Officer of Endemol Monde since May 2012. 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 (the 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 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 Vice-Chairman of the CEPS research center since July 2009. In March 2011 she became a member of the Supervisory Board of Eurodisney and was appointed as its Chairman in January 2013.

Expiration of current term(1)	Main positions and directorships held outside the Group	Positions and directorships that have expired in the past five years(2)
2012	Member of the Supervisory Board of Eurodisney Chairman of the Supervisory Board of Eurodisney Chairman and CEO of Endemol France S.A.S.	Chairman of Case Productions Chairman of Usual Productions Chairman of Seca Productions Chairman of Nao Chairman of DV Prod Chairman of Endemol Jeux Chairman of Tête de Prod Chairman of Orevi Chairman of Endemol Fiction S.A.S. Chairman and CEO of Endemol France S.A.S. Chairman of Endemol Productions S.A.S. Chairman of Mark Burnett Productions S.A.S.

(1) Term of office expiring at the close of the Annual General Meeting called to approve the financial statements for the year stated.
(2) In companies other than Group subsidiaries.

Marie-Christine Levet

Independent director since May 29, 2008

Aged 46, 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 the 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 French Association of Internet Service Providers (*Association des Fournisseurs d'Accès* – AFA), 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.

Expiration of current term(1)	Main positions and directorships held outside the Group	Positions and directorships that have expired in the past five years(2)
2015	Director of Mercialys S.A. Associate Director of Jaina Capital S.A.S.U.	N/A

(1) Term of office expiring at the close of the Annual General Meeting called to approve the financial statements for the year stated.
(2) In companies other than Group subsidiaries.

Orla Noonan

Independent director since June 23, 2009

Aged 43, 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 France in 2005 until it was sold to TF1 in 2010.

Expiration of current term(1)	Main positions and directorships held outside the Group	Positions and directorships that have expired in the past five years(2)
2012	***French companies*** Chairman of Knightly Investments S.A.S. Director of Groupe AB S.A.S. ***Foreign companies*** Director of BTV Belgium Director of WB Television Belgium Director of RTL 9 Luxembourg Director of AB Luxembourg	***French companies*** Director of Elig Media S.A. Chairman of NT1 S.A.S. Director of Groupe AB (renamed Holding Omega Participations S.A.S.) Chairman of AB1 S.A.S. Chairman and CEO of AB NT S.A. Director of Raphaël Films ***Foreign companies*** Director of Télé Monte-Carlo (Monaco)

(1) Term of office expiring at the close of the Annual General Meeting called to approve the financial statements for the year stated.
(2) In companies other than Group subsidiaries.

Pierre Pringuet

Independent director since July 25, 2007

Aged 63, French nationality

After graduating from École Polytechnique and École des Mines, Pierre Pringuet began his career in the French public sector. Between 1981 and 1985 he worked in Michel Rocard's ministerial cabinet before joining the Agriculture Ministry as Agriculture and Food Industries Director. In 1987 he joined Pernod Ricard as Development Director. He actively contributed to the Pernod Ricard group's international expansion, successively holding the positions of Managing Director of Société pour l'Exportation des Grandes Marques (1987-1996) and Chairman and Chief Executive Officer of Pernod Ricard Europe (1997-2000). In 2000 he joined Patrick Ricard at the group's holding company, Pernod Ricard, taking on the position of Co-Chief Executive Officer alongside Richard Burrows. Appointed a director of Pernod Ricard in 2004, Mr. Pringuet successfully saw through the group's acquisition and integration of Allied Domecq in 2005. In December 2004 he became the group's sole Chief Operating Officer. In 2008, Mr. Pringuet organized the acquisition of Vin&Spirit (V&S) and its ABSOLUT Vodka brand, which completed Pernod Ricard's globalization drive. Following the retirement of Patrick Ricard, Mr. Pringuet became Chief Executive Officer of Pernod Ricard on November 5, 2008 and was subsequently appointed Vice Chairman of the Board of Directors at the Board meeting of August 29, 2012. Mr. Pringuet is also Chairman of the Sully Committee – a not-for-profit organization dedicated to promoting the French agri-food industry – and was appointed Chairman of the French association of private sector companies (*Association Française des Entreprises Privées* – AFEP) on June 29, 2012.

Expiration of current term(1)	Main positions and directorships held outside the Group	Positions and directorships that have expired in the past five years(2)
2012	Chief Executive Officer and a director of Pernod Ricard S.A.* Director of Cap Gemini S.A.*	N/A

(1) Term of office expiring at the close of the Annual General Meeting called to approve the financial statements for the year stated.
(2) In companies other than Group subsidiaries.
** Companies marked with an asterisk are quoted on the Euronext Paris regulated market.*

Olivier Rosenfeld

A director since December 12, 2003 – **An independent director** since 2013

Aged 42, 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 the Iliad Group between January 2001 and January 2008.

Expiration of current term(1)	Main positions and directorships held outside the Group	Positions and directorships that have expired in the past five years(2)
2012	Legal manager of Levary S.P.R.L. Member of the Supervisory Board of Iway Holdings S.A.S. Director of OpenERP S.A. Director of Eutelsat Communication S.A.*	Member of the Supervisory Board of LowendalMassai S.A.

(1) Term of office expiring at the close of the Annual General Meeting called to approve the financial statements for the year stated.
(2) In companies other than Group subsidiaries.
** Companies marked with an asterisk are quoted on the Euronext Paris regulated market.*

Alain Weill

Independent director since December 12, 2003

Aged 52, 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, BFM Business, BFM TV, NextInteractiveMedia and RMC Découverte.

Expiration of current term(1)	Main positions and directorships held outside the Group	Positions and directorships that have expired in the past five years(2)
2012	Chairman and Chief Executive Officer of NextRadio TV S.A. Chairman of BFM TV S.A.S. Deputy Chairman of RMC S.A.M. Chairman of RMC Sport S.A.S. Chairman of Business FM S.A.S. Chairman of News Participations S.A.S. Chairman of WMC S.A.S.U. Chairman of NextInteractiveMedia S.A.S. Chairman of 01 Régie S.A.S. Chairman of Groupe Tests Holding S.A.S.U. Chairman of BFM Business TV S.A.S. Chairman of CBFM S.A.S.U. Chairman of RMC BFM Production S.A.S. Chairman of Next Development 2 S.A.S. Chairman of RMC-BFM EDITION S.A.S. Chairman of RMC Découverte S.A.S. Permanent representative of NextRadioTV on the Board of Directors of Médiamétrie S.A.	Chairman of Internext S.A.S. Legal Manager of GT LABS S.A.R.L. Chairman of Seliser Chairman and CEO of Cadre Online Chairman of La Tribune Holding S.A.S. Chairman of La Tribune Régie S.A.S. Chairman of La Tribune Desfossés S.A.S. Chairman of Paris Portage S.A.S. Chairman of RMC Régie S.A.S.

(1) Term of office expiring at the close of the Annual General Meeting called to approve the financial statements for the year stated.
(2) In companies other than Group subsidiaries.

14.1.1.3 Duration of directors' terms of office

In order to comply with the principles of the AFEP-MEDEF Corporate Governance Code and to enable the Company's shareholders to vote on the election and re-election of directors on a more frequent basis, at the Annual General Meeting held on June 23, 2009, the shareholders approved the Board's recommendation to reduce directors' terms of office from six to four years.

The Board of Directors has looked 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.

To this end, and in accordance with the April 2010 version of the AFEP-MEDEF Corporate Governance Code, which states that "Terms should be staggered so as to avoid replacement of the entire body and to favour a smooth replacement of directors", on March 18, 2013 the Board of Directors decided to recommend at the Annual General Meeting of May 22, 2013 that shareholders amend the Company's bylaws to enable Board members' terms of office to expire on a more staggered basis. The new terms of the Company's bylaws would provide that exceptionally, and for the sole purpose of gradually putting in place this renewal system, shareholders in an Ordinary General Meeting may reduce the term of office of one or more directors.

Consequently, at the Annual General Meeting of May 22, 2013, shareholders will be asked to re-elect the eight directors whose terms are due to expire at the close of that Meeting, for the following terms: Cyril Poidatz, Olivier Rosenfeld, Antoine Levavasseur and Alain Weill for three years; and Xavier Niel, Pierre Pringuet, Orla Noonan and Virginie Calmels for four years.

14.1.1.4 Gender equality

The Group considers that it is important to have a balanced Board membership structure, particularly in terms of gender equality. There are three women on the Iliad Board of Directors, which meets the objective set by the AFEP and MEDEF in their recommendation issued on April 19, 2010 and is in line with the French Act of January 27, 2011 concerning gender equality on corporate Boards. The Board will take care to ensure that its membership structure still complies with this Act in 2017 when the proportion of women must represent at least 40%.

14.1.1.5 Independent directors

The March 7, 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 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 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 18, 2013, the Board examined on a case-by-case basis the situation of each of its eleven members based on these criteria and noted that the Board comprised the following six independent directors: Alain Weill, Pierre Pringuet, Marie-Christine Levet, Olivier Rosenfeld, Orla Noonan and Virginie Calmels.

Independent directors represent 55% 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.

14.1.1.6 Responsible directors

The rights and duties of directors – and particularly their code of conduct – are set out in the Board of Directors' internal rules which are presented in Chapter 16, Section 16.1.1 of this registration document.

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, 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 prior approval from the Board of Directors for any external growth transactions entailing an outlay of more than €200 million, as well as for any material transactions that fall 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.

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 who 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(1)	Expiration of current term(2)
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(3)	Senior Vice-President	06/14/2007	2014
Thomas Reynaud	Senior Vice-President	03/18/2010	2014

(1) At its April 4, 2011 meeting, the Board of Directors renewed the term of office of Maxime Lombardini as well as the terms of office of the Senior Vice-Presidents for a period of four years.
(2) Each term of office expires at the close of the Annual General Meeting called to approve the financial statements for the year stated.
(3) 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.

The biographies of the Company's senior managers are as follows:

Maxime Lombardini

See Section 14.1.1 above.

Xavier Niel

See Section 14.1.1 above.

Antoine Levavasseur

See Section 14.1.1 above.

Thomas Reynaud

See Section 14.1.1 above.

Rani Assaf

Aged 38, 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 Director's organizational and operating structure enables it to prevent any abusive exercise of control by a shareholder, notably due to the fact that there are six 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 28, 2013, 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	58.59%	56.80%
Rani Assaf	902,590	1.56%	2.99%
Cyril Poidatz	690,614	1.20%	2.25%
Antoine Levavasseur	537,324	0.93%	1.78%
Olivier Rosenfeld	80,790	0.14%	0.13%
Maxime Lombardini	2,500	NM	NM
Pierre Pringuet	2,037	NM	0.01%
Thomas Reynaud	1,470	NM	NM
Marie-Christine Levet	350	NM	NM
Orla Noonan	300	NM	NM
Virginie Calmels	150	NM	NM
Alain Weill	100	NM	NM
TOTAL	**36,025,125**	**62.44%**	**63.97%**

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

- **Free Mobile**: Cyril Poidatz, Rani Assaf and Antoine Levavasseur each hold 0.5% of Free Mobile's share capital, and Maxime Lombardini and Thomas Reynaud each hold a 0.7% interest;
- **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

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 ninth resolution of the Annual General Meeting held on May 24, 2012, 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 2011 and 2012.

Table 3 – Breakdown of directors' fees paid in 2011 and 2012 (in €)

Non-executive directors	Amount paid in 2012	Amount paid in 2011
Virginie Calmels		
Directors' fees	20,000	20,000
Other compensation	N/A	N/A
Marie-Christine Levet		
Directors' fees	20,000	20,000
Other compensation	N/A	N/A
Orla Noonan		
Directors' fees	20,000	20,000
Other compensation	N/A	N/A
Pierre Pringuet		
Directors' fees	20,000	20,000
Other compensation	N/A	N/A
Olivier Rosenfeld		
Directors' fees	N/A	N/A
Other compensation	N/A	N/A
Alain Weill		
Directors' fees	20,000	20,000
Other compensation	N/A	N/A

At its March 18, 2013 meeting, the Board of Directors decided to recommend to shareholders at the Annual General Meeting to be held on May 22, 2013 that they set the aggregate amount of directors' fees payable for 2013 at €120,000.

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

15.1.2 COMPENSATION POLICY FOR EXECUTIVE 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 Corporate Governance 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 2011 and 2012

Table 1 – Summary of compensation paid and stock options and performance shares granted to each executive officer (in €)

	2012	2011
Cyril Poidatz		
Compensation payable for the year	157,200	154,800
Value of stock options granted during the year	N/A	N/A
Value of performance shares granted during the year	N/A	N/A
TOTAL	**157,200**	**154,800**
Maxime Lombardini		
Compensation payable for the year	384,000	384,000
Value of stock options granted during the year	N/A	N/A
Value of performance shares granted during the year	N/A	N/A
TOTAL	**384,000**	**384,000**
Rani Assaf		
Compensation payable for the year	163,200	154,800
Value of stock options granted during the year	N/A	N/A
Value of performance shares granted during the year	N/A	N/A
TOTAL	**163,200**	**154,800**
Antoine Levavasseur		
Compensation payable for the year	175,200	172,800
Value of stock options granted during the year	N/A	N/A
Value of performance shares granted during the year	N/A	N/A
TOTAL	**175,200**	**172,800**
Xavier Niel		
Compensation payable for the year	175,360	173,040
Value of stock options granted during the year	N/A	N/A
Value of performance shares granted during the year	N/A	N/A
TOTAL	**175,360**	**173,040**
Thomas Reynaud		
Compensation payable for the year	384,000	384,000
Value of stock options granted during the year	N/A	N/A
Value of performance shares granted during the year	N/A	N/A
TOTAL	**384,000**	**384,000**

Table 2 – Breakdown of compensation for each executive officer (in €)

Cyril Poidatz Chairman of the Board of Directors	2012		2011	
	Amount due	Amount paid	Amount due	Amount paid
Basic compensation	157,200	157,200	154,800	154,800
Variable compensation	-	-	-	-
Exceptional compensation	-	-	-	-
Directors' fees	-	-	-	-
Benefits-in-kind	-	-	-	-
TOTAL	**157,200**	**157,200**	**154,800**	**154,800**

Maxime Lombardini Chief Executive Officer	2012		2011	
	Amount due	Amount paid	Amount due	Amount paid
Basic compensation	384,000	384,000	384,000	384,000
Variable compensation	-	-	-	-
Exceptional compensation	-	-	-	-
Directors' fees	-	-	-	-
Benefits-in-kind	-	-	-	-
TOTAL	**384,000**	**384,000**	**384,000**	**384,000**

Rani Assaf Senior Vice-President	2012		2011	
	Amount due	Amount paid	Amount due	Amount paid
Basic compensation	163,200	163,200	154,800	154,800
Variable compensation	-	-	-	-
Exceptional compensation	-	-	-	-
Directors' fees	-	-	-	-
Benefits-in-kind	-	-	-	-
TOTAL	**163,200**	**163,200**	**154,800**	**154,800**

Antoine Levavasseur Senior Vice-President	2012		2011	
	Amount due	Amount paid	Amount due	Amount paid
Basic compensation	175,200	175,200	172,800	172,800
Variable compensation	-	-	-	-
Exceptional compensation	-	-	-	-
Directors' fees	-	-	-	-
Benefits-in-kind	-	-	-	-
TOTAL	**175,200**	**175,200**	**172,800**	**172,800**

Xavier Niel Senior Vice-President	2012 Amount due	2012 Amount paid	2011 Amount due	2011 Amount paid
Basic compensation	175,360	175,360	173,040	173,040
Variable compensation	-	-	-	-
Exceptional compensation	-	-	-	-
Directors' fees	-	-	-	-
Benefits-in-kind	-	-	-	-
TOTAL	**175,360**	**175,360**	**173,040**	**173,040**

Thomas Reynaud Senior Vice-President	2012 Amount due	2012 Amount paid	2011 Amount due	2011 Amount paid
Basic compensation	384,000	384,000	384,000	384,000
Variable compensation	-	-	-	-
Exceptional compensation	-	-	-	-
Directors' fees	-	-	-	-
Benefits-in-kind	-	-	-	-
TOTAL	**384,000**	**384,000**	**384,000**	**384,000**

15.1.2.2 Stock option grants

For many years the Company regularly granted stock options under attractive conditions. The objective of this overall policy is to fairly reward the Group's executive officers, while at the same time extending the scope of beneficiaries to include a large number of the Group's employees. In addition, a share grant policy has been put in place by Free Mobile for certain of its executive officers and employees.

Table 4 – Stock options granted to each executive officer by the Company and any other Group company in 2012

Executive officer	Grant date	Value of options based on method used for the consolidated financial statements	Number of options granted during the year	Exercise price	Exercise period
Cyril Poidatz	No stock options were granted to executive officers in 2012				
Maxime Lombardini					
Rani Assaf					
Antoine Levavasseur					
Xavier Niel					
Thomas Reynaud					

Table 4 – Stock options granted to each executive officer by the Company and any other Group company in 2011

Executive officer	Grant date	Value of options based on method used for the consolidated financial statements	Number of options granted during the year	Exercise price	Exercise period
Cyril Poidatz	No stock options were granted to executive officers in 2011				
Maxime Lombardini					
Rani Assaf					
Antoine Levavasseur					
Xavier Niel					
Thomas Reynaud					

Historical information on stock option grants is provided in Chapter 21, Section 21.1.4.1 of this registration document (Table 8).

The Company has not received any declarations stating that any of the options received by executive officers have been hedged.

Information on stock options granted to and exercised by the ten employees of the Group who hold the largest number of options (other than executive officers) is provided in Chapter 17, Section 17.1.1.3 of this registration document (Table 10).

Table 5 – Stock options exercised by each executive officer in 2012

Executive officer	Grant date	Number of options exercised during the year	Exercise price
Cyril Poidatz	-	-	-
Maxime Lombardini	06/14/2007	135,000	€74.62
Rani Assaf	12/20/2005	40,614	€48.44
Antoine Levavasseur	-	-	-
Xavier Niel	-	-	-
Thomas Reynaud	08/30/2007	48,696	€68.17

Table 5 – Stock options exercised by each executive officer in 2011

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

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.

15.1.2.3 Share grants

15.1.2.3.1 Performance shares

Neither the Company nor any other Group company has granted any performance shares to the Company's executive officers.

Table 6 – Performance shares granted to each executive officer in 2012 by Iliad or any other Group company

Executive officer	Plan number and date	Number of shares granted during the year	Valuation of performance shares based on the method used for the consolidated financial statements	Vesting date	End of lock-up period	Performance conditions
Cyril Poidatz						
Maxime Lombardini						
Rani Assaf						
Antoine Levavasseur						
Xavier Niel						
Thomas Reynaud						
Virginie Calmels			None			
Marie Christine Levet						
Orla Noonan						
Pierre Pringuet						
Olivier Rosenfeld						
Alain Weill						

Table 6 – Performance shares granted to each executive officer in 2011 by Iliad or any other Group company

Executive officer	Plan number and date	Number of shares granted during the year	Valuation of performance shares based on the method used for the consolidated financial statements	Vesting date	End of lock-up period	Performance conditions
Cyril Poidatz						
Maxime Lombardini						
Rani Assaf						
Antoine Levavasseur						
Xavier Niel						
Thomas Reynaud						
Virginie Calmels			None			
Marie Christine Levet						
Orla Noonan						
Pierre Pringuet						
Olivier Rosenfeld						
Alain Weill						

Table 7 – Executive officers' performance shares whose lock-up period expired in 2012

Executive officer	Plan number and date	Number of shares whose lock-up period expired during the year	Vesting conditions
Cyril Poidatz			
Maxime Lombardini			
Rani Assaf			
Antoine Levavasseur			
Xavier Niel			
Thomas Reynaud		None	
Virginie Calmels			
Marie Christine Levet			
Orla Noonan			
Pierre Pringuet			
Olivier Rosenfeld			
Alain Weill			

Table 7 – Executive officers' performance shares whose lock-up period expired in 2011

Executive officer	Plan number and date	Number of shares whose lock-up period expired during the year	Vesting conditions
Cyril Poidatz			
Maxime Lombardini			
Rani Assaf			
Antoine Levavasseur			
Xavier Niel			
Thomas Reynaud		None	
Virginie Calmels			
Marie Christine Levet			
Orla Noonan			
Pierre Pringuet			
Olivier Rosenfeld			
Alain Weill			

15.1.2.3.2 Shares granted free of consideration to executive officers of Free Mobile

On May 3, 2010 the Board of Directors authorized an incentive plan to be set up for employees and officers of Free Mobile, involving share grants representing up to 5% of Free Mobile's capital.

Accordingly, three successive share grant plans were set up, in May 2010, December 2010 and November 2011 for 23 employees and executive officers of Free Mobile. The vesting period set for these plans was two years followed by a two-year lock-up period during which the beneficiary may not to sell the vested shares. 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 at the end of the lock-up period.

No shares were granted to executive officers in 2012.

Free shares vested for executive officers in 2012

At December 31, 2012, 2.9% of Free Mobile's capital was held by Free Mobile's executive officers and 1.6% by employees.

Executive officer	Plan number and date	Number of free shares vested during the year(1)	Vesting conditions
Cyril Poidatz	05/12/2010	1,825,694	N/A
Maxime Lombardini	05/12/2010	2,555,971	N/A
Rani Assaf	05/12/2010	1,825,694	N/A
Antoine Levavasseur	05/12/2010	1,825,694	N/A
Xavier Niel	N/A	N/A	N/A
Thomas Reynaud	05/12/2010	2,555,971	N/A
TOTAL		**10,589,024**	

(1) Shares vested in 2012 but subject to a lock-up period expiring on May 13, 2014.

In accordance with paragraph 4 of Article L. 225-197 II of the French Commercial Code concerning shares granted free of consideration to executive officers, the Group's executive officers are required to hold in registered form at least 5% of the vested shares they receive under share grant plans until they cease to hold the position of executive officer.

15.1.2.4 Commitments given to executive officers

Table 10 – Employment contracts held by executive officers

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

The AFEP-MEDEF Corporate Governance Code for listed companies – which the Company uses as its benchmark for corporate governance practices – recommends that when senior managers are appointed as executive officers of a company or when their term of office is renewed, their employment contract should be terminated, either by way of resignation of by a contractual agreement.

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 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 the Company and Rani Assaf, Antoine Levavasseur, Maxime Lombardini, Cyril Poidatz and Thomas Reynaud. As part of the incentive plan set up within Free Mobile, at its meeting on May 3, 2010, the Board of Directors authorized the signature of the following agreements between the Company and these executive officers:

- a shareholders' agreement setting out the rights and obligations of the Company's executive officers in terms of sales of Free Mobile shares. This agreement notably provides for crossed put and call options between Iliad and the executive officers covering all of the Free Mobile shares held by the executive officers concerned. If either of these options is exercised, the price will be set by an independent valuer and could be paid in Iliad shares, subject to approval by Iliad's shareholders;
- an undertaking by the executive officers concerned to sell their Free Mobile shares to Iliad if they leave the Group, at a price set by an independent valuer, with or without a discount depending on the circumstances of the executive officer's departure;
- an undertaking by Iliad to purchase the Free Mobile shares held by the executive officers if they leave the Group, at a price set by an independent valuer based on the circumstances of the executive officer's departure.

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 €3,513.80 at December 31, 2012 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

OPERATING PROCEDURES OF THE COMPANY'S ADMINISTRATIVE AND MANAGEMENT BODIES

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 practices. 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 18, 2013.

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 AND OPERATING PROCEDURES OF THE BOARD OF DIRECTORS

The general rules governing the operating procedures of the Board of Directors as well as information on its individual members are set out in Chapter 14, Section 14.1.1 of this registration document.

16.1.1.1 Roles and responsibilities 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. The Board is a collegial body that collectively represents all of the Company's shareholders and which has a duty to act in all circumstances in the Company's best interests.

The Board of Directors meets as often as is required in the Company's interests, on notice from 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.

16.1.1.2 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 March 7, 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 include an appendix containing a Code of Conduct which sets out the rights and duties of directors in compliance with the principles of the AFEP-MEDEF Corporate Governance Code, particularly those concerning professional diligence, loyalty, confidentiality and conflicts of interest.

This Code of Conduct – which is given to each director when they take up office – also sets out directors' obligations in terms of compliance with stock market regulations, particularly:

- **Rules concerning privileged information and the prevention of insider trading**

  Privileged information may only be used by directors in connection with the performance of their duties under their directorship. All directors must refrain from trading in the Company's shares, either directly or indirectly, on the basis of any non-public privileged information and must not assist any third party to carry out any trades in the Company's shares on the basis of such information.

  It is the personal responsibility of each director to assess whether the information they possess is privileged or not and consequently to decide whether or not to use or relay such information or to trade in the Company's shares, directly or indirectly, for as long as the information is not in the public domain.

  In their capacity as "insiders", the Company's directors have been informed of the legal provisions currently in force concerning the possession of privileged information and insider trading (Article L. 465-1 of the French Monetary and Financial Code (*Code monétaire et financier*) and Articles 621-1 *et seq*. of the General Regulations of the *Autorité des Marchés Financiers* (French securities regulator)).

- **Blackout periods**

  In addition, the members of the Board of Directors are aware of the rules they are required to follow in terms of preventing insider trading, particularly concerning the "blackout periods" during which they are prohibited from trading in the Company's shares. The Board has amended its internal rules to take into account these blackout periods. In accordance with recommendation 2010-07 issued by the French securities regulator on November 3, 2010, the Company's directors are prohibited from trading in Iliad shares during (i) the 30 calendar days preceding the release of Iliad's interim and annual results figures and (ii) the 15 calendar days preceding the release of its quarterly results figures.

- **Rules relating to individual nominative disclosures to the AMF of transactions in the Company's shares by directors and parties related to them**

  Any director or party related to a director who carries out any acquisition, sale, subscription or exchange of Iliad shares or any transactions in instruments related to Iliad's shares is required to disclose the transaction to the AMF – within five days of its completion – when the cumulative amount of such transactions exceeds €5,000 for the calendar year concerned. See summary in Chapter 18, Section 18.1.1 of trades in Iliad shares carried out by the Company's officers during 2012.

16.1.1.3 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.

16.1.1.4 Work conducted by the Board of Directors in 2012

In 2012 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 and called the Annual General Meeting, drew up the budget, defined Iliad's financial communications policy, assessed the independence of directors, allocated directors' fees, and 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.

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

Iliad's Board of Directors met seven times in 2012, with an average attendance rate of around 95%. Each meeting lasted two and a half hours on average.

16.1.1.5 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 devotes an agenda item each year to (i) evaluating and discussing the Board's organization and work, (ii) verifying that all significant issues have been suitably prepared and discussed, and (iii) assessing its members' contribution to the Board's work. It also reviews whether the Board and its committees have a suitably balanced membership structure. A formal evaluation is 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 18, 2013, 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. The Board considered that it is making ongoing progress in the areas for improvement identified in the self-assessment carried out in 2012, particularly concerning the quality of presentations. These findings therefore show that in 2012 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 and considered that receiving quality documentation prior to Board and committee meetings – while maintaining the confidentiality and deadlines imposed on the Company – improved 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 prior 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 Chapter 14, Section 14.1.2 of this registration document.

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 operational decision-making body 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. Management Committee meetings are held as often as required and 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 Chapter 15, Section 15.2 of this registration document.

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 effectiveness 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 Act 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 (independent director)[(1)].

In 2012 two-thirds of the Audit Committee were therefore independent directors and none of its members were 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' networks 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).

(1) Olivier Rosenfeld has been qualified as an independent director since the start of the 2013 fiscal year.

Work performed by the Audit Committee

The Audit Committee met four times in 2012 with an attendance rate of around 85%. During its meetings the committee discussed the renewal of the term of office of a Statutory Auditor, reviewed the Group's new segment presentation of revenue, analyzed the policy for recognizing provisions and examined the risk management policy.

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 committee hears the opinions of one of the Group's senior managers, 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 2012.

16.3.1.2 The Compensation Committee

Membership structure

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.

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 Chairman of the committee.

In 2011, 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 Chapter 15 for further details), in order to discuss the compensation policy for the Company's officers in the presence of its independent directors.

Roles and responsibilities

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) executive 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 that would be payable to the Chief Executive Officer in the event that he is removed from office (see Chapter 15, Section 15.1.2.4).

Work performed by the Compensation Committee

The Compensation Committee met twice in 2012 with a 100% attendance rate.

The main subjects addressed were (i) basic compensation of executives and members of the Management Committee, and (ii) the allocation of directors' fees for 2012.

16.3.2 COMMITTEES REPORTING TO SENIOR MANAGEMENT

Several specialist committees reporting to senior management have been set up within the Group 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, 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, which 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 are 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;
- the Subscriber Relations Committee, comprising the heads of the call centers and managers from the Subscriber Department. This committee meets monthly in order to coordinate the work of the call centers and anticipate future needs. It also ensures that all the requisite resources have been allocated to the call centers in order to meet the requirements of subscribers and foster their loyalty;
- the Environment and Sustainable Development Committee, set up at the end of 2012. This committee puts forward proposals aimed at defining and putting in place the Group's policies and commitments concerning the environment and corporate social responsibility. It also issues recommendations to the Board of Directors on the report provided for in Article L. 225-102-1 of the French Commercial Code on the social and environmental impact of the Company's operations.

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 AND RISK MANAGEMENT PROCEDURES

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

CORPORATE SOCIAL RESPONSIBILITY

THE ILIAD GROUP'S COMMITMENT

Iliad's 2012 Corporate Social Responsibility Report (CSR Report) has been drawn up in compliance with the legal and regulatory disclosure requirements pursuant to the implementing decree of the French Grenelle 2 Law. This CSR report forms an integral part of Iliad's management report.

The information presented in this report has been prepared based on the nature of the business activities carried out by the Group and the impact that they may have from a social, environmental and community-related perspective. Consequently it does not cover all of the disclosures provided for in the applicable regulations but only those that are relevant to the Group. The data and information included in this report relate either to the Group's worldwide scope of consolidation or to all of its French entities, depending on the issue concerned. The scope covered is indicated in each case.

Reporting coverage and methodology are described under the Note on Methodology at the end of this chapter.

17.1 HUMAN RESOURCES DATA

Ever since Iliad was created, its employees have formed the basis of its corporate culture, reflecting its overriding objective and long-term vision of placing people at the heart of its business.

Ensuring that our staff are happy in their jobs is a key part of our development strategy and is essential for our performance. Year after year, the Group's management team has been able to build up a profitable Group while creating new jobs to partner its growth. At the same time, although we have expanded rapidly over the last ten years we have managed to keep the "start-up" mind set that we had at our beginnings.

Our corporate values are underpinned by trust, integrity, honesty and professionalism and the connection between these values and our performance has never been as strong as it is today. The fact that Free has such a positive brand image plays a very important role as it makes our people proud to be a part of the Group. Our employees know that they are taking part in an historic adventure and that they have a key role to play in the digital revolution which is currently shaping tomorrow's world.

The Group's human resources policy is overseen by the Human Resources Department in conjunction with Senior Management, with Senior Management responsible for implementing the Group's CSR priorities.

The Group has set itself three human resources priorities around which its action plans are structured: training, employee health and safety, and combating discrimination.

The HR data disclosed in this report covers the Group's French entities unless indicated otherwise. The HR indicators shown below are those used by the Group for human resources management purposes.

17.1.1 EMPLOYMENT

The information provided below on employee numbers relates to Iliad's worldwide scope of consolidation.

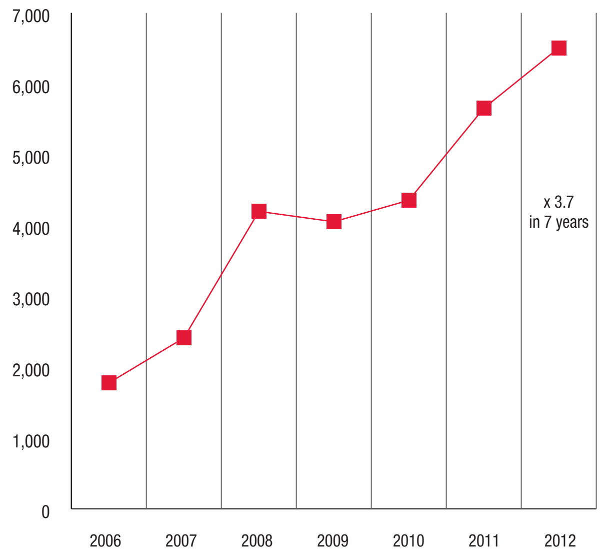
17.1.1.1 General changes in headcount

Year	2012	2011	2010
Group headcount	6,506	5,655	4,355

At December 31, 2012 the Group had 6,506 employees.

In 2012, 851 new employees joined the Group, representing a 15% increase in overall headcount compared with 2011.

Sustained growth in the Group's business was accompanied by large numbers of new hires between 2006 and 2012, with overall headcount increasing four-fold during that period.



The Iliad Group does not have any difficulty recruiting employees, either for managerial or non-managerial positions. Recruitment is strategic for the Group and is vital for it to grow both geographically and in its new business areas.

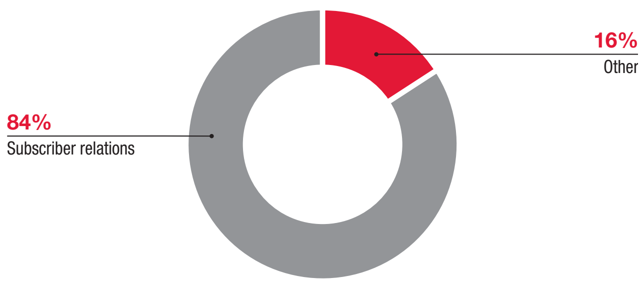
Breakdown of workforce by region

Since 2010 – when the Group began to prepare for the launch of its mobile business – Iliad has significantly increased its headcount (mainly in France), with the creation of nearly 2,000 new jobs. The vast majority of the new employees were hired under open-ended contracts.

At December 31, 2012, the Group's French subsidiaries made up almost 72% of Iliad's total workforce.

	2012	2011	2010
Number of employees based in France	4,648	3,585	2,627
Number of employees based outside France	1,858	2,070	1,728
TOTAL HEADCOUNT	**6,506**	**5,655**	**4,355**

Breakdown of workforce by business



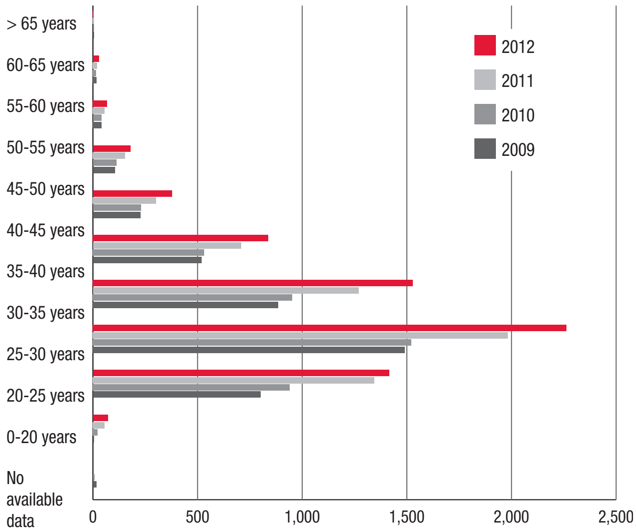
Subscriber relations are a key priority for the Group, which is why it opted from the very beginning to develop its own call centers which are mainly based in France.

The Subscriber Relations Department includes the employees of the Group's eight call centers, as well as the employees of the various Free Centers and teams of roaming technicians who provide after-sales support at subscribers' homes.

Over 5,400 people, representing 84% of the Group's internal resources, are dedicated to subscriber relations.

Breakdown of workforce by age/length of service

The Group seeks to provide job opportunities for young people. This pro-active approach is aptly illustrated by the new hires taken on in 2012 for the opening of the Group's two new call centers in Colombes and Vitry in France. At end-2012, 78% of the Group's employees were aged under 35.



Due to the sharp rise in new hires over recent years, average length of service of the Group's employees has decreased significantly. In 2012, average length of service was four years for managerial staff and around two years for non-managerial employees.

Breakdown of workforce by gender

The Group works hard to ensure gender balance in all jobs and at all levels.

		2012
Women	France	1,261
	Outside France	774
Men	France	3,387
	Outside France	1,084
TOTAL		**6,506**

The Group has created almost 2,000 jobs in France over the last two years, of which 767 are held by women. Consequently, women accounted for 38% of new hires during this period, in an industry which is traditionally male-dominated.

Breakdown of new hires by gender over the last two years

The proportion of women in the Group's overall workforce rose in 2012, and comes to 31%.

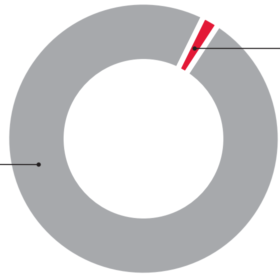
	2012	2011
Women	**2,035**	**1,736**
Men	**4,471**	**3,919**
TOTAL HEADCOUNT	**6,506**	**5,655**

17.1.1.2 Recruitment policy

For many years Iliad's employment policy has been aimed at actively managing careers, motivating and supporting employees and recognizing and rewarding their input. This approach has enabled the Group to put in place a jobs and skills planning policy within its various entities and carry out targeted hires in line with the requirements of its landline and mobile operations.

The Group uses open-ended contracts where possible. However, in 2012 we had some limited recourse to temporary staff and subcontractors in order to meet short-term increases in business volumes, notably due to the launch of new products and services.

Out of the total number of employees recruited in 2012, 98% were taken on under open-ended contracts.



There were no redundancies in 2012. Dismissals during the year were all for professional reasons (including misconduct) rather than economic reasons. To date the Group has never put in place a redundancy plan.

The monthly staff turnover rate for the Group's call centers – excluding departures on expiry of trial periods – was around 0.6% on average in 2012.

17.1.1.3 Compensation policy

The Group has had a pro-active salary policy since the outset with a view to sharing its success with its employees and involving them in its growth.

Pay policy is determined each year by the Human Resources Department and approved by the Management Committee, which together have put in place a system for monitoring compensation in order to ensure that compensation packages are consistent across all of Iliad's entities.

Rewarding individual performance is central to Iliad's compensation policy, in line with the objective of motivating the best talents and fostering their loyalty. Differences between employees' salaries are justifiable and reflect people's different levels of responsibility, experience and potential.

Certain teams are at times paid special bonuses – which can amount to more than a month's salary – as recognition for the successful completion of projects.

In its operations outside France, the Group ensures that the salaries it pays are significantly higher than the legal minimum wage in the countries concerned.

The Group's total payroll costs are set out in Note 6 to the consolidated financial statements in Chapter 20, Section 20.1 of this registration document.

Statutory and discretionary profit-sharing, stock options and free shares

The Group signed a statutory profit-sharing agreement in 2009 aimed at involving employees in the Group's financial performance. The aggregate amount of the special profit sharing reserve for all of the Group's companies is equal to the sum of the profit-sharing reserves set up in each company in accordance with the legally applicable formula. This reserve is allocated among all employees who have at least three years' length of service, in proportion to their annual salaries. Employees can choose to receive their profit share immediately or for it to be invested in one of the corporate mutual funds that form part of the Group Employee Savings Scheme. Amounts invested in these funds are locked up for five years in return for a tax exemption for the employee.

The total amount of the special profit-sharing reserve amounted to €4,811,757 in 2012, compared with €4,421,474 for 2011.

In addition, since 2004 the Group has granted stock options and/or free shares of certain of its subsidiaries to employees.

The main characteristics of the stock options granted by Iliad which were outstanding at December 31, 2012 are set out in Chapter 21, 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 executive officers) who received or exercised the most options in 2012.

Table 10 - STOCK OPTIONS GRANTED TO AND EXERCISED BY EMPLOYEES IN 2012

Stock options granted to and exercised by the ten Group employees (other than executive officers) receiving the largest number of options.	Total number of stock options granted/ exercised	Weighted average exercise price	January 20, 2004 plan	December 20, 2005 plan	June 14, 2007 plan	August 30, 2007 plan
Stock options granted during the year to the ten Group employees who were granted the largest number of stock options	Not applicable	-	-	-	-	
Stock options exercised during the year by the ten Group employees who exercised the largest number of options	229,278	62.51	0	65,732	0	163,546

Health insurance plans, personal protection insurance and other welfare benefits

Iliad also provides its employees with various types of welfare benefit.

- all Group employees in France have a supplementary health insurance plan that provides top-up benefits in addition to the amounts received under the French statutory health regime. In 2012, a new agreement was signed with employee representatives in order to redefine the framework for this supplementary health insurance plan, pursuant to which the Group agreed to bear a larger portion of the contributions payable by employees under the plan;
- the Group has also put in place a personal protection insurance plan that is open to all employees and provides cover for sick leave as well as death and disability coverage. Under this plan, employees are paid significant benefits if they become incapacitated or disabled. In the event of an employee's death, a life annuity is paid to their spouse as well as an education benefit for each dependent child until their 26th birthday;
- in addition, in order to help its employees find housing, the Group is a member of an organization that manages the employer loans system provided for under French law (*1% patronal*). Under this system employees can receive loans under preferential conditions to purchase, build or rent a home as well as other assistance measures (such as the PASS Assistance for employees in financial difficulties, financing for rental deposits, special loans to help low-income home buyers, loans for renovation works, etc.);
- similarly, financial assistance with rental payments is offered to employees under the age of 30 who are working with the Group under an apprenticeship contract, a work-study scheme or a "first-time employment" or "back-to-work" scheme (*contrat de professionnalisation*). This assistance may cover a period ranging from 6 to 18 months depending on the beneficiary's financial situation and the duration of their training;
- lastly, employees have access to a financial advisory service to help them with any real estate projects they may have and to take the stress out of the home buying process. This takes the form of an advice surgery set up by the Human Resources Department twice a year at the Group's head office.

17.1.2 WORK ORGANIZATION

17.1.2.1 Working time

Iliad takes care to ensure that all of its subsidiaries – including those outside France – comply with the applicable legal and contractual obligations concerning working time.

For non-managerial employees, the Group strictly complies with the 35 hour statutory working week in force in France.

Managers' working time is based on the overall number of days worked rather than hours per day so that they can organize their schedules more effectively in line 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. Several company-level agreements have been signed within the Group's various subsidiaries in order to put in place this method for calculating managers' working time and to harmonize the practices applied in all of the companies forming Iliad's *Unité Economique et Sociale* (UES)[1].

(1) *The Iliad UES includes the following entities: Assunet, Free Infrastructure, Freebox, Free Mobile, Iliad, One.Tel and Online.*

The Group continually works on ways of enhancing its work organization methods and systems. For example, in order for its employees to have the best possible work/life balance, the Group has made it a policy to provide many of them with a laptop and a smartphone, thereby enabling them to organize their working time more flexibly and to work from home.

17.1.2.2 Absenteeism

The overall absenteeism rate in France (including absences for illness and work accidents) was 6.3% in 2012.

Absenteeism – France	2012	2011
Sick leave	4.93%	4.87%
Unjustified absences	0.27%	0.30%
Absences under early retirement plans	1.05%	0.53%
Lost time for work accidents	0.10%	0.09%
TOTAL ABSENTEEISM RATE	**6.35%**	**5.78%**

Although the overall absenteeism rate was up slightly on 2011, the figure for managerial staff remained under 1.5%.

17.1.3 TRAINING

17.1.3.1 Building employee skill-sets

Training employees, ensuring that they are happy in their jobs and enabling them to realize their potential are key aspects of the Group's human resources policy. In line with this, specific training has been put in place for managers as well as induction training for new arrivals.

Subscriber relations teams – which account for the vast majority of the total workforce – follow an initial training program lasting two to five weeks when they join the Group. This induction program has been recognized as a professional training course by the State-approved organizations that manage employer training taxes in France (OPCA). 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 are also given a three-week induction course and throughout their time with the Group they receive specific training on the various commercial offerings available to subscribers.

Continuing professional education

The Group places particular importance on developing employees' skill-sets throughout their careers. To this end the Group Training Department's responsibilities include:

- identifying, evaluating and analyzing training needs within each of the Group's subsidiaries and drawing up training objectives;
- harmonizing training practices between the various subsidiaries;
- encouraging employees to build on their experience by following continuing professional education courses in areas such as public speaking, payroll management, accounting, legal affairs and computer literacy. E-learning and online rapid learning modules are also available.

Employees are strongly encouraged to use the training hours and training sabbaticals that they are entitled to under French law.

Recognizing expertise and encouraging internal mobility

In order to help employees map their career paths the Group organizes skills assessments as well as mid-career meetings for all employees.

In tandem, internal mobility programs have been put in place with a view to encouraging employees to develop their expertise. These programs are also an excellent way of fostering employee loyalty, and many of the Group's current managers started out lower down in the organization.

In order to ensure that the mobility process is properly respected, an "Internal Mobility Charter" has been drawn up which sets out the rules applicable within the Group. The Human Resources Department is responsible for overseeing compliance with this Charter.

In line with this overall approach, in 2012 the Group signed an agreement with employee representatives on jobs and skills planning (GPEC).

In addition, employees can access and apply for internal job vacancies through the intranet and the Human Resources Department sends out Group-wide emails informing employees of any positions available.

A large number of different methods of moving from one job to another have been created – particularly in the Subscriber Relations Department – which each year enable a number of call center agents to move up to the position of team leader or supervisor. Other call center agents have been promoted to the post of "roaming technician", allowing them to fully capitalize on the know-how built up during their time with the call center and giving them an opportunity to further develop their careers.

17.1.3.2 Training indicators

In 2012, the Group provided over 500,000 hours of training, corresponding to the equivalent of 78 hours of training per employee per year. Nearly 75% of the workforce followed some form of training course during the year.

The increase in the volume of training hours in 2012 was notably due to the large-scale recruitment drive carried out in connection with the launch of the Freebox Revolution and the Group's mobile offerings. However, as the majority of new hires during the year were in France the volume of induction training for international employees dropped significantly, which led to an overall decrease in the number of training hours outside France.

	Average monthly headcount in 2012	Average monthly headcount in 2011	Average monthly headcount in 2010	Number of training hours in 2012	Number of training hours in 2011	Number of training hours in 2010	Number of training hours/ Average annual headcount in 2012	Number of training hours/ Average annual headcount in 2011	Number of training hours/ Average annual headcount in 2010
Total – France	4,461	3,016	2,405	317,302	193,082	118,443	71	64	49
Total – Outside France	2,028	2,023	1,721	186,077	297,560	120,911	92	147	70
TOTAL	**6,489**	**5,039**	**4,126**	**503,380**	**490,642**	**239,354**	**78**	**97**	**58**

17.1.4 EMPLOYEE RELATIONS

17.1.4.1 Organization of employee relations

The Group firmly believes in the importance of fostering good employee relations, particularly through negotiations with employee representative bodies.

For example, in 2012 when Iliad carried out an internal reorganization to streamline its data processing activities dedicated to subscriber relations it conducted an information/consultation procedure with the Company's works council.

The high-quality employee relations within Iliad have been achieved thanks to ongoing, open discussions between Management, employees and employee representatives. The Group considers these discussions extremely important and has therefore created the necessary tools and systems to enable all employees to be able to express their opinions in an informal way. One such tool was the employee satisfaction survey carried out in all of the Group's subsidiaries as part of the AFNOR quality certification obligations. The aim of this survey was to identify any changes and improvements that could be made. Its findings showed that the employees' main focuses were maintaining good employer/employee relations, health and safety, and career development opportunities.

Similarly, the Group encourages internal communication and teamwork through the creation of social networks on the Intranet. Employees in the Subscriber Relations Department also have an in-house magazine called *Free for You* which gives updates on the Group's latest news.

Iliad has a flat management structure and all employees – irrespective of their position and job status – work in an open plan office space. This immediate proximity between employees and their managers facilitates working relations between them and enables information to circulate more freely.

17.1.4.2 Collective agreements

Group Senior Management and the Human Resources Department regularly hold constructive talks with the trades unions and other employee representative bodies. Currently seven unions are represented within the Group.

In 2012, the Group launched a large-scale program that resulted in the signature of a number of new collective agreements in France, including:

- an agreement on effective working time and an agreement on jobs and skills planning;
- two agreements on the improvement of variable compensation systems for the call centers;
- an amendment to the agreement on working time and an agreement on health insurance and disability insurance (signed with the majority unions);
- an agreement to set up an *Unité Economique et Sociale* grouping all of the Group's contact centers, owned by M.C.R.A;
- the agreed minutes on the annual negotiations carried out with the four unions represented within Iliad S.A.

17.1.5 HEALTH AND SAFETY

- Although the Group's business does not include any high-risk activities, Iliad takes great care to ensure the health and safety of its employees on a daily basis. Since the Group was formed it has applied a strict health and safety policy and strives to reduce all types of accidents and safety incidents in the workplace.

  Furthermore, in the aim of enhancing its employees' daily working conditions the Group has reorganized and enhanced its office space. For example, when the new headquarters building was fitted out, the managers asked their teams to identify what they needed from their new working space and involved them in the design process.
- Iliad also offers its employees a number of additional benefits to make their working day as stress-free as possible, such as lounges and relaxation areas with a cafeteria on each floor as well as special smoking and non-smoking areas.
- In addition, employees who have financial difficulties can contact a special advisor who can give them comprehensive and personalized assistance in order to precisely assess their personal and financial situation and help them find the most appropriate solutions. With a view to preventing psycho-social risks, the Group has integrated into its health and safety measures a psychological support unit which provides free advice to employees suffering from psychological difficulties.
- In 2012, the Group added to its Health, Safety and Working Conditions Committee by recruiting a specific employee health and safety officer.
- The Group also has a workplace doctor and a nurse at its premises who are in charge of overseeing employees' well-being from a medical perspective.
- At its technical sites, Iliad has launched a safety training plan for its technicians (notably on technical authorizations and evacuation procedures) and has rolled out a broad-based first-aid training

program. New hires are systematically given training on how to avoid work accidents. For jobs entailing heavy labor Individual Health and Safety Plans (PPSPS) are put in place.

Any employees working at height are required to wear personal protective equipment (PPE) to prevent accidents and are given specific training on the risks of this type of work when they join the Group.

In view of the nature of Iliad's business, its work accident rate is very low. In 2012, ten work accidents were reported within the Iliad UES. Most of these accidents occurred on the commute to or from work and not in the workplace itself.

No occupational illnesses were declared in 2012.

17.1.6 DIVERSITY AND EQUAL OPPORTUNITIES

Promoting diversity, equality and non-discrimination forms an integral part of Iliad's human resources policy.

Thanks to the wide diversity of profiles and nationalities making up its 6,506-strong workforce, the Group has a real corporate culture built up around people who share a joint passion – technological innovation.

17.1.6.1 Promoting gender balance

Iliad respects the principle of gender equality by applying a fair policy in terms of recruitment, access to training, compensation and promotion.

The Group takes care to ensure equal pay for men and women who carry out equivalent jobs and have the same levels of skills, responsibility and performance. A report on gender equality is drawn up every year and is submitted to the works council. This report must be submitted prior to the start of the annual negotiations with employee representatives that are compulsory under French law.

Salary increases are solely based on skills and professional experience and the Group is determined to ensure that this remains the case.

In addition, the Group has implemented a number of measures to assist employees taking maternity or parental leave, including the following:

- before an employee goes on maternity leave or parental leave a meeting is held with their line manager and a human resources manager to prepare for their departure and to discuss their possible return date and their working conditions at that time;
- working hours are reduced by 30 minutes per day as from the third month of pregnancy;
- if the employees concerned so wish they can have specific meetings with their line managers and a human resources managers to discuss their rights;
- the Group does all that it can to accommodate requests from such employees to work part time;
- a meeting can be organized in the three months following the employee's return to work in order to discuss their situation.

17.1.6.2 Disability

We work to provide jobs for people with disabilities.

Some of the measures we have taken to do this are described below.

Raising awareness among our employees

In 2012, the Group participated in France's national disability awareness week in the aim of raising its employees' awareness of disability issues in the workplace.

One-off awareness-raising initiatives are also put in place, such as a disability audit carried out in one of the Group's companies in order to measure the level of employees' knowledge and awareness about the employment of people with disabilities.

Promoting the recruitment of people with disabilities and supporting them in their jobs

The Group's recruitment staff have followed a specific training course on recruiting people with disabilities with a specialized organization in France (ADAPT).

In line with its objectives of promoting employment opportunities for the disabled, in November 2012 the Group participated in a disabled workers' recruitment fair in the Paris region.

The various training courses and action plans put in place within the Group have a two-fold objective – to promote the recruitment of people with disabilities and provide them with support in their jobs. Examples of this on-the-job support include adapting workstations and putting in place specific working time arrangements.

Broadening the ways in which we work with people with disabilities

As part of our policy to help people with disabilities we have carried out work with a group of visually impaired people in order to make the Free portal easier to use for subscribers with the same disability. Similarly, we have put in place a help-desk platform for people with hearing loss or a hearing impairment. At the same time, we have opened up a new job category for deaf or hard of hearing video consultants to assist subscribers with the same type of disability.

17.1.7 PROMOTING AND RESPECTING THE PRINCIPLES OF THE FUNDAMENTAL CONVENTIONS OF THE INTERNATIONAL LABOUR ORGANIZATION (ILO)

The Group also respects the principles of the Fundamental Conventions of the International Labour Organization (ILO).

17.2 ENVIRONMENTAL INFORMATION

The Group's business activities (landline and mobile telephony and services) have a limited environmental impact compared with heavy industrial activities. However, the services provided by the Group are at the heart of the current growth in the digital economy which necessitates ever more energy-hungry infrastructure.

For many years now the Iliad Group has taken steps to factor sustainable development issues into its operations and we have set up a continuous improvement process for controlling our environmental impact, which has become a major objective.

The Group's environmental strategy is structured around two clear, precise goals – controlling both our energy consumption and our waste production levels.

For the purpose of overseeing the Group's CSR policy, an Environment and Sustainable Development Committee was set up in late 2012. Several different departments work together with the committee to determine the Group's overall environmental policy, under the responsibility of Senior Management.

The reporting scope covered below corresponds to all of the Group's French entities.

17.2.1 CONTROLLING ENERGY CONSUMPTION AND THE USE OF RAW MATERIALS

Managing energy consumption is one of the key areas of the Group's environmental policy. Our aim is to contain the environmental impact of both our direct operations (i.e. controlling the energy consumption of our buildings, vehicles and networks) and the products and services used by our subscribers (through eco-design initiatives).

17.2.1.1 Controlling energy consumption of buildings

Through its Environment and Sustainable Development Committee, the Group has put in place a number of measures aimed at protecting the environment, including:

- installing up-to-date heating and air-conditioning systems that respect the applicable environmental standards;
- using water pressure reducers to limit the use of water at our service sites, and installing dual-flush toilets;
- setting up a centralized system for managing printers to ensure that equipment is shared;
- centralizing the lighting systems in our properties in order to economize on energy, notably by switching off all office lights as from 9 p.m;
- setting up a domestic waste sorting system in order to increase the amount of recycled domestic waste;
- more generally, regularly raising employees' awareness about the reasonable use of resources through a guide on everyday environmentally-friendly behavior and also via campaigns carried out through the Group's various communication channels.

In order to effectively implement our energy policy for buildings we intend to set up a system for tracking the energy consumption of our main premises by item (heating, cooling, electricity, etc.).

17.2.1.2 Vehicle fleet

As part of its "green driving" program, the Group has launched a large-scale renewal program for its automobile fleet. In 2012, the Group's automobile fleet comprised 1,274 vehicles, i.e., 187 more than in 2011.

The Group's policy for short-distance journeys is to use more environmentally-friendly vehicles. Currently, 43% of the Group's automobile fleet is made up of Citroën C3s. This model consumes an average of 3.7 liters per 100 km and emits less than 99 g of CO_2/km.

Significant progress was made in 2012 in terms of CO_2 emissions and energy consumption for the entire fleet. The average level of the Group's CO_2 emissions is 108 g of CO_2/km per vehicle.

In 2012, the average level of emissions per vehicle in France was 130 g/km, whereas within the Group 98% of the fleet had a level below 120 g/km.

In 2013, the Group plans to include electric cars in its vehicle fleet.

Another aspect of the "green driving" program in 2012 was the launch of ecodriving lessons for employees.

17.2.1.3 Networks

The networks account for the majority of the Group's overall energy consumption and are closely monitored by the Group. To this end, the radioelectric equipment installed by Free Mobile is all new-generation, which is up to five times smaller and lighter than previous generations and uses twice as little energy.

A best practices guide has been drawn up for datacenters so that teams can minimize all types of energy wastage. The measures adopted to achieve energy efficiency and minimize energy loss have made our datacenters highly innovative structures in terms of electricity consumption. The technologies used are detailed in an internal specifications document entitled ECS 2.0.

In the aim of ensuring that its energy policy complies with industry standards the Group respects the requirements of the EU Code of Conduct on Data Centres' Energy Efficiency, which it signed up to in 2012.

The main energy efficiency measures put in place for our datacenters are structured around the following three areas:

- Power Usage Effectiveness (PUE): the Group's most recent datacenters built according to the ECS 2.0 specifications have a PUE rating of less than 1.4, which is a major advance compared with traditional datacenters;

- improving datacenter cooling systems, which represent a significant proportion of a facility's power consumption. The Group's innovative approach in this area is based on the free-cooling technique which uses outside air to cool IT infrastructures. This technique enables datacenters to use 15% to 20% less electricity than standard cooling methods, and in 2012 the Group saved 12.2 GWh;
- as part of an overall ecological and responsible approach, the Group has developed an innovative technology capable of recovering and reusing the excess heat generated by its datacenters. One practical example of this approach is an energy recycling mechanism designed by the Group that uses a heat exchanger to supply heating for social housing in Paris.

For the coming two years, the Group's objective is:

- to publish a technical specifications document in the first half of 2013, grouping together all of its innovative technical solutions for maximizing the energy efficiency of datacenters;
- to ensure that by the end of 2014, 50% of the electricity purchased for use by datacenters is certified as renewable-source ("équilibre +") by EDF. Under this EDF program the Company gives a renewable energy commitment – which represents an additional cost of between 1% and 3% of the total electricity bill (excluding VAT) – and EDF guarantees to provide the proportion of electricity requested from renewable sources.

17.2.1.4 Freebox equipment

As well as controlling its direct environmental impact, Iliad strives to ensure that it offers its subscribers eco-friendly products and services in order to help them more effectively control their own energy consumption. For example, the Freebox development teams have put in place an eco-design approach that includes reducing the size of Freebox components and increasing their recyclability.

The Freebox Revolution – the Group's latest-generation modem – constitutes a major innovation in terms of eco-design. It marks a significant step forward as it is more multi-functional than its predecessors and is fitted with the latest energy-efficient technology which means that it uses up to 10 times less electricity in standby mode (700mW) than the previous generation of boxes. Thanks to its more multi-functional design it includes features such as a Blu-ray™ DVD player, which would otherwise be standalone devices. The Group's overall aim is to reduce the amount of hardware needed by consumers thanks to the range of functions offered by the Freebox Revolution.

17.2.2 CONTROLLING RAW MATERIALS CONSUMPTION AND WASTE PRODUCTION

17.2.2.1 Paperless communication media

For a number of years now Iliad has adopted a paperless strategy aimed at reducing both its use of paper and the energy used for printing.

For the Group's internal operating procedures, employees are encouraged to use virtual communications tools and the main methods used are email and video conferences.

The Group also has paperless relations with its subscribers, using durable electronic media at all stages of the subscriber relationship (initial subscription and follow-up management, invoicing, marketing, etc.)

17.2.2.2 Use of raw materials in packaging

As part of its overall waste management strategy the Group has taken steps to reduce the amount of raw materials it uses in its packaging. The Group's research teams have designed innovative solutions using biodegradable materials and recyled paper in order to create ergonomic packaging that is shaped and sized in line with the boxes it contains. This reduces both empty space and the amount of paper and outer packaging required. Freebox packaging is also optimized in terms of weight and volume and has been designed from the outset to be resistant throughout the boxes' life cycle.

Furthermore, from a logistical perspective, the reduced volume of packaging means that more boxes can be transported in one delivery journey.

For several years now, the Group has also sought to raise the awareness of users about keeping and returning packaging. In 2012, the return rate for packaging (from cancellations, after-sales services and exchanges) was over 75%. The returned packaging is then recycled through specifically approved channels.

17.2.2.3 Optimizing waste management

The Group generates different types of waste in the course of its business activities, with the largest proportion corresponding to electronic equipment and components.

Waste electronic equipment and hazardous waste

All of the Group's subsidiaries comply with the recycling requirements applicable in Europe under the EU Directive on Waste Electrical and Electronic Equipment (WEEE). As part of its overall waste management policy, the Group uses registered waste disposal providers to recover its WEEE which is collected, sorted and recycled in accordance with the applicable legislation.

At Online, all waste from datacenters has been fully recovered and recycled since 2009. This covers electronic waste from IT equipment as well as non-hazardous industrial waste, with the following recovery rates:

- 85 metric tons/year of cardboard;
- 55 metric tons/year of plastic;
- 18 metric tons/year of electronic waste;
- 15 metric tons of raw materials (lead, copper and aluminum).

Concerning hazardous waste – particularly toxic liquids and gases – Online's teams applied the requirements of the Montreal Protocol on Substances that Deplete the Ozone Layer ahead of the stated timetable and eliminated all R22 refrigerant gas used in its datacenters. Between 2008 and 2010 this type of gas was gradually replaced by R407C and R134A refrigerant gases which are more environmentally friendly.

Lastly, the Group has replaced traditional transformer oils by natural ester triglyceride. In France, Online was the first operator to introduce the large-scale use of this ecological oil which has a biodegradation rate of 99% after only 43 days.

Freebox modems

In order to limit the amount of waste generated by its manufacturing operations, the Group systematically re-uses electronic equipment. Consequently, whenever subscribers terminate their subscription, the Freeboxes and their accessories have to be returned in good working order or the subscriber is required to pay a penalty. This policy is one of the ways that the Group ensures that it recycles the waste generated by its activities in accordance with the applicable regulatory standard.

The Group records a provision in its financial statements for the costs of recycling WEEE.

Reconditioning

The Freeboxes and related accessories that are recovered are reconditioned in the Group's Freebox manufacturing plants in France or elsewhere in Europe before being redispatched for use by another subscriber. By reconditioning its equipment in this way, the Group is able to reduce the amount of raw materials it uses and also to limit its ecological footprint. Accordingly, the majority of Freeboxes are recycled and reconditioned for new use by another subscriber.

Any irreparable Freeboxes are sent to the Group's waste disposal providers in order to be dismantled, sorted and recycled in accordance with the applicable European standards and regulations.

For its entry-level offerings, the Group re-uses previous versions of the Freebox (Version 5), thereby maximizing the lifespan of its equipment.

Optimizing the life cycle of telephones

By proposing offers with no obligation to purchase a telephone, the Group effectively encourages its subscribers to re-use their old phone. In so doing it has put a brake on the systematic process of subscribers signing up to a new contract in return for changing their telephone, therefore helping to increase the life cycle of telephones.

In 2012 Free Mobile set up a program for collecting used phones at Free Centers and then sending them to the Group's waste disposal providers to be recycled. The Group has set itself the objective of doubling the number of telephones collected in this way over the next few years.

17.2.2.4 Effectively managing transportation

As well as the eco-design and eco-innovation solutions already put in place, logistics is another key area where the Group puts its sustainable development policies into practice.

Multimodal transportation

The Group has set up a sustainable supply chain project that involves extending the use of multimodal transport (i.e., by combining road, rail and sea transport) with a view to containing energy consumption and greenhouse gas emissions.

The Group's first commitment to achieving more sustainable transportation systems was its decision to use more environmentally-friendly means of transportation. This led its logistics teams to stop using air freight altogether and then to massively reduce the proportion of road transportation used in the supply chain.

Despite longer timeframes and higher logistics costs, for a number of years now the teams at Freebox have systematically used sea freight as it is less polluting than other means of transportation.

For its overland and inter-site transportation requirements, Freebox uses rail for part of the journey, which is a first in its industry. Rail freight – which is less polluting than road transportation – cuts down significantly on CO_2 emissions and only the last few kilometers to the user are traveled by truck.

Optimizing the transportation chain

As part of its eco-logistics approach, the Group has set up several processes in its supply-chain organization to optimize loads and transportation flows.

Loads are optimized by packing more into containers and trucks. The format of the loading pallets used has been harmonized in order to enhance the surface area/energy ratio. The Group also strives to eliminate empty running and ensure that only full trucks transport its products.

In order to reduce inventories, costs and CO_2 emissions, the logistics team has set up multiservice platforms from which the Group's products are distributed in an optimal way to end customers (via local stores, pick-up points or home deliveries).

In a constant bid to reduce distances traveled, the Group's logistics sites are located as near as possible to ports of discharge and distribution points, i.e., as near as possible to subscribers and road freight providers. Another way transport distances have been optimized is by reducing the number of links in the supply chain, with products delivered directly from the logistics platform to the Free Centers.

Supply chain objective

Iliad's supply chain objective is to reduce the number of small, fragmented deliveries, which push up both the Group's transportation costs and its carbon footprint. Going forward in the coming years, the Group intends to:

- create pick-up points that are closer to subscribers' homes for delivering or returning Freeboxes;
- pool the distribution of Freeboxes to stores, pick-up points or users' homes. As the groupage rate per collection point is much higher when products are distributed via pick-up points than when they are delivered to subscribers' homes, the Group intends to contain its own carbon footprint as well as that of its subscribers, by using more pick-up points;
- involve business partners more in the Group's CSR approach.

17.2.3 MEASURES TAKEN TO PROTECT BIODIVERSITY

In view of the nature of its operations, the Group has a limited impact on biodiversity. Nevertheless, it has put in place initiatives aimed at protecting biodiversity, such as a partnership entered into with the French Bird Protection Society (LPO) when it set up a mobile phone base station in Metz.

In addition, when Free Mobile uses tubular antenna masts – which have the advantage of blending more effectively into the landscape – they are sealed off in order to prevent birds and animals trying to nest in them and therefore harming themselves.

17.3 A RESPONSIBLE ENTERPRISE

As a leading player in the electronic communications industry, the Group is duty bound to act responsibly and be a good corporate citizen. Over the years, Iliad has built up a solid image of defending its subscribers' purchasing power.

The Group's CSR strategy consists of allying financial performance with environmental protection and a fair and equitable approach. Iliad's sustainable development approach is underpinned by a firm belief that we can and must meet our customers' demands in a responsible way. We must be able to factor into our operations all of the conflicting concerns of today's society, such as reducing costs, combating climate change and improving purchasing power.

To ensure that the Group's CSR strategy is firmly embedded in its business, the Environment and Sustainable Development Committee works with all of Iliad's subsidiaries to ensure that they act in an ethical way and respect all the applicable laws and regulations.

For Iliad, being a responsible enterprise also means building solid, transparent relations with its suppliers and subscribers and incorporating sustainable development issues into its everyday practices. In sum, the corporate social responsibility strategy advocated by the Group means working together to apply a set of shared values.

17.3.1 PROVIDING MORE INFORMATION TO THE AUTHORITIES, SUBSCRIBERS AND THE GENERAL PUBLIC ON THE POTENTIAL HEALTH HAZARDS OF RADIO WAVES AND ELECTROMAGNETIC FIELDS

17.3.1.1 Ensuring regulatory compliance

Within the framework of their mobile telephony operations, Iliad and Free Mobile have undertaken to respect the limits on exposure of the general public to electromagnetic fields set in French Decree 2002-0775 of May 3, 2002 (which transposed into French law the recommendation issued by the Council of the European Union on July 12, 1999). These limits correspond to those set by the ICNIRP and those recommended by the WHO.

17.3.1.2 Measuring exposure to electromagnetic waves

In line with its stated priority of providing transparent information, the Group has responded favorably to all requests from local authorities with respect to measuring exposure levels to electromagnetic waves. The electromagnetic field measurements taken up until now around Free Mobile's sites have never shown values in excess of the regulatory limits.

In addition, Free Mobile contributes to a fund set up for financing the measurement of electromagnetic fields, via the IFER tax in France (flat-rate tax on network operators).

However, the terms and conditions of how this financing system will work have not yet been put in place. This means that Free Mobile is currently financing the measurement of electromagnetic fields in two different ways – directly, as explained above, and through the IFER tax.

17.3.1.3 Promoting transparent information about exposure to electromagnetic waves and health issues

More generally, in its relations with elected officials, subscribers and the general public, the Group seeks to provide as much information as possible.

Concerning exposure to electromagnetic waves emitted by mobile phone base stations, the specialist report issued on October 15, 2009 by the French Agency for health Food, Environmental and Occupational Health & Safety (ANSES) and safety in the environment and at work concluded that "data from currently available experimental research does not point to any undesirable short-term or long-term health effects resulting from exposure to radio waves. Likewise, epidemiological data does not indicate any short-term effects from exposure to radio waves". This position is shared by both national and international health authorities.

In order to more effectively share its knowledge on this subject with elected officials and the general public, Free Mobile regularly posts up governmental documents about mobile phone base stations and FAQs on the issue, as well as its own information documents.

Free Mobile also informs its subscribers of how best to actually use their mobile phones in order to limit exposure during telephone conversations, such as using a handsfree device for telephone calls, calling in areas with good-quality radio reception etc. Even if the national and international health authorities say that the use of mobile telephones presents no known risks, out of precaution there are a number of recommended best practices, particularly using handsfree devices for calls.

Since it arrived in the market in January 2012, Free Mobile systematically provides a hands-free kit with each phone that it sells (see http://mobile.free.fr/mobiles.html). In addition, Free Mobile always indicates the maximum exposure level (SAR) for each of the phones it sells, on its website, in its stores or on the packaging of the phone.

17.3.1.4 Going one step further than the regulatory requirements for rollouts of base stations

As part of our commitment to rolling out our base stations in a transparent and responsible way, we have pledged to:

- respect the French Guide on Relations between Operators and Towns (GROC), which defines the framework for relations between operators and local authorities with respect to setting up mobile phone base stations. This guide was drawn up in 2004 by the Association of Mayors in France (AMF) and the French Association of Mobile Operators (AFOM, since renamed the *Fédération Française des Télécommunications*, or FFT), and was updated in 2007;
- take part in talks with the various stakeholders before deploying any base station;
- provide information to local elected officials and answer their questions;
- answer any questions that local residents may have;
- contribute to technological progress by actively participating in the French governmental round-table discussions on electromagnetic waves, notably its COPIC steering committee on research into reducing exposure and on information and concertation procedures. A manager has been recruited who is specifically tasked with monitoring the Group's work in this area.

17.3.1.5 Research into the potential health effects of electromagnetic waves

Through the IFER tax Free Mobile contributes to the financing of research carried out on the potential health effects of electromagnetic waves. In parallel, it has put in place its own pro-active policy to monitor the technological issues concerning electromagnetic fields and their potential health effects. An Environmental Health Officer has been recruited to oversee this policy and to actively participate, as from its creation, in the national dialog committee for scientists and stakeholders concerning the potential health effects of electromagnetic waves, set up by the French Agency for Food, Environmental and Occupational Health and Safety. As well as acting as a think tank and being a forum for discussion, this committee issues scientific and technical advice (where requested) as well as recommendations on the areas in which research should be carried out.

17.3.2 RESPECTING THE LOCAL POPULATION WHEN ROLLING OUT OUR NETWORK

17.3.2.1 Commitment to limiting noise levels

As part of our rollout plan, we committed to mayors and condominium owners that the level of noise generated by our equipment would not be any higher than existing noise levels in the areas concerned. In line with this commitment, the Group respects French Decree 2006-1099 of August 31, 2006 relating to reducing local noise levels as well as the regulation issued on July 1, 2007 concerning limits on intrusive sound caused by professional activities compared with ambient noise levels.

Consequently, for its datacenter operations and optical fiber rollouts, the Group ensures that the maximum sound variance above ambient noise levels is 3dB at its property boundaries.

In addition, for many years, the Group has made considerable efforts to reduce the sound levels of its production equipment, via soundproofed walls, sound traps, acoustic cladding and sound-absorbing shields.

17.3.2.2 Respecting the landscape

The Group has undertaken to local authorities that when requested it will examine how it can install its base stations in a way that they blend into the local landscape. Ever since the Group made this commitment, Free Mobile has responded favorably to all landscaping requests formulated by the French organization of heritage architects (*Architectes des Bâtiments de France*), the managers of public spaces and municipalities.

17.3.2.3 Information and concertation processes with local authorities and other local stakeholders

Over a number of years Iliad has built up a structured information and concertation process with local stakeholders in the aim of forging close and trusting relations at a local level.

In order to effectively put this strategy into practice Free Mobile has set up a six-person team – headed by a specifically appointed manager – that is responsible for overseeing the concertation process with local authorities at each stage of its network development. The process is carried out in line with the recommendations set out in the French Guide on Relations between Operators and Towns drawn up by the Association of Mayors of France, and any applicable local charters or regulations.

Free Mobile has signed up to around a hundred local authorities' charters in relation to the rollout of its network.

In tandem, Free Mobile actively participates in information campaigns initiated by municipalities (through meetings and information centers) and takes part in consultative committees and regional concertation processes where required.

In 2012, the Group also played an active role in several major initiatives, through:

- negotiating charters with local authorities to inform elected officials and the local population about the installation of base stations;
- publishing an information letter, primarily for the attention of elected officials (members of parliament and senators), explaining the Group's business activities. This type of letter is published three to four times a year on average;
- extending the unbundled offer to over 2,600 towns across France, in response to strong demand from local elected officials for broadband coverage;
- participating in work launched by local authorities as part of the national digital development plan;
- drafting pedagogical documents for elected officials, including data sheets, posters, handbooks on how a mobile telephony network operates, and documents on the potential health effects of electromagnetic waves;
- passing on to local elected officials or at information meetings or information centers, pedagogical data sheets drawn up by the

French State since November 2011 on base stations (including FAQs) and operators' obligations (these sheets are available on the French government website at www.radiofrequences.gouv.fr).

17.3.3 SUBSCRIBER RELATIONS

In all of our various businesses, we have always made sure we have an open dialog with our many subscribers, which has enabled us to anticipate their need for straightforward, value-for-money offerings.

17.3.3.1 Informing and protecting subscribers

Social and environmental responsibility implies informing consumers in a transparent way about the Group's business activities. That is why the Group ensures that it acts as a responsible operator towards its consumers on a daily basis.

To this end, we take care to apply an ethical approach in our commercial communications, in compliance with the applicable laws and regulations. In addition, as part of our "responsible marketing" plan we take measures to prevent any ill effects from mobile phone use and inform users of best practices to limit their exposure to radio waves when using their phones. Even if the national and international health authorities say that the use of mobile telephones presents no known risks, out of precaution there are a number of recommended best practices, particularly using handsfree devices for calls. Other ways of reducing exposure include SMS messages, emails and the Internet where users only need to look at the screen and the phone is held away from the head and upper body. Lastly, the exposure levels for a phone running on a 3G network are around 100 times lower than for a phone in 2G.

Being a responsible operator also means proposing controls to protect our subscribers – especially children – from upsetting or illegal content. Consequently, the Group provides its users with parental control software called "Free Angel" which filters out this type of content. As well as these filters, Free Angel offers a control feature whereby parents can set their children's connection times.

Generally, the Group attaches great importance to security for its subscribers and the protection of their personal data. This is a major concern that has led the Group to make a number of strategic choices. For example, in terms of information systems the Group privileges in-house developments carried out by employees who have recognized experience, which enables it to be more reactive and less dependent on third-party providers. By using OpenSource technologies – which are more flexible and resilient than proprietary systems – the risk of security breaches is better controlled and documented. Access to data bases containing subscribers' personal information systematically requires authentication, with hierarchical access levels and archived authentication logs. Lastly, in accordance with Decree 2012-1266 of November 15, 2012, the department of the French government responsible for IT security may carry out audits on the Group's security systems whenever it deems fit. The Group does not communicate any personal data of its subscribers to third parties other than when required to do so by law.

17.3.3.2 Subscriber satisfaction

Satisfying our subscribers is a key objective of our corporate strategy and our commitment to quality forms the bedrock of our sales and assistance policy.

First and foremost we seek to satisfy our subscribers by proposing the best offers at the best prices and by ensuring high-quality subscriber relations. Consequently, for over ten years now we have developed innovative services and democratized access to new information and communication technologies.

All of these efforts to enhance our subscriber relations were recognized by the high rankings and prizes awarded to the Group in numerous surveys carried out in 2012, including:

- a survey published in May 2012 by France's largest consumer association (**UFC – Que Choisir**), which ranked Free no. 1 for consumer satisfaction (with a rate of 92.3%);
- a **TNS Sofres/Bearing Point survey**, which awarded Free first prize in the Podium 2012 customer relationship management awards for mobile telephony;
- **a KPAM survey**, which ranked Free the best hotline experience for French consumers in the ISP/telecommunications operator category (June 2012);
- **a customer satisfaction survey published by the consumer association** *60 millions de consommateurs* in September 2012, in which Free came number one with a subscriber satisfaction rate of over 94%;
- a **TestnTrust** survey issued in December 2012, which put Free in first place for subscriber satisfaction in the ISP/telecommunications operator category for the third quarter in a row.

In March 2013, Free won the Best Workplace France 2013 prize from the Great Place to Work Institute. This prize picks out companies that are great places to work because of their ability to recognize and reward the input of their employees and to create an enjoyable and fulfilling working environment. The heads of the companies selected view employees' well-being as vital to the company's success.

17.3.3.3 Relations with consumer associations

Iliad has forged a solid market reputation thanks to the values it upholds. Over the years our approach to subscriber relations has enabled us to build up a close relationship both with individual subscribers and the consumer associations that represent them.

17.3.4 BUSINESS ETHICS

The Iliad Group's CSR policy complies with all of the applicable laws and regulations. This policy – which is set out in the Group's Code of Conduct – requires all of the Group's stakeholders to respect all applicable laws and to act in a fair, ethical and transparent way.

17.3.4.1 Purchasing policy

The Group carefully selects its suppliers and purchases and contributes to the development of its suppliers and providers. For many years the Group has implemented a responsible purchasing policy that factors in sustainable development issues.

When selecting its suppliers the Group takes into account CSR criteria, particularly respect for human rights (child labor, illegal work, etc.), legal and regulatory compliance, and the application of environmental criteria. As part of its responsible purchasing policy the Group may carry out audits at some of its partners.

The Group is currently working on putting in place a procedure for verifying the CSR practices applied by its subcontractors and providers in France and is compiling a database of approved subcontractor firms, with legal documents proving that they comply with the applicable laws and respect human rights.

17.3.4.2 Fair practices

The Group has undertaken to fight corruption in all its forms within its everyday operations and to ensure that its employees do the same. This includes respecting:

- anti-corruption legislation;
- the confidentiality of information to which employees have access as part of their job;
- the security of its subscribers' data.

17.3.4.3 Actions to help the local economy

The Group also works with small and medium-sized enterprises (SMEs) to help their development. At Online, for example, 71% of outsourced work was performed by SMEs with fewer than 200 employees.

17.3.4.4 Code of Conduct

The Iliad Group was built on strong values – transparency, simplicity and freedom of use. It is these values that have shaped its corporate culture and laid the basis of its strong reputation. The overriding objective is that the Group and all of its employees comply with the laws and regulations in force in each country where it operates.

Employees are regularly reminded of the need to apply this principle, and the Group's Code of Conduct is given to each new recruit.

17.4 A GOOD CORPORATE CITIZEN

The Group has strengthened its commitment to society at large through the Free Corporate Foundation.

17.4.1 THE FREE CORPORATE FOUNDATION

The mission of the Free Corporate Foundation (the Free Foundation) is to undertake initiatives to bridge the digital divide that exists in various forms in today's society. In line with the Group's overall commitment to corporate social responsibility, one of the key ways the Free Foundation has pursued this mission since its formation in 2006 is by promoting the development of open-source software.

The Foundation has a clear objective – to enable as much of the French population as possible to have access to new technologies. To achieve this objective – for which it has a three-year budget of €1.2 million – the Foundation funds various projects aimed at combating the digital divide and the social and cultural exclusion that this divide engenders. In so doing it supports those who are working to fundamentally improve the lives of people today and pave the way for future generations.

In 2012, the Free Foundation assisted over 25 charitable projects. The Foundation's work breaks down into four main areas.

17.4.1.1 Supporting charities and non-profit organizations

In 2012, the Free Foundation supported projects led by the following organizations.

GIAA (Groupement des Intellectuels Aveugles ou Amblyopes)

The GIAA's objective is to create books and other literary and cultural works in formats adapted for visually impaired people, and to offer IT training with specific tools in order to help them access the Internet. Through its support for the GIAA, the Foundation is contributing to the social and professional integration of blind and visually impaired people by making it easier for them to access culture, education and leisure activities.

The Foundation also supports the *Centre Expérimental Orthophonique et Pédagogique* in its combat against hearing impediments in children.

Agence Nouvelle des Solidarités Actives (ANSA)

The partnership between the Free Foundation and ANSA covers the following main areas:

- social development and experimentation, through a program called *TIC'actives* which involves experimental measures to combat poverty, create networks and raise awareness about social inclusion, etc.;
- access to technologies and their use by disadvantaged populations (providing training and IT equipment in underprivileged areas and support services to promote social and/or professional integration, etc.).

Ateliers Sans Frontières (ASF)

The aim of this program is to provide IT equipment to charities and organizations to help them with projects concerning social integration, education and IT training.

CHRS du Château de Radepont (Salvation Army Foundation)

The French Salvation Army Foundation provides assistance and support to people who are homeless or socially excluded. It organizes workshops based on new information and communication technologies

(NICT) to help adults suffering from or at risk of social exclusion and also to teach IT basics to foster children.

Association Humanitaire Conseil Europe (AHCE)

The aim of this organization is to help people in difficulty by giving them computers donated by corporations that no longer use them. The AHCE also provides training on open-source software (Ubuntu, LibreOffice, Gcompris, etc.), which makes a significant contribution to reducing the digital divide between rich and poor countries.

17.4.1.2 Donating servers

In addition to its partnerships with charities and non-profit organizations, the Free Foundation also hosts and provides the use of some 50 servers for various associations including April *(Association pour la promotion et la recherche en informatique libre)*, AFAU *(Association Française des Amateurs d'Usenet)*, OxyRadio (a non-profit webradio station that promotes artists who allow free online access to their works), OpenStreetMap France Association, the Agoravox Foundation and the Framasoft Association.

17.4.1.3 Raising awareness about the use of NICT

During 2012, the Free Foundation took part in awareness-raising campaigns about new information and communications technologies including events organized with Renaissance Numérique – France's internet citizens' think tank – and OVEI, a non-profit organization which organized an information session with the French Economic, Social and Environmental Consultative Committee to bring together Internet professionals and elected officials with a view to giving politicians and civil servants a better understanding of the key issues relating to the Internet and its future.

17.4.2 NETWORK ROLLOUTS AND OPTICAL FIBER

The digital revolution has opened up new horizons for mankind. However, in order for everyone to benefit from this revolution, digital networks need to be rolled out across the various geographical territories. In France, Free is actively involved in this process, which it views as a vital component for bridging the digital divide.

The Group supports local regional development by facilitating access to NICT and the new uses of these technologies.

As a pioneer in unbundling France's local loop since 2002, Free's aim is to continue to extend it further to offer unbundled access to the largest number of people possible. The Group's unbundling offerings currently cover almost 92% of the French population and Iliad is continuing its efforts to unbundle new France Telecom subscriber connection nodes. This commitment demonstrates Free's aim of continuing to connect households in low-density population areas.

The Group's optical fiber rollout program is a logical extension of its broadband strategy. As was its aim from the outset, Free was the first operator to make optical fiber available to the French consumer market. Outside France's major towns and cities, the Group is continuing to invest in optical fiber networks which will gradually take the place of copper networks and enable operators to become independent from the incumbent operator and thereby free them from a number of constraints.

In 2006, Iliad announced an FTTH rollout plan covering several million households. Almost €750 million has been invested in this plan to date.

In 2010, the European Investment Bank granted Iliad a €200 million loan in order to help finance the rollout of its optical fiber network.

17.4.3 COMMUNITY OUTREACH BY ILIAD EMPLOYEES

The Group takes part in various community initiatives and encourages its employees to contribute to causes that reflect Iliad's corporate values.

17.4.3.1 Sidaction

Every year for the past six years, Iliad has supported the fundraising day organized by Sidaction for combating aids. As part of this support the Group lends its premises for the event, asks its employees to give up their time to help as volunteers, broadcasts the Sidaction logo on Freebox TV and displays the Sidaction banner on the Free portal in order to rally as many people to the cause as possible.

In general we invest a lot of time and resources to encourage our employees to participate in voluntary work and help in community projects and programs.

17.4.3.2 World Cleanup 2012

This year, Iliad was an official partner of World Cleanup 2012, an eco-citizen project that forms part of a global endeavor organized by the Let's Do It movement, an NGO with a network covering nearly 100 countries that campaigns against the proliferation of waste on the planet and cleans up illegal garbage from roadsides, forests and towns. The clean up event – which took place on September 22 in France – attracted 1,000,000 volunteers across the world in the space of three months.

The voluntary aspect of the project was key, giving each and every person the opportunity to improve the world at their own local level, in a spirit of optimism and patience. These are values shared by Free and the vast majority of its employees and subscribers.

The Group supported this unique and global-scale project in a variety of different ways including by displaying banners on the Free portal, publishing an article in its in-house magazine, organizing presentations in a day-long campaign in its Free Centers, encouraging its teams to volunteer by sending out an e-mail with a link to sign up, and setting up teams dedicated to the event within the Human Resources Department.

NOTE ON METHODOLOGY

The aim of this note is to explain the CSR reporting methodology used by the Iliad Group.

The data and information included in this report relate either to the Group's worldwide scope of consolidation or to all of its French entities, depending on the issue concerned. The scope covered is indicated in each case.

For human resources data, the indicators used are those applied for personnel management purposes within the Group's various subsidiaries. The Human Resources Department consolidates the compiled data. The human resources data disclosed concerns the Group's French subsidiaries, apart from information on headcount which covers the global scope of consolidation.

The indicators used for environmental reporting are those applied for operational management purposes at the Group's sites. The managers at the various subsidiaries collate and compile the data required.

The Group considers that disclosures on preventing, reducing and cleaning up discharges into the air, water and soil which seriously affect the environment are not relevant to the Group in view of the nature of its business.

The Group has deliberately not provided quantitative information for cases when no data was available (e.g., data on water usage).

The Group's CSR reporting framework is not as mature as its financial reporting system. Consequently, there is still room for fine-tuning the practical methods used to compile data. A continuous improvement process for CSR reporting was set up in 2013 in the aim of identifying and putting in place indicators to be tracked in the future and improving the related communication, monitoring and control processes.

18

MAJOR SHAREHOLDERS

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:

	December 31, 2012			December 31, 2011			December 31, 2010		
Shareholder	Number of shares	% capital	% voting rights	Number of shares	% capital	% voting rights	Number of shares	% capital	% voting rights
Xavier Niel(1)	33,806,900	58.65%	56.86%	33,806,900	59.27%	57.44%	34,965,720	63.93%	61.79%
Rani Assaf(2)	902,590	1.57%	2.99%	942,590	1.65%	3.16%	942,590	1.72%	3.28%
Cyril Poidatz(1)	690,614	1.20%	2.26%	690,614	1.21%	2.24%	690,614	1.26%	2.34%
Antoine Levavasseur(1)	537,324	0.93%	1.78%	537,324	0.94%	1.77%	552,607	1.01%	1.86%
Olivier Rosenfeld(3)	80,790	0.14%	0.13%	106,718	0.19%	0.18%	186,718	0.34%	0.33%
Pierre Pringuet(3)	2,037	NM	0.01%	2,037	NM	NM	2,037	NM	NM
Thomas Reynaud(1)	1,470	NM	NM	150	NM	NM	150	NM	NM
Marie-Christine Levet(3)	350	NM	NM	350	NM	NM	150	NM	NM
Orla Noonan(3)	300	NM	NM	300	NM	NM	300	NM	NM
Virginie Calmels(3)	150	NM	NM	150	NM	NM	150	NM	NM
Alain Weill(3)	100	NM	NM	6,212	NM	NM	754	NM	NM
Maxime Lombardini(1)	100	NM	NM	100	NM	NM	100	NM	NM
SUB-TOTAL – DIRECTORS AND OFFICERS	**36,022,725**	**62.50%**	**64.03%**	**36,093,445**	**63.28%**	**64.80%**	**37,341,890**	**68.27%**	**69.61%**
Public	**21,615,080**	**37.50%**	**35.97%**	**20,948,647** (4)	**36.72%**	**35.20%**	**17,294,550**	**31.62%**	**30.13%**
Iliad (own shares)	26,298	0.05%	0.04%	22,932	0.04%	N/A	60,300	0.11%	N/A
TOTAL	**57,637,805**	**100.00%**	**100.00%**	**57,042,092**	**100.00%**	**100.00%**	**54,696,740**	**100.00%**	**100.00%**

(1) Senior manager and director of the Company.
(2) Shareholder and senior manager of the Company (not a director).
(3) Shareholder and non-executive director of the Company.
(4) 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, 2012 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 2012 the Company disclosed to the AMF that four of its directors and officers and parties related to them had sold a total of 272,197 Iliad shares.

Summary table of trades in Iliad shares carried out by directors and officers in 2012

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

Name	Type of transaction	Number of shares	Average price
Olivier Rosenfeld	Purchase	14,072	€98.99
Alain Weill	Purchase	95	€96.63
Alain Weill	Sale	6,207	€101.61
Maxime Lombardini	Purchase*	138,000	€75.44
Maxime Lombardini	Sale	138,000	€108.01
Rani Assaf	Purchase*	40,614	€48.44
Rani Assaf	Sale	80,614	€118.09
Thomas Reynaud	Purchase*	48,696	€68.17
Thomas Reynaud	Sale	47,376	€124.59

* *Including shares received on exercise of stock options.*

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, 2012:

Major shareholders with double voting rights	Number of shares carrying double voting rights
Rani Assaf	902,590
Cyril Poidatz	670,307
Antoine Levavasseur	537,324
Xavier Niel	500,000

In the event of a capital increase by the capitalization of reserves, retained earnings or additional paid-in capital, 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

During 2012 no agreements were entered into with related parties within the meaning of Article R. 123-198 of the French Commercial Code that represented material amounts and were not under arm's length terms.

See Note 30 to the 2012 consolidated financial statements for information on related party transactions.

Details of transactions effected with the Company's main senior managers are provided in Chapter 15, Section 15.2 of this registration document.

Details of cash flows between Group entities are provided in Chapter 7, Section 7.1.

20

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

20.1 CONSOLIDATED FINANCIAL STATEMENTS FOR 2012, 2011 AND 2010

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, 2011 and the report of the Statutory Auditors thereon, as set out in Section 20.1 of the registration document filed on April 4, 2012;
- 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.

DETAILED SUMMARY NOTES

CONSOLIDATED INCOME STATEMENT

In € thousands	Note	At December 31, 2012	At December 31, 2011
REVENUES	**4**	**3,153,302**	**2,122,050**
Purchases used in production	5	(1,668,445)	(951,660)
Payroll costs [1]	6	(170,230)	(129,010)
External charges	5	(192,326)	(147,295)
Taxes other than on income		(29,743)	(17,257)
Additions to provisions	9	(148,115)	(29,559)
Other income from operations	8	46,200	27,264
Other expenses from operations	8	(69,262)	(41,134)
Ebitda [2]	*1*	*921,381*	*833,399*
Share-based payment expense	26	(10,353)	(10,036)
Depreciation, amortization and provisions for impairment of non-current assets	9	(499,312)	(325,171)
PROFIT FROM ORDINARY ACTIVITIES		**411,716**	**498,192**
Other operating income and expense, net	10	(6,391)	(4,645)
OPERATING PROFIT		**405,325**	**493,547**
Income from cash and cash equivalents	11	2,037	6,368
Finance costs, gross	11	(58,806)	(53,160)
FINANCE COSTS, NET	**11**	**(56,769)**	**(46,792)**
Other financial income	11	0	0
Other financial expenses	11	(34,308)	(33,961)
Corporate income tax	12	(127,719)	(160,962)
PROFIT FOR THE PERIOD		**186,529**	**251,832**
PROFIT FOR THE PERIOD BEFORE NON-RECURRING ITEMS [3]		**190,613**	**254,800**
Profit for the period attributable to:			
• *Owners of the Company*		*189,360*	*251,593*
• *Minority interests*		*(2,831)*	*239*
Earnings per share attributable to owners of the Company (in €):			
• *Basic earnings per share*	*13*	*3.31*	*4.60*
• *Diluted earnings per share*	*13*	*3.24*	*4.44*

(1) Excluding share-based payments.
(2) See definitions on page 139 and 219.
(3) See definitions on page 139.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In € thousands	Note	At December 31, 2012	At December 31, 2011
PROFIT FOR THE PERIOD		**186,529**	**251,832**
• Post-employment benefit obligations (IAS 19 revised): impact of changes in actuarial assumptions		(1,104)	0
– Tax effect	6	398	0
• Fair value gains/(losses) on interest rate and currency hedging instruments		(18,761)	(6,441)
– Tax effect	6	6,773	2,325
TOTAL INCOME AND EXPENSES RECOGNIZED DIRECTLY IN EQUITY		(12,694)	(4,116)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		173,835	247,716

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

PROFIT FOR THE PERIOD BEFORE NON-RECURRING ITEMS

In € thousands	Note	At December 31, 2012	At December 31, 2011
PROFIT FOR THE PERIOD		**186,529**	**251,832**
• Other operating income and expense, net	10	6,391	4,645
• Corresponding tax impact		(2,307)	(1,677)
PROFIT FOR THE PERIOD BEFORE NON-RECURRING ITEMS		190,613	254,800

CONSOLIDATED BALANCE SHEET — ASSETS

In € thousands	Note	At December 31, 2012	At December 31, 2011
Goodwill	16	214,818	214,728
Intangible assets	17	1,329,169	1,025,611
Property, plant and equipment	19	2,325,773	1,947,300
Other long-term financial assets	20	7,469	7,635
Deferred income tax assets	12	47,229	8,734
Other non-current assets		0	0
TOTAL NON-CURRENT ASSETS		**3,924,458**	**3,204,008**
Inventories	21	31,669	26,477
Current income tax assets		6,099	21
Trade and other receivables	22	348,863	199,686
Other short-term financial assets	20	1,825	16,877
Cash and cash equivalents	23	384,156	357,449
TOTAL CURRENT ASSETS		**772,612**	**600,510**
ASSETS HELD FOR SALE	**24**	**49,972**	**54,860**
TOTAL ASSETS		**4,747,042**	**3,859,378**

CONSOLIDATED BALANCE SHEET — EQUITY AND LIABILITIES

In € thousands	Note	At December 31, 2012	At December 31, 2011
Share capital	25	12,773	12,641
Additional paid-in capital	25	343,437	304,987
Retained earnings and other reserves	25	1,370,483	1,206,293
TOTAL EQUITY		**1,726,693**	**1,523,921**
Attributable to			
• ***Owners of the Company***		1,716,367	1,523,121
• ***Minority interests***		10,326	800
Long-term provisions	27	1,384	1,388
Long-term financial liabilities	28	1,212,835	1,149,744
Deferred income tax liabilities	12	5,129	7,745
Other non-current liabilities	29	460,513	307,388
TOTAL NON-CURRENT LIABILITIES		**1,679,861**	**1,466,265**
Short-term provisions	27	101,999	29,910
Taxes payable		0	33,387
Trade and other payables	29	1,002,917	628,770
Short-term financial liabilities	28	235,572	177,125
TOTAL CURRENT LIABILITIES		**1,340,488**	**869,192**
TOTAL EQUITY AND LIABILITIES		**4,747,042**	**3,859,378**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In € thousands	Share capital	Additional paid-in capital	Own shares held	Reserves	Retained earnings	Total equity
TOTAL EQUITY AT JANUARY 1, 2011	12,121	98,660	(3,479)	40,322	930,715	1,078,339
Movements in 2011						
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)
Total comprehensive income for the period				**(4,116)**	**251,832**	**247,716**
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			1,343	1,693		3,036
Impact of stock options				10,036		10,036
Other movements				4		4
TOTAL EQUITY AT DECEMBER 31, 2011	**12,641**	**304,987**	**(2,136)**	**47,939**	**1,160,490**	**1,523,921**
TOTAL EQUITY AT JANUARY 1, 2012	12,641	304,987	(2,136)	47,939	1,160,490	1,523,921
Movements in 2012						
Profit for the period					186,529	186,529
Income and expenses recognized directly in equity:						
Impact of interest rate and currency hedges				(11,988)		(11,988)
Impact of post-employment benefit obligations				(706)		(706)
Total comprehensive income for the period				**(12,694)**	**186,529**	**173,835**
Capital increase	132	38,450				38,582
Dividends paid by Iliad SA					(21,120	(21,120)
Dividends paid by subsidiaries					(87)	(87)
Purchases/sales of own shares			(1,929)	1,127		(802)
Impact of stock options				10,353		10,353
Other movements				2,011		2,011
TOTAL EQUITY AT DECEMBER 31, 2012	**12,773**	**343,437**	**(4,065)**	**48,736**	**1,325,812**	**1,726,693**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	In € thousands	Note	At December 31, 2012	At December 31, 2011
	PROFIT FOR THE PERIOD (INCLUDING MINORITY INTERESTS)		**186,529**	**251,832**
+/-	Depreciation, amortization and provisions against non-current assets and net additions to provisions for contingencies and charges		577,114	341,455
-/+	Unrealized gains and losses on changes in fair value		8,343	520
+/-	Expenses and income related to stock options and other share-based payments		10,353	10,036
-/+	Other income and expenses, net		20,969	19,287
-/+	Gains and losses on disposals of assets		(640)	(2,011)
-/+	Dilution gains and losses		0	0
+/-	Share of profit of associates		0	0
-	Dividends (investments in non-consolidated undertakings)		0	0
	CASH FLOWS FROM OPERATIONS AFTER FINANCE COSTS, NET, AND INCOME TAX		**802,668**	**621,119**
+	Finance costs, net	11	56,769	46,792
+/-	Income tax expense (including deferred taxes)	12	127,719	160,962
	CASH FLOWS FROM OPERATIONS BEFORE FINANCE COSTS, NET, AND INCOME TAX (A)		**987,156**	**828,873**
-	Income tax paid (B)		(196,511)	(97,133)
+/-	Change in operating working capital requirement (including employee benefit obligations) (C)	14	130,849	47,900
=	**NET CASH GENERATED FROM OPERATING ACTIVITIES (D) = (A + B + C)**		**921,494**	**779,640**
-	Acquisitions of property, plant and equipment and intangible assets	14	(963,849)	(1,179,756)
+	Disposals of property, plant and equipment and intangible assets		19,026	12,292
-	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 price adjustment		(80)	(586)
+/-	Effect of changes in Group structure – disposals		0	0
+/-	Change in outstanding loans and advances		(288)	(1,330)
+	Cash inflows from assets held for sale		0	21,391
-	Cash outflows for assets held for sale		0	(8,389)
+/-	Other		(421)	0
=	**NET CASH USED IN INVESTING ACTIVITIES (E)**		**(945,612)**	**(1,156,378)**
+	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		38,122	5,660
-/+	Own-share transactions		(802)	(178)
	-• Dividends paid during the period:		0	0
	• Dividends paid to owners of the Company		(21,120)	(21,884)
	• Dividends paid to minority shareholders of consolidated companies		(87)	(173)
+	Proceeds from new borrowings		290,536	1,045,128
-	Repayment of borrowings (including finance leases)	28	(198,766)	(617,295)
-	Net interest paid (including on finance leases)		(51,638)	(21,486)
=	**NET CASH GENERATED FROM FINANCING ACTIVITIES (F)**		**56,245**	**389,772**
+/-	Effect of exchange-rate movements on cash and cash equivalents (G)		(8)	(35)
=	**NET CHANGE IN CASH AND CASH EQUIVALENTS (D + E + F + G)**		**32,119**	**12,999**
	Cash and cash equivalents at beginning of year	14	350,468	337,469
	Cash and cash equivalents at year-end	14	382,587	350,468

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 Iliad Group is a leading player in the French retail telecommunications market.

The Board of Directors approved the consolidated financial statements for the year ended December 31, 2012 on March 18, 2013 and their publication date was set for March 19, 2013. 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 22, 2013.

1.2 Year-on-year comparability

Change in accounting method

On January 1, 2012, the Iliad Group early adopted the revised version of IAS 19, Employee Benefits (IAS 19R), which has been endorsed by the European Union and whose application is compulsory from January 1, 2013.

This change in accounting method did not have a material impact on earnings per share.

The Group's application of IAS 19R is described in the paragraph on employee benefits in Section 1.6 below.

1.3 Applicable accounting standards

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

Basis of preparation

The consolidated financial statements of the Iliad Group have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The historical cost convention has been applied, except for financial assets and liabilities which are carried at fair value with changes in fair value recognized either directly in the income statement or in equity when hedge accounting is 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 applied for the first time in the financial year beginning January 1, 2012

- **Amendments to IAS 1, *Presentation of Financial Statements, Presentation of Items of Other Comprehensive Income (OCI)*** (effective for annual periods beginning on or after July 1, 2012). These amendments introduce limited changes to IAS 1 and require:
  - entities to group items presented in OCI into two separate subtotals based on whether or not they may be reclassified to profit or loss at a future point in time,
  - tax associated with items presented before tax to be shown separately for each of the two groups of OCI items.

  The amendments also affirm that profit or loss and OCI can be presented either in a single statement or two consecutive statements. The Group has elected the latter option.

  The Iliad Group has early adopted these amendments to IAS 1;
- **Revised version of IAS 19, *Employee Benefits – IAS 19R*** (effective for annual periods beginning on or after January 1, 2013). IAS 19 must be applied for all types of employee benefits, except those to which IFRS 2, *Share-based Payment*, applies.

  The Iliad Group has early adopted the revised version of IAS 19;
- **Amendments to IFRS 7, *Disclosures – Transfers of Financial Assets*** (effective for annual periods beginning on or after July 1, 2011). These amendments provide a broader definition of transfers than IAS 39. They are not relevant to the Iliad Group.

The following new standards, amendments to existing standards and interpretations are effective for annual periods beginning on or after January 1, 2013

- **Amendments to IAS 12, *Income Taxes – Deferred Tax: Recovery of Underlying Assets.*** These amendments introduce a rebuttable presumption that the carrying amount of certain underlying assets will be recovered entirely through sale. The presumption can be rebutted if the entity can prove that the underlying asset will be recovered in another way. This presumption applies to:
  - investment property measured using the fair value model in IAS 40, *Investment Property*, and
  - property, plant and equipment and intangible assets measured using the revaluation model in IAS 16, *Property, Plant and Equipment*, and IAS 38, *Intangible Assets*.

  The Group is currently assessing the impact of these amendments on its financial statements;

- **Amendments to IAS 32, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*.**

  These amendments clarify:

  - the meaning of "currently has a legally enforceable right of set-off", and
  - that some gross settlement systems may be considered equivalent to net settlement.

  The Group is currently assessing the impact of these amendments on its financial statements;

- **Amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*.** These amendments are not relevant to the Iliad Group as it is not a first-time adopter of IFRS;

- **Amendments to IFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities.*** The amendments to IFRS 7 contain new disclosure requirements for all recognized financial instruments that are set off in accordance with paragraph 42 of IAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The Group is currently assessing the impact of these amendments on its financial statements;

- **IAS 27, *Separate Financial Statements (as amended in 2011).*** The new version of IAS 27 only applies to accounting for investments in subsidiaries, joint ventures, and associates when an entity prepares separate financial statements. This standard is not relevant to French groups that do not apply IFRS in their separate financial statements, which is the case for the Iliad Group;

- **IAS 28, *Investments in Associates and Joint Ventures (as amended in 2011).*** The main purpose of revising IAS 28 – which prescribes the accounting treatment for investments in associates and joint ventures – was to include consequential amendments following the issuance of IFRS 10, IFRS 11 and IFRS 12. These amendments are not relevant to the Iliad Group;

- **IFRS 10, *Consolidated Financial Statements.*** IFRS 10 replaces the consolidation part of the former IAS 27, *Consolidated and Separate Financial Statements*, and the revised version of IAS 27 – which was issued in 2011 at the same time as IFRS 10 – only deals with separate financial statements. IFRS 10 provides for a single consolidation model that identifies control as the basis for consolidation for all types of entities.

  It includes a definition which states that an investor controls an investee if and only if the investor has all of the following elements of control:

  - power over the investee,
  - exposure, or rights to variable returns from its involvement with the investee,
  - the ability to use its power over the investee to affect the amount of the investor's returns.

  The Group is currently assessing the impact of this standard on its consolidated financial statements;

- **IFRS 11, *Joint Arrangements*. This standard supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturers.***

  IFRS 11 focuses on the nature of the rights and obligations of joint arrangements rather than their legal form. It is not relevant to 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 is currently assessing the impact of this standard on its consolidated financial statements;

- **IFRS 13, *Fair Value Measurement*.** This standard prescribes how to measure fair value both on initial recognition and subsequent measurement. The Group is currently assessing the impact of this standard on the consolidated financial statements;

- **IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine.*** This interpretation is not relevant to the Iliad Group.

The following new standards related to consolidation were not applicable at December 31, 2012 and have not yet been endorsed by the European Union

- **Annual Improvements to IFRSs (2009-2011 cycle).** These improvements resulted in amendments to the following five standards:

  - IFRS 1, First-time Adoption of International Financial Reporting Standards,
  - IAS 1, Presentation of Financial Statements,
  - IAS 16, Property, Plant and Equipment,
  - IAS 32, Financial Instruments: Presentation,
  - IAS 34, Interim Financial Reporting.

  The Group will assess the disclosures that will be required as a result of these amendments;

- **Amendments to IFRS 1 – *Government loans.*** These amendments are not relevant to the Iliad Group as they concern first-time adopters' accounting treatment of certain government loans;

- **IFRS 9, *Financial Instruments (Phase 1: classification and measurement of financial assets and financial liabilities).*** For financial assets, IFRS 9 uses a single approach to determine whether a financial asset should be measured at amortized cost or fair value, replacing the many different rules in IAS 39. This approach is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. IFRS 9 also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39. In relation to the classification and measurement of financial liabilities, IFRS 9 provides that entities which choose to measure a liability at fair value will be required to present the portion of the change in that liability's fair value due to changes in the entity's own credit risk in other comprehensive income rather than within the income statement.

  The Group will assess the disclosures that will be required as a result of this new standard;

- **Amendments to IFRS 10 *(Consolidated Financial Statements),* IFRS 11 *(Joint Arrangements)* and IFRS 12 *(Disclosure of Interests in Other Entities)* concerning transition guidance.** These amendments clarify the transition guidance in IFRS 10 and also provide additional transition relief in IFRS 10 by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The Group will assess the disclosures that will be required as a result of these amendments;
- **Amendments to IFRS 10 *(Consolidated Financial Statements),* IFRS 12 *(Disclosure of Interests in Other Entities)* and IAS 27 *(Separate Financial Statements).*** These amendments apply to a particular class of businesses that qualify as investment entities, which are now exempt from the consolidation requirements in IFRS 10. They are not relevant to the Iliad Group.

1.4 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 except for costs directly attributable to the acquisition, which are recorded in the income statement. 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.

1.5 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 assets, 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.

1.6 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 sale of terminals are recognized when they are delivered to the purchaser;
- 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, monetary assets and liabilities denominated in foreign currencies are translated at the period-end rate and any exchange gains or losses 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 profit for the period attributable to owners of the Company (attributable profit) 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 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. The Group's 3G license is being amortized on a straight-line basis over a period of 18 years.

  Impairment losses recognized following impairment tests are recorded in the income statement under "Other operating income and expense, net" below profit from ordinary activities;
- the national roaming agreement, which is being amortized on a straight-line basis over a period of six years as from its effective date. The amendments to this agreement are being amortized over the residual term of the principal contract as from their respective effective dates;
- 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;
- specific investments for mobile network rollouts: 4 to 18 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 an available-for-sale financial asset is sold any impairment losses previously recognized in equity are removed from equity and recognized in the income statement.

Inventories

Inventories are recognized at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method.

Inventories are written down if their carrying amount is higher than their probable selling price after deducting any further costs that will be necessary in order to sell the inventory.

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 recovered 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.

In accordance with IAS 19R, actuarial gains and losses are immediately recognized in equity. In addition, interest cost and expected return on plan assets have been replaced with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).

Stock options and share grants

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 service period that must be completed in order for the options to vest), 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 an Iliad 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, with the calculation incorporating assumptions concerning the staff turnover rate for 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 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.

Changes in the fair value of other derivative instruments are recorded in the income statement.

If a derivative instrument no longer qualifies for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is transferred to the income statement under financial income or expense when:

- the hedging instrument expires or is sold, terminated or exercised;
- the Group no longer expects the forecast transaction to occur; or
- the original hedged item affects profit.

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, 2012.

Changes in scope of consolidation in 2012

Changes in the scope of consolidation in 2012 are set out in the table in Note 36.

There were no significant changes in the scope of consolidation during 2012.

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;
- assessment of doubtful receivables and calculating the corresponding impairment losses;
- assessment of the estimated net realizable value of inventories and calculating the corresponding impairment losses; and
- assessment of risks related to disputes and litigation in progress and calculating the corresponding provisions.

NOTE 4 REVENUES

Consolidated revenues rose from €2.1 billion in 2011 to €3.2 billion in 2012, primarily due to the launch of the Group's mobile telephony offerings on January 10, 2012.

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 AND EXTERNAL CHARGES

Purchases used in production include:

- interconnection costs invoiced by other operators (including roaming charges);
- costs relating to unbundling operations;
- acquisitions of goods and services for resale or for use in designing goods or services invoiced by the Group.

External charges primarily comprise:

- logistics and dispatch costs;
- leasing expenses;
- marketing and advertising costs;
- external service provider fees;
- subcontracting costs.

NOTE 6 HUMAN RESOURCES DATA

Payroll costs

Payroll costs break down as follows:

In € thousands	At December 31, 2012	At December 31, 2011
• Wages and salaries	125,403	94,690
• Payroll taxes	44,827	34,320
TOTAL	**170,230**	**129,010**

Number of employees at year-end

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

of employees at year end	At December 31, 2012	At December 31, 2011
• Management	713	666
• Other	5,793	4,989
TOTAL	**6,506**	**5,655**

Post-employment benefits

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

Post-employment benefit obligations totaled €4,422,000 at December 31, 2012, compared with €2,620,000 at December 31, 2011.

The following main economic assumptions were used to measure the Group's post-employment benefit obligation at December 31, 2012 and 2011:

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

The impact on equity of the Group's post-employment benefit obligations was a negative €706,000 (net of tax) at December 31, 2012 and the amount recognized in the income statement for the year then ended totaled €446,000.

The equivalent impacts on the 2011 financial statements (pro forma amounts to reflect the application of IAS 19R) were as follows:

- a €142,000 impact on equity (versus nil in the reported 2011 financial statements);
- €335,000 recognized in the income statement (versus €489,000 in the reported 2011 financial statements).

As these impacts were not material, the related data in the 2011 financial statements presented in this document for comparative purposes have not been restated.

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. 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	At December 31, 2012	At December 31, 2011
• Amortization of capitalized development costs	1,371	1,047
• Development costs recognized directly in the income statement	1,341	844
TOTAL	**2,712**	**1,891**

NOTE 8 OTHER INCOME AND EXPENSES FROM OPERATIONS

"Other income from operations" breaks down as follows:

In € thousands	At December 31, 2012	At December 31, 2011
• Proceeds from sales of non-current assets	19,029	7,774
• Customer contract termination fees	6,497	13,077
• Other	18,533	6,413
TOTAL OTHER INCOME FROM OPERATIONS	**44,059**	**27,264**

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

In € thousands	At December 31, 2012	At December 31, 2011
• Carrying amount of divested non-current assets	(17,237)	(5,228)
• Royalties and similar fees	(29,621)	(27,254)
• Bad debts	(3,159)	(4,935)
• Other	(17,104)	(3,717)
TOTAL OTHER EXPENSES FROM OPERATIONS	**(67,121)**	**(41,134)**

In € thousands	At December 31, 2012	At December 31, 2011
OTHER INCOME AND EXPENSES FROM OPERATIONS, NET	**(23,062)**	**(13,870)**

NOTE 9 DEPRECIATION, AMORTIZATION AND PROVISIONS

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

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

In € thousands	At December 31, 2012	At December 31, 2011
• Depreciation and amortization expense:		
– Intangible assets	115,379	5,118
– Property, plant and equipment	385,068	320,787
• Additions to provisions for impairment of non-current assets		
– Property, plant and equipment	1,154	451
• Depreciation/amortization of investment grants		
– Intangible assets	(1,481)	(1,185)
– Property, plant and equipment	(808)	0
TOTAL	**499,312**	**325,171**

Additions to provisions for contingencies and charges and impairment of current assets

In € thousands	At December 31, 2012	At December 31, 2011
• Provisions for contingencies and charges	76,560	6,759
• Provisions for impairment of inventories and trade receivables	71,555	22,800
TOTAL	**148,115**	**29,559**

NOTE 10 OTHER OPERATING INCOME AND EXPENSE, NET

This item represented a net expense of €6,391,000 in 2012, compared with a net expense of €4,645,000 in 2011.

In € thousands	At December 31, 2012	At December 31, 2011
• Other operating income and expense, net	(6,391)	(4,645)
TOTAL	(6,391)	(4,645)

Comments on the 2011 and 2012 figures

See Note 24.

NOTE 11 FINANCIAL INCOME AND EXPENSES

Financial income and expenses can be analyzed as follows:

In € thousands	At December 31, 2012	At December 31, 2011
• Income from cash and cash equivalents	2,037	6,368
• Finance costs, gross	(58,806)	(53,160)
Finance costs, net	**(56,769)**	**(46,792)**
• Other financial income and expenses:		
– Translation adjustments/Hedging expense	(2,823)	(11,671)
– Discounting expense	(22,397)	(15,915)
– Other	(9,088)	(6,375)
SUB-TOTAL	(34,308)	(33,961)
NET FINANCIAL EXPENSE	**(91,077)**	**(80,753)**

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.

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

In 2012, other financial expenses included an €8,960,000 impact of a swap contract that ceased to qualify for hedge accounting (see Note 32).

NOTE 12 CORPORATE INCOME TAX

Analysis of the corporate income tax charge

The corporate income tax charge breaks down as follows:

In € thousands	At December 31, 2012	At December 31, 2011
Current taxes		
• on income	(140,682)	(155,034)
• on value added (CVAE)	(20,98)	(17,328)
CURRENT INCOME TAX CHARGE	**(161,663)**	**(172,362)**
Deferred taxes		
• on income	31,328	7,809
• on value added (CVAE)	2,616	3,591
DEFERRED INCOME TAX BENEFIT	**33,944**	**11,400**
TOTAL TAX CHARGE	**(127,719)**	**(160,962)**

Tax group

The Iliad Group has set up a tax group, which at end-2012 included all consolidated companies except for companies that are less than 95%-owned by the Group and 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.

In € thousands	At December 31, 2012	At December 31, 2011
PROFIT FOR THE PERIOD	**186,529**	**251,832**
• Corporate income tax	127,719	160,962
CONSOLIDATED PROFIT FROM CONTINUING OPERATIONS BEFORE TAX	**314,248**	**412,794**
THEORETICAL TAX RATE	**36.10%**	**36.10%**
• Net impact of permanent differences	1.96%	0.64%
• Impact of unrecognized tax loss carryforwards	0.70%	0.06%
• Impact of different tax rates and other impacts	1.88%	2.19%
EFFECTIVE TAX RATE	**40.64%**	**38.99%**

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 both December 31, 2012 and 2011.

NOTE 13 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share

Number of shares used for the calculation	At December 31, 2012	At December 31, 2011
• Number of shares at the year-end	57,637,805	57,042,092
• Weighted average number of shares	57,255,598	54,731,420

Diluted earnings per share

	At December 31, 2012	At December 31, 2011
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	**189,360**	**251,593**
Interest expense on OCEANE convertible bonds (net of tax)	0	9,517
DILUTED PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	**189,360**	**261,110**
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (AFTER DILUTION)		
• Weighted average number of shares outstanding (see above)	57,255,598	54,731,420
• Number of share equivalents:		
– Stock options and free shares	1,267,772	497,122
– OCEANE bonds	0	3,652,092
MAXIMUM WEIGHTED AVERAGE NUMBER OF SHARES AFTER DILUTION	**58,523,370**	**58,880,634**
Diluted earnings per share *(in €)*	3.24	4.44

Dilutive instruments

As Iliad's average share price in 2012 was €111.16, all of the Group's stock option plans were considered to be dilutive during the year.

NOTE 14 CONSOLIDATED 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 2012 and 2011 can be analyzed as follows:

In € thousands December 31, 2012	Note	Balance at January 1, 2012	Net debits	Net credits	Changes in Group structure	Other	Balance at December 31, 2012
• Net inventories	21	26,477	5,192				31,669
• Net trade receivables	22	104,758	117,324				222,082
• Net other receivables	22	94,928	31,393			460	126,781
• Supplier payables	29	(245,807)		(162,753)		0	(408,560)
• Other payables		(101,854)		(122,005)		(1,104)	(224,963)
TOTAL		**(121,498)**	**153,909**	**(284,758)**		**(644)**	**(252,991)**
Change in operating working capital requirement in 2012				**(130,849)**			

In € thousands December 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)
TOTAL		**(71,736)**	**60,387**	**(108,287)**		**(1,862)**	**(121,498)**
Change in operating working capital requirement in 2011				**(47,900)**			

Other receivables

This item can be analyzed as follows:

In € thousands	Note	At December 31, 2012	At December 31, 2011
Trade and other receivables:	22	348,863	199,686
• Net trade receivables	22	(222,082)	(104,758)
TOTAL		**126,781**	**94,928**

Other payables

This item can be analyzed as follows:

In € thousands	Note	At December 31, 2012	At December 31, 2011
Trade and other payables:	29	1,463,430	936,158
• Suppliers of goods and services (incl. VAT)	29	(408,560)	(245,807)
• Suppliers of non-current assets (excl. VAT)		(829,907)	(588,497)
• Other		0	0
TOTAL		**224,963**	**101,854**

Acquisitions of non-current assets

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

	Note	At December 31, 2012	At December 31, 2011
• Intangible assets	17	421,822	754,565
• Property, plant and equipment	19	761,040	902,085
Suppliers of non-current assets (excl. VAT)			
• at beginning of year		588,497	97,567
• impact of changes in Group structure		0	0
• at year-end		(829,907)	(588,497)
• Other		22,397	14,036
TOTAL		**963,849**	**1,179,756**

Cash and cash equivalents

	Note	Cash and cash equivalents at December 31, 2012	Cash and cash equivalents at December 31, 2011
Cash (including currency hedges)	23	30,760	10,839
Marketable securities	23	353,396	346,610
SUB-TOTAL		**384,156**	**357,449**
Bank borrowing facilities	28	(1,569)	(6,981)
TOTAL		**382,587**	**350,468**

Non-monetary flows relating to investing and financing activities

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

In € thousands	At December 31, 2012	At December 31, 2011
• Acquisitions of assets under finance leases	17,882	20,429

NOTE 15 SEGMENT INFORMATION

Prior to the launch of its mobile offerings in early 2012, the Group's operations were split into two segments – Broadband and Traditional Telephony (with this segment's contribution to consolidated revenues becoming increasingly lower over time).

Since the launch of its mobile offerings, the Group has redefined its business segments, with the creation of a new segment called Retail Telecom for which it now issues specific reporting data.

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

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

NOTE 16 GOODWILL

The main movements in goodwill in 2012 and 2011 were as follows:

In € thousands	At December 31, 2012	At December 31, 2011
Carrying amount at January 1	214,728	214,248
Increase following acquisitions:		
• Freebox	90	480
CARRYING AMOUNT AT DECEMBER 31	**214,818**	**214,728**

NOTE 17 INTANGIBLE ASSETS

Intangible assets break down as follows:

	At December 31, 2012			At December 31, 2011		
In € thousands	Gross	Amortization and impairment	Net	Gross	Amortization and impairment	Net
Acquisitions:						
• Licenses	667,979	59,855	608,124	658,292	40,181	618,111
• Alice customer base	25,000	9,028	15,972	25,000	6,945	18,055
• Other intangible assets	795,250	94,096	701,154	389,223	3,275	385,948
Internally-generated intangible assets:						
• Development costs	7,015	3,096	3,919	6,651	3,154	3,497
TOTAL	**1,495,244**	**166,075**	**1,329,169**	**1,079,166**	**53,555**	**1,025,611**

Following an impairment test carried out in 2010, the Group recorded a €40 million impairment loss on its Wimax license, which has been maintained since that date as there have been no changes in circumstances to justify its reversal. 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. The carrying amount of this asset in the balance sheet also includes related borrowing costs in accordance with IAS 23.

In 2011 and 2012 the Group accelerated the rollout of its mobile operations, which 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.

Total borrowing costs included in the carrying amount of intangible assets amounted to €13 million in 2012.

Intangible assets in progress – corresponding to the 4G license – stood at €298 million at December 31, 2012.

Changes in net intangible assets can be analyzed as follows:

In € thousands	At December 31, 2012	At December 31, 2011
Net at January 1	1,025,611	299,242
• Acquisitions	420,136	752,496
• Internally-generated intangible assets	1,686	2,069
Reclassifications	(3,254)	(23,310)
Other	(1,112)	(953)
Amortization	(113,898)	(3,933)
NET AT DECEMBER 31	**1,329,169**	**1,025,611**

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 Retail Telecom 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 2012.

Similarly, no adjustments were required for 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, 2012 Gross	At December 31, 2012 Depreciation	At December 31, 2012 Net	At December 31, 2011 Gross	At December 31, 2011 Depreciation	At December 31, 2011 Net
• Land and buildings (1)	131,897	1,956	129,941	125,801	1,364	124,437
• Network usage rights	179,899	51,679	128,220	175,917	44,834	131,083
• Service access fees	632,505	381,056	251,449	576,307	353,044	223,263
• Network equipment (2)	2,575,658	975,273	1,600,385	2,143,588	824,096	1,319,492
• Other	233,215	17,437	215,778	157,994	8,969	149,025
TOTAL	**3,753,174**	**1,427,401**	**2,325,773**	**3,179,607**	**1,232,307**	**1,947,300**
(1) of which finance leases	*92,241*	*1,209*	*91,032*	*90,645*	*647*	*89,998*
(2) of which finance leases	*85,593*	*51,007*	*34,586*	*69,232*	*40,273*	*28,959*

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	At December 31, 2012	At December 31, 2011
Net at January 1	1,947,300	1,337,119
Acquisitions *	778,922	922,514
Disposals	(17,252)	(9,747)
Reclassifications	2,172	22,387
Other	45	(3,735)
Depreciation	(385,414)	(321,238)
NET AT DECEMBER 31	**2,325,773**	**1,947,300**
** Acquisitions excluding assets acquired under finance leases*	*744,754*	*902,085*

During 2012 the Group kept up its capital spending drive for growth projects. This included the following:

- capital expenditure for landline operations (including network expenditure due to increased unbundling and subscriber-related expenditure for modems and other connection expenses);
- further investments as part of the FTTH rollout;
- mobile-related capital expenditure as a result of the ongoing rollout of the network and payment of the fixed portion of fees due under the Group's roaming agreement.

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 material events or changes in circumstances were identified at December 31, 2012.

Assets under construction

The carrying amount of assets under construction is included in the carrying amounts of each item of property, plant and equipment, as follows:

In € thousands	At December 31, 2012	At December 31, 2011
• Land and buildings	93,045	94,662
• Network usage rights	15,429	15,385
• Network equipment	399,319	495,384
TOTAL	**507,793**	**605,431**

NOTE 20 OTHER FINANCIAL ASSETS

Other financial assets break down as follows by nature:

	At December 31, 2012	At December 31, 2011
In € thousands	Net	Net
Other long-term financial assets		
• Loans	15	477
• Other investment securities	1,949	1,827
• Guarantee deposits	5,505	5,331
TOTAL OTHER LONG-TERM FINANCIAL ASSETS	**7,469**	**7,635**
Other short-term financial assets		
• Loans	17	16
• Cash flow hedges	1,808	16,861
TOTAL OTHER SHORT-TERM FINANCIAL ASSETS	**1,825**	**16,877**
TOTAL OTHER FINANCIAL ASSETS	**9,294**	**24,512**

Other short- 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, 2012	At December 31, 2011
In € thousands	Net	Net
• Financial assets at fair value through profit or loss	3,757	18,689
• Held-for-trading investments	0	0
• Held-to-maturity investments	0	0
• Loans and receivables issued by the Group	5,537	5,823
• Available-for-sale financial assets	0	0
TOTAL OTHER FINANCIAL ASSETS	**9,294**	**24,512**

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

In € thousands	At December 31, 2012	At December 31, 2011
Net at January 1	24,512	15,621
Acquisitions	1,232	2,834
Redemptions and repayments	(20)	(1,504)
Impact of changes in Group structure	0	0
Disposals	(944)	0
Additions to provisions	(433)	(6,629)
Impact of cash flow hedges		
• at January 1	(16,861)	(2,671)
• at December 31	1,808	16,861
NET AT DECEMBER 31	**9,294**	**24,512**

Acquisitions and redemptions and repayments in 2011 and 2012 primarily concerned movements in guarantee deposits paid.

Additions to provisions recorded in 2011 and 2012 relate to a project from which the Group has decided to withdraw.

NOTE 21 INVENTORIES

Inventories break down as follows:

In € thousands	At December 31, 2012	At December 31, 2011
Raw materials	657	836
Work-in-progress	0	0
Finished products	46,117	26,096
Inventories – gross	**46,774**	**26,932**
Provisions:		
• raw materials	(181)	(434)
• finished products	(14,924)	(21)
Total provisions	**(15,105)**	**(455)**
INVENTORIES – NET	**31,669**	**26,477**

The year-on-year increase in inventories of finished products was primarily due to purchases of mobile terminals.

The provisions for impairment recognized against inventories of mobile terminals factor in the sales outlook for the terminals in 2013.

NOTE 22 TRADE AND OTHER RECEIVABLES

Trade and other receivables break down as follows:

In € thousands	At December 31, 2012	At December 31, 2011
Trade and other receivables		
Trade receivables	296,292	149,095
Advances and prepayments	2,717	1,308
Tax receivables (VAT)	63,617	57,718
Other receivables	39,217	17,626
Prepaid expenses	22,449	19,495
TOTAL – GROSS	**424,292**	**245,242**
Provisions for trade receivables	(74,210)	(44,337)
Provisions for other receivables	(1,219)	(1,219)
NET TRADE AND OTHER RECEIVABLES	**348,863**	**199,686**
Net trade receivables	222,082	104,758
Net other receivables	126,781	94,928

The year-on-year increase in provisions for trade receivables primarily concerns the mobile business.

NOTE 23 CASH AND CASH EQUIVALENTS

Cash and cash equivalents can be analyzed as follows:

	At December 31, 2012		At December 31, 2011	
In € thousands	Carrying amount	Fair value	Carrying amount	Fair value
Certificates of deposit				
Net value	0	0	70,010	70,010
Mutual funds (UCITs)				
Net value	353,396	353,396	276,600	276,600
Cash (excluding bank borrowing facilities)	30,760	30,760	10,839	10,839
TOTAL – NET	**384,156**	**384,156**	**357,449**	**357,449**

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
- are subject to an insignificant risk of changes in value.

Consequently, the Group invests its surplus cash 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:

In € thousands	At December 31, 2012	At December 31, 2011
Buildings held for sale	49,972	54,860
TOTAL	**49,972**	**54,860**

In line with its strategy of acquiring premises where required 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 either December 31, 2011 or 2012.

Gains and losses arising on sales of these buildings, 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 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. The stock options granted on June 14, 2007 and August 30, 2007 have been exercisable since June 13, 2012 and August 30, 2012 respectively.

In 2012, 595,713 stock options were exercised for the same number of new shares. The Company's share capital therefore increased by €132,000 to €12,773,000 at December 31, 2012 from €12,641,000 one year earlier.

At December 31, 2012 the Group held 30,071 Iliad shares.

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

Shareholder	Number of shares	%
Executive Management	36,022,725	62.50
Public	21,615,080	37.50
TOTAL	**57,637,805**	**100.00**

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

- The dividend paid in 2012 for 2011 totaled €21,120,000;
- No interim dividend was paid in 2012.

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 have been set up to cover the Group's exposure to changes in interest rates on bank borrowings.

These hedges are described in Note 32.

At December 31, 2011 and 2012 the cash flow hedge reserve (net of the tax effect) had negative balances of €23,548,000 and €26,282,000 respectively.

NOTE 26 STOCK OPTION AND SHARE GRANT PLANS

Stock option plans

The following tables summarize the main features of the various stock option plans approved in 2012 and prior years, and outstanding at the year-end.

AT DECEMBER 31, 2012:

Date of Shareholders' Meeting	Date of plan launch	Exercise price (in €)	Number of options outstanding at January 1, 2012	Number of options granted in 2012	Number of options forfeited in 2012	Number of options exercised in 2012	Number of exercisable options outstanding at December 31, 2012	Number of non-exercisable options outstanding at December 31, 2012
Iliad								
December 12, 2003	January 20, 2004	16.30	6,870	0	0	4,000	2,870	0
December 12, 2003	December 20, 2005	48.44	164,259	0	0	136,400	27,859	0
May 29, 2006	June 14, 2007	74.62	162,455	0	0	135,000	27,455	0
May 29, 2006	August 30, 2007	68.17	663,222	0	7,887	320,313	335,022	0
May 29, 2008	November 5, 2008	53.79	564,200	0	20,400	0	0	543,800
May 29, 2008	August 30, 2010	67.67	162,450	0	13,050	0	0	149,400
May 29, 2008	August 30, 2010	67.67	379,050	0	30,450	0	0	348,600
May 24, 2011	November 7, 2011	84.03	398,200	0	11,000	0	0	387,200

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
Iliad								
December 12, 2003	January 20, 2004	16.30	28,245	0	0	21,375	6,870	0
December 12, 2003	December 20, 2005	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

Exercise dates 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 since June 13, 2012
August 30, 2007	Options exercisable since 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)	315	1,900	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 €8,319,000 in 2012 and €8,153,000 in 2011.

Share grant plan

Free Mobile

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, 23 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 2012 and 2011 amounted to €2,034,000 and €1,883,000 respectively.

Online

Following an authorization approved by the Shareholders' Meeting of December 3, 2012, Online set up a share grant plan involving shares representing up to 1% of its share capital.

The first allocation under this plan took place in 2012 when an employee was granted shares representing 0.20% of Online's share capital.

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

The expense recognized for this plan in 2012 amounted to €2,000.

The following table summarizes the main features of the various share grant plans approved in 2012 and prior years, and outstanding at the year-end.

AT DECEMBER 31, 2012

Date of Shareholders' Meeting	Date of plan launch	Number of shares in vesting period at January 1, 2012	Number of shares granted in 2012	Number of share grants canceled in 2012	Number of shares vested in 2012	Number of shares in vesting period at December 31, 2012
Free Mobile						
05/10/2010	05/12/2010	13,875,272	0	0	13,875,272	0
05/10/2010	12/20/2010	2,921,104	0	365,138	2,555,966	0
05/10/2010	11/14/2011	1,460,552	0	87,633	0	1,372,919
Online						
12/03/2012	12/04/2012	0	26	0	0	26

NOTE 27 PROVISIONS

The provisions recognized at December 31, 2012 are intended to cover costs resulting from the Group's business risks, litigation risks, tax reassessment risks and employee-related risks.

These provisions break down as follows:

In € thousands	At December 31, 2012	At December 31, 2011
Long-term provisions		
Provisions for charges	1,384	1,388
TOTAL LONG-TERM PROVISIONS	**1,384**	**1,388**
Short-term provisions		
Provisions for contingencies	101,999	29,910
TOTAL SHORT-TERM PROVISIONS	**101,999**	**29,910**
TOTAL PROVISIONS	**103,383**	**31,298**

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".

Movements in provisions for contingencies and charges were as follows in 2012:

In € thousands	At December 31, 2011	Increases in 2012	Decreases in 2012 (utilizations)	Decreases in 2012 (surplus provisions)	Changes in Group structure	Other movements	At December 31, 2012
Provisions for claims and litigation and general contingencies	29,910	82,793	(4,470)	(6,232)	0	(2)	101,999
Provisions for charges	1,388	0	0	0	0	(4)	1,384
TOTAL	**31,298**	**82,793**	**(4,470)**	**(6,232)**	**0**	**(6)**	**103,383**

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

In € thousands	At December 31, 2010	Increases in 2011	Decreases in 2011 (utilizations)	Decreases in 2011 (surplus provisions)	Changes in Group structure	Other movements	At December 31, 2011
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
TOTAL	**25,750**	**7,983**	**(1,205)**	**(1,224)**	**0**	**(6)**	**31,298**

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

In € thousands	At December 31, 2012	At December 31, 2011
Profit from ordinary activities	72,091	5,559
Financial income and expense, net	0	(5)
TOTAL	**72,091**	**5,554**

NOTE 28 FINANCIAL LIABILITIES

Financial liabilities can be analyzed as follows:

In € thousands	At December 31, 2012	At December 31, 2011
Bank borrowings	586,042	531,224
Convertible bonds	0	0
Ordinary bonds	498,292	497,792
Borrowings related to finance leases	73,573	79,000
Cash flow hedges	41,130	36,851
Other	13,798	4,877
TOTAL LONG-TERM FINANCIAL LIABILITIES	**1,212,835**	**1,149,744**
Bank borrowings	191,000	0
Convertible bonds	0	131,272
Ordinary bonds	21,288	18,110
Borrowings related to finance leases	1,569	6,981
Cash flow hedges	0	0
Other	21,715	20,762
TOTAL SHORT-TERM FINANCIAL LIABILITIES	**235,572**	**177,125**
TOTAL	**1,448,407**	**1,326,869**

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 2012 and 2011:

In € thousands	At December 31, 2012	At December 31, 2011
Borrowings at January 1	1,326,869	1,036,164
New borrowings *	308,509	1,065,557
Repayments of borrowings	(198,766)	(617,295)
Conversion of OCEANE bonds	0	(206,637)
Change in other bank borrowing facilities	(5,412)	(403)
Impact of changes in Group structure	0	0
Interest on OCEANE bonds and bond premium	(2,830)	7,606
Impact of cash flow hedges	4,279	21,164
Other	15,758	20,713
TOTAL BORROWINGS AT DECEMBER 31	**1,448,407**	**1,326,869**
** New borrowings excluding borrowings related to finance leases*	*290,536*	*1,045,128*

Convertible bonds

In June 2006, the Iliad Group carried out an issue of OCEANE bonds convertible into new shares and/or exchangeable for existing shares which matured on January 1, 2012.

In 2011, Iliad honored all of the conversion requests received by December 22, 2011, which was the final exercise date for the conversion option on the bonds.

The 1,458,744 remaining OCEANE bonds were 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 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.

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, 2012

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 €350 million had been drawn down at December 31, 2012;
- a revolving tranche of €800 million expiring in June 2015. None of this tranche had been drawn down at December 31, 2012.

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.

Loans granted by the European Investment Bank (EIB)

The EIB 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, 2012.

In late August 2012, the EIB granted Iliad another loan (€200 million) to help finance its rollout of new generation landline networks. This loan – which also has a 10-year term and is repayable in installments – had been drawn down in an amount of €100 million at December 31, 2012.

The financial covenants applicable to these loans are described in Note 32.

A €500 million short-term commercial paper program

During the first half of 2012, the Iliad Group set up a €500 million commercial paper program in order to diversify the sources and maturities of its financing.

This program had been used in an amount of €191 million at December 31, 2012.

Breakdown of borrowings by type of rate

Gross borrowings at the year-end can be analyzed as follows by type of rate:

In € thousands	At December 31, 2012	At December 31, 2011
Fixed-rate borrowings	1,396,747	1,283,037
Variable-rate borrowings	51,660	43,832
TOTAL BORROWINGS	**1,448,407**	**1,326,869**

Breakdown of borrowings by nature and maturity

The following table presents borrowings by nature and maturity at December 31, 2012:

In € thousands	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years	Total
Convertible bonds	0	0	0	0
Ordinary bonds	0	498,292	0	498,292
Bank borrowings	0	485,795	141,378	627,173
Commercial paper	191,000	0	0	191,000
Borrowings related to finance leases	21,288	54,336	19,237	94,861
Other bank borrowing facilities	1,569	0	0	1,569
Sundry borrowings	21,715	8,960	4,837	35,512
TOTAL	**235,572**	**1,047,383**	**165,452**	**1,448,407**

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

In € thousands	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
TOTAL	**177,125**	**1,067,841**	**81,903**	**1,326,869**

Description of the Group's main finance leases outstanding at December 31, 2012

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, 2012, the Group's total obligations under the related finance leases amounted to €94.9 million versus €97.1 million one year earlier.

Equipment finance leases

As part of its operations, the Group holds several items of equipment (mainly switching equipment and IT servers) 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, 2012 and their present value.

In € thousands	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years	Total
Future minimum lease payments	21,288	54,336	19,237	94,861
Present value	20,307	46,693	13,792	80,792

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

NOTE 29 TRADE AND OTHER PAYABLES

These items break down as follows:

In € thousands	At December 31, 2012	At December 31, 2011
Trade and other payables recorded under other non-current liabilities:		
Trade payables	456,091	304,768
Accrued taxes and employee-related payables	4,422	2,620
SUB-TOTAL	**460,513**	**307,388**
Trade and other payables recorded under current liabilities:		
Trade payables	790,731	543,617
Advances and prepayments	394	5
Accrued taxes and employee-related payables	172,227	77,841
Other payables	16,120	6,940
Deferred income	23,445	367
SUB-TOTAL	**1,002,917**	**628,770**
TOTAL	**1,463,430**	**936,158**

Total trade payables can be analyzed as follows:

In € thousands	At December 31, 2012	At December 31, 2011
Suppliers of goods and services	408,560	245,807
Suppliers of non-current assets	836,262	602,578
TOTAL	**1,246,822**	**848,385**

NOTE 30 RELATED-PARTY TRANSACTIONS

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

Transactions with key management personnel

- Persons concerned:

  Under IAS 24, key management personnel are those persons who have authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly. For the Iliad Group, these persons correspond to members of the Board of Directors of Iliad SA and members of the Management Committee.
- Compensation paid to the nine key managers in 2012 and 2011 breaks down as follows:

In € thousands	At December 31, 2012	At December 31, 2011
• Total compensation	1,982	1,944
• Share-based payments	3,482	4,242
TOTAL	**5,464**	**6,186**

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

NOTE 31 FINANCIAL INSTRUMENTS

Reconciliation by class of instrument and accounting category

In € thousands	Assets carried at fair value through profit or loss	Other available-for-sale financial assets	Hedging instruments carried at fair value with changes recognized in equity	Loans and receivables	Liabilities carried at amortized cost	Carrying amount	Fair value
At December 31, 2012							
Cash	30,760					30,760	30,760
Marketable securities	353,396					353,396	353,396
Trade receivables				222,082		222,082	222,082
Other receivables				126,781		126,781	126,781
Other short-term financial assets	1,808			17		1,825	1,825
Other long-term financial assets	15	1,934		5,520		7,469	7,469
Long-term financial liabilities (excl. OCEANE bonds)			(41,130)		(1,171,705)	(1,212,835)	(1,212,835)
Short-term financial liabilities (excl. OCEANE bonds)					(235,572)	(235,572)	(235,572)
Other non-current liabilities					(460,513)	(460,513)	(460,513)
Other current liabilities					(1,002,917)	(1,002,917)	(1,002,917)
TOTAL CARRYING AMOUNT	**385,979**	**1,934**	**(41,130)**	**354,400**	**(2,870,707)**	**(2,169,524)**	**(2,169,524)**

In € thousands	Assets carried at fair value through profit or loss	Other available-for-sale financial assets	Hedging instruments carried at fair value with changes recognized in equity	Loans and receivables	Liabilities carried at amortized cost	Carrying amount	Fair value
At December 31, 2011							
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. OCEANE bonds)			(36,851)		(1,112,893)	(1,149,744)	(1,149,744)
Short-term financial liabilities (excl. OCEANE bonds)					(45,853)	(45,853)	(45,853)
OCEANE 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)
TOTAL CARRYING AMOUNT	**374,325**	**1,812**	**(36,851)**	**205,510**	**(2,226,176)**	**(1,681,380)**	**(1,681,380)**

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 currency futures and 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 2012.

At December 31, 2012 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, 2012 *In € thousands*	Assets (a)	Liabilities (b)	Foreign currency commitments (c)	Net position before hedging (d) = (a) – (b) +/- (c)	Hedging instruments (e)	Net position after hedging (f) = (d) – (e)
US dollar	10,090	76,288	0	66,198	27	66,171
TOTAL	**10,090**	**76,288**	**0**	**66,198**	**27**	**66,171**

Currency hedges had a negative €2,780,000 impact on the Group's income statement in 2012 and a negative €9,254,000 impact on equity.

FOREIGN EXCHANGE RISK SENSITIVITY

In € thousands	USD
Net position after hedging	66,171
Net position after hedging based on the assumption that the USD exchange rate changes unfavorably for the Group by €0.01	66,531
Sensitivity	(360)

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 €2,734,000 negative impact on equity in 2012.

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, 2012 were as follows:

- a swap contract covering the period 2012-2015 on a notional amount of €450 million (of which €300 million recognized under hedge accounting);
- a swap contract covering the period 2012-2016 on a notional amount of €300 million (of which €200 million recognized under hedge accounting).

These contracts have been classified as cash flow hedges and changes in their fair value are therefore recognized in equity. At December 31, 2012 these derivatives had a negative fair value of €41,130,000.

In view of the Group's enhanced financing structure and medium-term outlook, in 2012 it decided to:

- no longer classify as a hedging instrument a swap contract on a notional amount of €150 million covering the period 2012-2015 (classified as a hedging derivative until end-2011);
- set up a swap on the fixed-rate EIB loan (see Note 28), covering a notional amount of €100 million for the period 2012-2016.

These accounting treatments had a negative €8,960,000 impact, which was recorded as a financial expense.

The Group does not have any exposure to interest rate risk on its finance leases 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, 2012.

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, 2012 and an analysis of sensitivity to interest rate fluctuations.

In € thousands	Due within 1 year	Due between 1 and 5 years	Due beyond 5 years
Financial liabilities	235,572	1,023,217	189,618
Financial assets	1,825	1,964	5,505
Net position before hedging	**233,747**	**1,021,253**	**184,113**
Off-balance sheet position	0	0	0
Net position after hedging	**233,747**	**1,021,253**	**184,113**
Net position to be rolled over within one year and long-term variable rate *(in € thousands)*	**233,747**	**50,091**	**0**
Change in interest rate	**1%**	**1%**	**1%**
Average remaining life *(in months)*	**12**	**12**	**12**
Sensitivity *(in € thousands)*	**2,337**	**501**	**0**

Equity risk

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

It does, however, hold a number of its own shares but in view of the very low number concerned any change in the Iliad share price would have only a minimal impact on the Group's earnings and equity (see Note 25).

Liquidity risk

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

At December 31, 2012 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 EIB loans and the syndicated credit facility.

These covenants (which take the form of financial ratios) were as follows at December 31, 2012:

	Applicable financial ratios	Consequence of breach	Actual ratios at December 31, 2012
• €1,400 million credit facility (Borrower – Iliad) • €150 million EIB loan (Borrower – Iliad) • €200 million EIB loan (Borrower – Iliad)	Leverage ratio < 2.5/3 (depending on the period) *Interest cover ratio > 5.1*	Early repayment	*Leverage ratio: 0.996* *Interest cover ratio: 18.82*

- 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, 2012 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, 2012 trade receivables represented a gross amount of €296 million and a net amount of €222 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, 2012 the Group's short-term investments amounted to €353 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, 2012 trade receivables totaled €296 million and provisions for doubtful receivables amounted to €74 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:

In € millions	At December 31, 2012	At December 31, 2011
• Minimum lease payments	19	17
• Contingent lease payments	0	0
• Sub-leases	13	11
TOTAL	**32**	**28**

The table below analyzes the Group's lease commitments at December 31, 2012 by type of asset and maturity.

Type of leased asset *(In € millions)*	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years	Total
Real estate	18	46	39	103
Vehicles	3	2	0	5
Equipment	32	129	179	340
TOTAL	**53**	**177**	**218**	**448**

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, 2012 the Group had no commitments in relation to network investments.

Capacity purchases

Type of commitment *(In € millions)*	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years	Total
Capacity purchases	46	86	0	132
TOTAL	**46**	**86**	**0**	**132**

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 included 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 mainland 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, 2012 the Group had access to:

- a €1,400 million credit facility, of which €350 million had been drawn down;
- a €500 million commercial paper program, of which €191 million had been used;
- a €200 million credit facility, of which €100 million had been drawn down.

At the same date:

- other commitments given by the Group amounted to €39.5 million;
- 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, 2012 the Company's employees had accumulated a total of 230,782 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.

33.4 Claims and litigation

The main legal proceedings currently affecting the Iliad Group are as follows:

Dispute with Bouygues Telecom

By way of an emergency application dated December 6, 2012, Bouygues Telecom filed a lawsuit with the Paris Commercial Court claiming €98.8 million in damages from Free Mobile, Free and Iliad (on a joint and several basis) for pecuniary and non-pecuniary losses allegedly suffered by the company as a result of defamation. Bouygues Telecom also applied for an injunction – with a €100,000 per day non-compliance provision – for Free Mobile, Free and Iliad to cease certain advertising campaigns and not to publicize certain aspects of the related legal decision. As part of the same lawsuit, Free Mobile and Free made a counter-claim against Bouygues Telecom for respective amounts of €77.8 million and €15.2 million in damages for pecuniary and non-pecuniary losses that they suffered as a result of defamation. The case was heard by the court on January 25, 2013 and both parties were convicted. Free Mobile, Free and Iliad have appealed this decision.

European Commission litigation with SFR

On October 10, 2012, SFR filed a complaint with the European Commission claiming that Free Mobile, Orange and Iliad had not respected the applicable European regulations concerning the notification of concentrations. In its complaint SFR stated that as a result of the roaming agreement signed between Free Mobile and Orange on March 3, 2011, Free Mobile should be considered as a full-function joint venture set up between Iliad and Orange. Free Mobile has responded to the questions put to it by the European Commission and the complaint is currently under investigation by the Commission's competition division.

NOTE 34 EVENTS AFTER THE REPORTING PERIOD

No other significant events that could have a material impact on the financial statements for the year ended December 31, 2012 occurred between January 1, 2013 and the date the financial statements were approved for issue.

NOTE 35 LIST OF CONSOLIDATED COMPANIES AT DECEMBER 31, 2012

The following table includes the main legal holdings.

	Registration number	Head office	Percentage control at December 31, 2012	Percentage control at December 31, 2011	Percentage ownership at December 31, 2012	Percentage ownership at December 31, 2011	Consolidation method in 2012
Iliad 16 rue de la Ville l'Evêque 75008 Paris	342 376 332	Paris	100.00%	100.00%	100.00%	100.00%	Full
Assunet 16 rue de la Ville l'Evêque 75008 Paris	421 259 797	Paris	89.96%	89.96%	89.96%	89.96%	Full
Centrapel 8 rue de la Ville l'Evêque 75008 Paris	434 130 860	Paris	100.00%	100.00%	100.00%	100.00%	Full
Certicall 8 rue de la Ville l'Evêque 75008 Paris	538 329 913	Paris	100.00%	100.00%	100.00%	100.00%	Full
Equaline 8 rue de la Ville l'Evêque 75008 Paris	538 330 358	Paris	100.00%	100.00%	100.00%	100.00%	Full
Free 8 rue de la Ville l'Evêque 75008 Paris	421 938 861	Paris	100.00%	100.00%	100.00%	100.00%	Full
Freebox 16 rue de la Ville l'Evêque 75008 Paris	433 910 619	Paris	97.32%	97.14%	97.32%	97.14%	Full
F Distribution 8 rue de la Ville l'Evêque 75008 Paris	528 815 376	Paris	100.00%	100.00%	100.00%	100.00%	Full
Free Fréquences 16 rue de la Ville l'Evêque 75008 Paris	529 917 833	Paris	99.78%	100.00%	99.78%	100.00%	Full
Free Infrastructure 16 rue de la Ville l'Evêque 75008 Paris	488 095 803	Paris	100.00%	100.00%	100.00%	100.00%	Full
Free Mobile 16 rue de la Ville l'Evêque 75008 Paris	499 247 138	Paris	95.50%	100.00%	95.50%	100.00%	Full
IFW 8 rue de la Ville l'Evêque 75008 Paris	400 089 942	Paris	100.00%	100.00%	100.00%	100.00%	Full
IH 8 rue de la Ville l'Evêque 75008 Paris	441 532 173	Paris	100.00%	100.00%	100.00%	100.00%	Full
Iliad 1 16 rue de la Ville l'Evêque 75008 Paris	537 915 019	Paris	95.18%	100.00%	95.18%	100.00%	Full
Iliad 2 16 rue de la Ville l'Evêque 75008 Paris	537 915 050	Paris	100.00%	100.00%	100.00%	100.00%	Full
Iliad 3 16 rue de la Ville l'Evêque 75008 Paris	790 148 944	Paris	100.00%	0	100.00%	0	Full
Iliad Gaming 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, 2012	Percentage control at December 31, 2011	Percentage ownership at December 31, 2012	Percentage ownership at December 31, 2011	Consolidation method in 2012
Immobilière Iliad 16 rue de la Ville l'Evêque 75008 Paris	501 194 419	Paris	100.00%	100.00%	100.00%	100.00%	Full
IRE 16 rue de la Ville l'Evêque 75008 Paris	489 741 645	Paris	100.00%	100.00%	100.00%	100.00%	Full
MCRA 8 rue de la Ville l'Evêque 75008 Paris	532 822 475	Paris	100.00%	100.00%	100.00%	100.00%	Full
Mobipel 142-160 avenue de Stalingrad 92700 Colombes	538 168 675	Colombes	100.00%	100.00%	100.00%	100.00%	Full
Online 8 rue de la Ville l'Evêque 75008 Paris	433 115 904	Paris	95.18%	95.18%	95.18%	95.18%	Full
One.Tel 16 rue de la Ville l'Evêque 75008 Paris	419 392 931	Paris	100.00%	100.00%	99.99%	100.00%	Full
Protelco 8 rue de la Ville l'Evêque 75008 Paris	509 760 948	Paris	100.00%	100.00%	100.00%	100.00%	Full
Qualipel 61 rue Julien Grimau 94400 Vitry sur Seine	533 513 958	Vitry sur Seine	100.00%	100.00%	100.00%	100.00%	Full
Resolution Call 7 Bld Mohamed V 20800 Mohammedia – Morocco	/	Morocco	100.00%	100.00%	100.00%	100.00%	Full
Total Call Technoparc – Route de Nouceur Sidi Maar Casablanca – Morocco	/	Morocco	100.00%	100.00%	100.00%	100.00%	Full
Telecom Academy "Privé" Lotissement Attaoufik Lot n° 9 & 10 Immeuble Le Shadow Sidi Maarouf Casablanca – Morocco	/	Morocco	100.00%	100.00%	100.00%	100.00%	Full

NOTE 36 CHANGES IN SCOPE OF CONSOLIDATION AND PERCENTAGE CONTROL IN 2012

Main newly-consolidated companies

	Percentage control at December 31, 2011	Consolidation method at December 31, 2011	Acquisition/ incorporation date	Percentage control at December 31, 2012	Consolidation method at December 31, 2011	Consolidation method at December 31, 2012
Iliad 3	0	N.C.	December 26, 2012	100%	N.C.	Full

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

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.

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, 2012, 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, 2012 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.

Without qualifying our opinion, we draw your attention to Note 1.2 to the consolidated financial statements, which describes your company's early adoption of the amendment to IAS 19, Employee Benefits (IAS 19R).

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 17, 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 19, 2013

The Statutory Auditors

PricewaterhouseCoopers Audit	Boissière Expertise Audit
Xavier Cauchois	Tita Zeitoun

20.2 PARENT COMPANY FINANCIAL STATEMENTS FOR 2012

DETAILED SUMMARY NOTES

20.2.1 BALANCE SHEET – ASSETS

In € thousands	Gross	Depr., amort. and provisions	Net at December 31, 2012	Net at December 31, 2011
INTANGIBLE ASSETS				
Start-up costs	0	0	0	0
Research and development costs	0	0	0	0
Concessions, patents and trademarks	51	51	0	1
Business goodwill	0	0	0	0
Other	452	171	281	89
PROPERTY, PLANT AND EQUIPMENT				
Land	85	0	85	119
Buildings	257	233	24	34
Fixtures and fittings	6,670	1,386	5,284	4,160
Technical equipment	106	9	97	0
Computer equipment	613	353	260	280
Furniture	1,088	333	755	446
Assets under construction	0	0	0	55
Advances and prepayments	0	0	0	0
LONG-TERM INVESTMENTS				
Investments in subsidiaries and affiliates	981,893	55,610	926,283	933,586
Loans and advances to subsidiaries and affiliates	1,480,525	6,747	1,473,778	983,543
Other investment securities	3,253	1,738	1,515	1,515
Other loans	0	0	0	0
Other long-term investments	3,695	0	3,695	3,811
TOTAL FIXED ASSETS	**2,478,688**	**66,631**	**2,412,057**	**1,927,639**
Inventories	0	0	0	0
Advances and prepayments on orders	8	0	8	5
Trade receivables	4,797	160	4,637	3,504
Receivables from suppliers	60	0	60	4,423
Employee-related receivables	103	0	103	3
Recoverable corporate income tax	9,987	0	9,987	40,809
Recoverable sales taxes	3,517	0	3,517	1,743
Other receivables	159,160	1,220	157,940	115,836
Other advances and prepayments made	0	0	0	0
Marketable securities	347,596	834	346,762	310,356
Cash and cash equivalents	22,646	0	22,646	5,349
Prepaid expenses	3,072	0	3,072	3,371
TOTAL CURRENT ASSETS	**550,946**	**2,214**	**548,732**	**485,399**
ACCRUALS				
Deferred charges	15,665	0	15,665	20,984
Conversion losses	0	0	0	0
TOTAL ASSETS	**3,045,299**	**68,845**	**2,976,454**	**2,434,022**

20.2.2 BALANCE SHEET – EQUITY AND LIABILITIES

In € thousands	At December 31, 2012	At December 31, 2011
Share capital	12,773	12,641
Additional paid-in capital	343,437	304,987
Legal reserve	1,268	1,218
Regulated reserves	0	0
Other reserves	111,788	111,788
Retained earnings	326,594	18,012
Interim dividends	0	0
Profit for the year	*785,741*	*329,751*
TOTAL EQUITY	**1,581,601**	**778,397**
OTHER EQUITY	**0**	**0**
Provisions for contingencies	1,500	0
Provisions for charges	0	0
TOTAL PROVISIONS	**1,500**	**0**
Convertible bonds	0	131,272
Ordinary bonds	514,291	514,291
Bank borrowings	798,424	556,471
Bank overdrafts	453	0
Other borrowings	25	520
Current accounts with subsidiaries	19,133	324,286
Trade payables	21,831	10,074
Employee-related payables	372	332
Accrued payroll and other employee-related taxes	468	412
Accrued corporate income tax	0	71,975
Accrued sales taxes	1,106	564
Other accrued taxes	328	227
Amounts due on fixed assets	198	209
Other liabilities	36,724	44,992
Deferred income	0	0
TOTAL ACCRUALS AND OTHER LIABILITIES	**1,393,353**	**1,655,625**
TOTAL EQUITY AND LIABILITIES	**2,976,454**	**2,434,022**

20.2.3 INCOME STATEMENT

In € thousands	At December 31, 2012	At December 31, 2011
Sales of services in France	43,447	27,249
TOTAL REVENUES	**43,447**	**27,249**
Reversals of depreciation, amortization and provisions, expense transfers	31	226
Other income	48	202
TOTAL OPERATING INCOME	**43,526**	**27,677**
Rebilled purchases	23,210	14,445
Other purchases and external charges	20,995	18,925
Taxes other than on income	745	419
Wages and salaries	3,741	3,584
Payroll taxes	1,647	1,699
Depreciation and amortization of fixed assets	6,688	6,432
Additions to provisions for impairment of current assets	12	124
Additions to provisions for contingencies and charges	1,500	0
Other expenses	282	430
TOTAL OPERATING EXPENSES	**58,820**	**46,058**
NET OPERATING EXPENSE	**(15,294)**	**(18,381)**
Interest and other financial income	852,546	393,053
Reversals of provisions	6,630	10,399
Net gains on disposals of marketable securities	3,522	7,446
TOTAL FINANCIAL INCOME	**862,698**	**410,898**
Interest and other financial expense	76,999	83,931
Additions to provisions	9,838	8,308
Foreign exchange losses	90	4
Net losses on disposals of marketable securities	557	733
TOTAL FINANCIAL EXPENSE	**87,484**	**92,976**
NET FINANCIAL INCOME	**775,214**	**317,922**
OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS AND TAX	**759,920**	**299,541**

In € thousands	At December 31, 2012	At December 31, 2011
Exceptional income from operating transactions	0	0
Exceptional income from capital transactions	18,368	782
Reversals of provisions	0	0
TOTAL EXCEPTIONAL INCOME	**18,368**	**782**
Exceptional expense on operating transactions	0	0
Exceptional expense on capital transactions	16,872	750
Exceptional depreciation, amortization and provision expense	0	0
TOTAL EXCEPTIONAL EXPENSE	**16,872**	**750**
NET EXCEPTIONAL INCOME	**1,496**	**32**
Corporate income tax	(24,325)	(30,178)
TOTAL INCOME	**924,592**	**439,357**
TOTAL EXPENSE	**138,851**	**109,606**
PROFIT FOR THE YEAR	**785,741**	**329,751**

20.2.4 STATEMENT OF CHANGES IN EQUITY

In € thousands	Share capital	Additional paid-in capital	Retained earnings and reserves	Profit for the year	Total equity
EQUITY AT DECEMBER 31, 2010	**12,121**	**98,660**	**113,074**	**39,829**	**263,684**
Movements in 2011					
• 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					
EQUITY AT DECEMBER 31, 2011	**12,641**	**304,987**	**131,018**	**329,751**	**778,397**
Movements in 2012					
• Proceeds from share issues	132	38,450			38,582
• Appropriation of 2011 profit			329,751	(329,751)	0
• Dividends paid			(21,119)		(21,119)
• Profit for the year				785,741	785,741
• Other					
EQUITY AT DECEMBER 31, 2012	**12,773**	**343,437**	**439,650**	**785,741**	**1,581,601**

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, 2012***;
- accounting period: ***12 months***;
- previous accounting period: ***12 months***;
- total assets at December 31, 2012: **€2,976,454,000;**
- 2012 revenues: **€43,447,000;**
- number of employees at December 31, 2012: **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 generally accepted accounting principles in France — 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
• technical equipment	5 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 acquisition cost (excluding incidental expenses). A provision for impairment is recorded when the fair is lower than its carrying amount. 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 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.

1.3.7 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, 2012

2.1 Intangible assets

2.1.1 Movements in 2012

Movements in intangible assets in 2012 can be analyzed as follows:

In € thousands	At January 1, 2012	Acquisitions	Disposals	At December 31, 2012
Software	96	350	0	446
Trademarks	51	0	0	51
Intangible assets in progress	76	134	204	6
TOTAL	**223**	**484**	**204**	**503**

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 2012

Movements in property, plant and equipment in 2012 can be analyzed as follows:

In € thousands	At January 1, 2012	Acquisitions	Disposals	At December 31, 2012
Land	**119**	0	34	**85**
Buildings	**356**	0	99	**257**
Fixtures and fittings	**5,062**	1,611	3	**6,670**
Technical equipment	**0**	106	0	**106**
Computer equipment	**529**	84	0	**613**
Furniture	**606**	482	0	**1,088**
Assets under construction	**55**	270	325	**0**
TOTAL	**6,727**	**2,553**	**461**	**8,819**

2.2.2 Analysis of property, plant and equipment

- ***Land and buildings***

The Company owns a building at Rue de Crimée in Paris, a portion of which was sold in 2012.

- ***Fixtures and fittings and technical equipment***

These items primarily concern buildings located in Paris that house the head office of the Company and several subsidiaries.

- ***Computer equipment***

This item corresponds to purchases of computer equipment.

2.3 Long-term investments

2.3.1 Movements in 2012

In € thousands	At January 1, 2012	Acquisitions	Disposals	At December 31, 2012
Investments in subsidiaries and affiliates	**986,260**	12,448	**16,815**	981,893
Loans and advances to subsidiaries and affiliates	**987,043**	521,406	**27,924**	1,480,525
Other investment securities	**3,253**	0	**0**	3,253
Other loans	**3,130**	0	**3,130**	0
Guarantee deposits	**3,811**	76	**192**	3,695
TOTAL	**1,983,497**	**533,930**	**48,061**	**2,469,366**

2.3.2 Investments in subsidiaries and affiliates

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

- on December 19, 2012 the Company sold all of its Centrapel shares to MCRA;
- on November 8, 2012 the Company purchased 44 Freebox shares from minority interests;
- on June 21, 2012 the Company took up shares issued under a capital increase carried out by IRE;
- the Company sold 4.5% of Free Mobile's share capital;
- the Company sold the entire share capital of Iliad 1 to Online.

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.

In € thousands	Share capital	Retained earnings and reserves	% ownership	2012 profit/ (loss)	Gross value of shares held	Net value of shares held	Loans and advances granted by the Company	Commitments given	2012 revenues	Dividends received during the year
Assunet SAS	38	40	89.96	606	34	34	0	/	1,453	418
F Distribution SAS	1,000	(34)	100.00	(1,741)	1,000	1,000	11,125	/	1,373	0
Free SAS	3,442	591,104	100.00	370,915	497,298	497,298	137,822	3,921	2,441,780	800,000
Freebox SAS	50	(4,154)	97.32	7,088	4,196	4,196	9,919	19,341	425,126	0
Free Fréquences SAS	5,000	32	95.00	49	4,750	4,750	0	/	0	0
Free Infrastructure SAS	1,000	(70,092)	100.00	(37,654)	31,378	31,378	629,564	3,000	12,459	0
Free Mobile SAS	365,139	(10,295)	95.50	(154,621)	348,846	348,846	528,662	513	885,310	0
IFW SAS	2,584	(1,347)	100.00	(1,309)	68,397	14,084	2,180	/	66	0
IH SAS	39	4	100.00	142	39	39	0	/	1,181	86
Iliad 2 SAS	2	0	100.00	0	2	2	0	/	0	0
Iliad 3 SAS	2	0	100.00	0	2	2	0	/	0	0
Iliad Gaming SAS	1,000	(4,177)	100.00	(1,505)	1,000	0	6,747	/	1,584	0
Immobilière Iliad SARL	1,000	(11,433)	100.00	(9,503)	6,520	6,520	87,244	/	4,492	0
IRE SAS	1,000	0	100.00	(2,725)	16,321	16,321	17,867	/	10,882	0
MCRA SAS	850	335	19.92	325	1,000	1,000	2,056	/	6,615	0
Online SAS	214	6,148	95.18	(864)	341	341	37,983	13,500	21,862	803
One.Tel SAS	2,511	251	100.00	1,933	0	0	0	/	4,140	2,460
Protelco SAS	37	392	100.00	241	37	37	2,011	/	64,186	0
Resolution Call[(1)]	MAD 100,000	MAD 69,000	100.00	MAD 2,575,000	10	10	1,724	/	MAD 69,443,000	0
SNDM EURL	2	(388)	100.00	4	297	0	0	/	0	0
Telecom Academy "Privé"[(1)]	MAD 100,000	MAD 864,000	100.00	MAD (867,000)	10	10	326	/	MAD 16,560,000	0
Total Call[(1)]	MAD 4,600,000	MAD 8,790,000	100.00	MAD 1,120,000	414	414	1,056	/	MAD 254,357,000	0

(1) MAD: Moroccan dirhams.

2.3.5 Related-party transactions

In € thousands	Debit balances	Credit balances
Loans and advances to subsidiaries and affiliates	1,480,525	
Trade receivables	4,084	11
Business premises deposits received		0
Other borrowings		19,129
Trade payables	2	147
Other receivables/payables	157,418	36,723
Financial expense	6,876	
Financial income		855,873

2.4 Depreciation and amortization

Movements in depreciation and amortization are broken down in the following table:

In € thousands	Depreciation and amortization at January 1, 2012	Increases (additions for the year)	Decreases (depreciation and amortization written off on divested assets)	Depreciation and amortization at December 31, 2012
Intangible assets				
SUB-TOTAL I	133	89	0	222
Buildings	322	11	100	233
Other property, plant and equipment:				
Technical equipment	0	9	0	9
Fixtures and fittings	902	485	1	1,386
Furniture, office and computer equipment	409	277	0	686
Property, plant and equipment				
SUB-TOTAL II	1,633	782	101	2,314
TOTAL I+II	**1,766**	**871**	**101**	**2,536**

2.5 Other assets

2.5.1 Analysis of receivables by maturity

At December 31, 2012 *In € thousands*	Gross amount	Due within 1 year	Due beyond 1 year
Fixed assets			
• Loans and advances to subsidiaries and affiliates	1,480,525	1,480,525	0
• Other loans	0	0	0
• Other long-term investments	3,695	0	3,695
Current assets			
• Advances and prepayments on orders	60	60	0
• Trade receivables	4,708	4,708	0
• Doubtful and disputed receivables	89	89	0
• Accrued payroll and other employee-related taxes	0	0	0
• Employee-related receivables	103	103	0
• Recoverable corporate income tax	9,987	9,987	0
• Recoverable VAT	3,517	3,517	0
• Other receivables (including inter-company current accounts)	159,160	159,160	0
• Prepaid expenses	3,072	1,941	1,131
TOTAL	**1,664,916**	**1,660,090**	**4,826**

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 2012:

In € thousands	Amount
• Debt issuance costs	29,300
• Prior period amortization	(7,816)
• Amortization charge for the year	(5,819)
NET AT DECEMBER 31, 2012	**15,665**

2.5.3 Marketable securities

Marketable securities break down as follows:

	December 31, 2012		December 31, 2011	
In € thousands	Carrying amount	Fair value	Carrying amount	Fair value
Certificates of deposit				
Net value	**0**	**0**	**45,000**	**45,000**
Mutual funds (UCITs)				
Net value	**338,917**	**338,917**	**258,252**	**258,252**
Own shares				
Net value	**4,065**	**4,065**	**2,136**	**2,136**
Treasury instruments				
Net value	**3,780**	**3,780**	**4,968**	**4,968**
TOTAL, NET	**346,762**	**346,762**	**310,356**	**310,356**

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 readily 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 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, 2012 the Company's share capital amounted to €12,773,000, divided into 57,637,805 fully paid-up shares, compared with €12,641,000 at December 31, 2011.

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 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. The stock options granted on June 14, 2007 and August 30, 2007 have been exercisable since June 13, 2012 and August 30, 2012 respectively.

In 2012, 595,713 stock options were exercised for the same number of new shares. The Company's share capital therefore increased by €132,000 to €12,773,000 at December 31, 2012 from €12,641,000 one year earlier.

2.6.4 Ownership structure

At December 31, 2012 Iliad's ownership structure was as follows:

Shareholder	Number of shares	%
Executive Management	36,022,725	62.50
Public	21,615,080	37.50
TOTAL	**57,637,805**	**100.00**

2.6.5 Own shares

At December 31, 2012 Iliad held 30,071 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 2012 and prior years, and outstanding at the year-end.

AT DECEMBER 31, 2012

Date of Shareholders' Meeting	Date of plan launch	Exercise price *(in €)*	Number of options outstanding at January 1, 2012	Number of options granted in 2012	Number of options forfeited in 2012	Number of options exercised in 2012	Number of exercisable options outstanding at December 31, 2012	Number of non-exercisable options outstanding at December 31, 2012
Iliad								
December 12, 2003	January 20, 2004	16.30	6,870	0	0	4,000	2,870	0
December 12, 2003	December 20, 2005	48.44	164,259	0	0	136,400	27,859	0
May 29, 2006	June 14, 2007	74.62	162,455	0	0	135,000	27,455	0
May 29, 2006	August 30, 2007	68.17	663,222	0	7,887	320,313	335,022	0
May 29, 2008	November 5, 2008	53.79	564,200	0	20,400	0	0	543,800
May 29, 2008	August 30, 2010	67.67	162,450	0	13,050	0	0	149,400
May 29, 2008	August 30, 2010	67.67	379,050	0	30,450	0	0	348,600
May 24, 2011	November 7, 2011	84.03	398,200	0	11,000	0	0	387,200

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 70% 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 2012

Movements in provisions for contingencies and charges in 2012 can be analyzed as follows:

In € thousands	At January 1, 2012	Additions	Reversals (utilizations)	Reversals (surplus provisions)	At December 31, 2012
Provisions for contingencies and charges	0	1,500	0	0	1,500
TOTAL	**0**	**1,500**	**0**	**0**	**1,500**

2.7.2 Recognition of provisions for contingencies and charges

The provisions for contingencies and charges set aside at December 31, 2012 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 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, 2012 *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	514,291	14,291	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	798,424	198,424	458,333	141,667
• Bank overdrafts	453	453	0	0
• Other borrowings	0	0	0	0
• Guarantees and deposits received	25	0	25	0
• Current accounts with subsidiaries	19,133	19,133	0	0
• Trade payables	21,831	21,831	0	0
• Employee-related payables	372	372	0	0
• Accrued payroll and other employee-related taxes	468	468	0	0
• Other accrued taxes:				
– Corporate income tax	0	0	0	0
– Value-added tax	1,106	1,106	0	0
– Other	328	328	0	0
• Amounts due on fixed assets	198	198	0	0
• Other liabilities	36,724	36,724	0	0
TOTAL	**1,393,353**	**293,328**	**958,358**	**141,667**

Issuance of Océane convertible/exchangeable bonds

In June 2006, Iliad carried out an issue of Océane bonds convertible into new shares and/or exchangeable for existing shares which matured on January 1, 2012.

In 2011, Iliad honored all of the conversion requests received by December 22, 2011, which was the final exercise date for the conversion option on the bonds.

The 1,458,744 remaining Océane bonds were 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. These bonds will be redeemed at face value on June 1, 2016.

Other borrowings

Loan granted by the European Investment Bank (EIB)

The EIB 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, 2012.

In late August 2012, the EIB granted Iliad another loan (€200 million) to help finance its rollout of new generation landline networks. This loan – which also has a 10-year term and is repayable in installments – had been drawn down in an amount of €100 million at December 31, 2012.

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 €350 million had been drawn down at December 31, 2012;
- a revolving tranche of €800 million expiring in June 2015. None of this tranche had been drawn down at December 31, 2012.

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, 2012 were as follows:

- 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 2012 REVIEW OF OPERATIONS

3.1 Revenues

2012 revenues can be analyzed as follows by segment:

In € thousands	
• Iliad Telecom services	2,549
• Inter-company re-invoicing	40,249
• Other revenues	649
TOTAL	**43,447**

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

3.2 Number of employees

At December 31, 2012, Iliad S.A. had 57 employees, breaking down as follows by category:

	Men	Women	Total
• Management	23	14	37
• Other	8	12	20
TOTAL	**31**	**26**	**57**

3.3 Net financial income

Net financial income came to €775,214,000 in 2012, breaking down as follows by category:

In € thousands	Amount
• Net interest on subsidiaries' current accounts	40,261
• Interest income from loans and other receivables	173
• Income from securities	803,767
• Overdraft charges, interest on borrowings and other financial expenses	(68,743)
• Net gains on disposals of marketable securities	1,837
• Additions to provisions	(3,208)
• Net gains on disposals of own shares	1,127
	775,214

3.4 Exceptional items

In 2012 exceptional items represented net income of €1,496,000, breaking down as follows:

In € thousands	
Gain on sale of a building	248
Gain on sale of shares	1,248
	1,496

3.5 Directors' and officers' remuneration

The tables below set out aggregate information concerning the remuneration and benefits paid to members of Iliad's administrative and management bodies.

Administrative bodies *In €*	At December 31, 2012	At December 31, 2011
• Salaries, commission and other remuneration (including lump-sum expense allowances), and paid leave	891,760	884,640
• Directors' fees:		
Exempt from payroll taxes	100,000	100,000

Management bodies *In €*	At December 31, 2012	At December 31, 2011
• Salaries, commission and other remuneration (including lump-sum expense allowances), and paid leave	163,200	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, 2012.

4.2 Financial commitments

Iliad S.A. had not given any financial commitments at December 31, 2012.

4.2.1 Commitments given by Iliad on behalf of Group companies

At December 31, 2012, Iliad S.A. had given the following commitments on behalf of Group companies:

Subsidiary	Amount (in € thousands)
Free Infrastructure	3,000
Freebox	19,341
Free Mobile	513
Free	3,921
Online	13,500

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 from the Group 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 that 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 €117,000 at December 31, 2012. This obligation was not recognized in the 2012 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, 2012 the Company's employees had accumulated a total of 4,625 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, 2012 included all of its consolidated companies apart from companies (i) that are less than 95%-owned by Iliad, (ii) that were newly formed in 2012, 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;
- until December 31, 2011 any tax savings relating to tax losses made by members of the tax group were held at the level of the parent company and therefore did 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 recorded these tax savings on the liabilities side of its balance sheet under "Other liabilities". They totaled €36,723,000 at December 31, 2012;
- effective January 1, 2012, Iliad SA and its subsidiaries decided to add to this mechanism by putting in place a system of reallocating tax savings generated through the use by Iliad SA of tax losses generated by Group companies:
  - tax savings arising on the Group's use of tax losses generated by a Group company will be allocated to that company, which will subsequently receive an amount equal to the tax savings made,
  - the same approach will be used for recoverable tax credits (research tax credits, training tax credits, etc.);
- 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 SA;
- 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 *In € thousands*	Amount
Deferred tax liabilities	/
TOTAL	**/**
Total deferred tax liabilities	/
Deferred tax assets	
Government housing levy	5
"Contribution sociale" surtax	20
TOTAL	**25**
Total deferred tax assets	**25**
Tax loss carryforwards for the Company	None
Tax group	
Long-term capital losses	None

5.2.3 Corporate income tax relating to exceptional items

Corporate income tax payable for 2012 amounted to €24,325,000, breaking down as follows:

- Corporate income tax relating to ordinary activities: €(24,401,000);
- Corporate income tax relating to exceptional items: €76,000.

5.3 Information on the segregation of accounting periods

5.3.1 Accrued income

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

Balance sheet item *In € thousands*	**Amount**
Loans and advances to subsidiaries and affiliates	0
Other long-term investments	0
Trade receivables	12
Other receivables	0
Cash and cash equivalents	0
TOTAL	**12**

5.3.2 Accrued expenses

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

Balance sheet item *In € thousands*	**Amount**
Convertible bonds	0
Ordinary bonds	14,291
Bank borrowings	7,424
Other borrowings	0
Trade payables	18,067
Accrued taxes and employee-related payables	845
Other liabilities	0
TOTAL	**40,627**

5.3.3 Deferred income and prepaid expenses

Deferred income and prepaid expenses break down as follows:

In € thousands	**Prepaid expenses**	**Deferred income**
Operating expense/income	1,300	0
Financial expense/income	1,772	0
Exceptional expense/income	0	0
TOTAL	**3,072**	**0**

5.4 Events after the balance sheet date

Between January 1, 2013 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, 2012.

STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

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, 2012, 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 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 financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company at December 31, 2012 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 matter:

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 19, 2013

The Statutory Auditors

PricewaterhouseCoopers Audit	Boissière Expertise Audit
Xavier Cauchois	Tita Zeitoun

20.3 DIVIDEND POLICY

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 ex-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 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 22, 2013, 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 2012 dividend.

The Company expects its dividend policy to be consistent with its expansion strategy in 2013. 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.

The Company paid the following dividends in the past five fiscal years:

Year	Per-share dividend	Total dividend payout
2007	€0.31	€16,913,905
2008	€0.34	€18,509,208
2009	€0.37	€20,174,551
2010	€0.40	€21,884,296
2011	€0.37	€21,119,833

For individuals domiciled in France for tax purposes, cash dividends are taken into account when calculating personal income tax subject to the progressive tax scale. They are eligible for the tax allowance provided for under Article 158.3-2° of the French Tax Code (40% for 2009 to 2012) subject to the applicable conditions and ceilings set down by law, unless the shareholders concerned opt for the flat-rate withholding tax provided for under Article 117 *quater* of said Code.

For 2012, individuals domiciled in France for tax purposes who elected to pay the withholding tax referred to in Article 117 *quater* of the French Tax Code will receive a tax credit equal to the amount of the withholding tax paid for the purpose of calculating their personal income tax payable for 2012.

As from 2013, for this category of shareholders the Company will withhold at source from the dividend payment the amount required under French law unless the shareholder concerned has applied for an exemption from this withholding tax in compliance with Article 242 *quater* of the French Tax Code.

20.4 LITIGATION AND ARBITRATION PROCEEDINGS

Apart from the cases described in Chapter 4 of this registration document, there have been no governmental, legal or arbitration proceedings (including pending or threatened 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.

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 Chapter 20, Section 20.1) 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, 2012 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 2013 are described in Chapter 9 (notably Section 9.5.2) and were disclosed by the Company during the presentation of its 2012 results on March 19, 2013.

21

ADDITIONAL INFORMATION

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 €12,772,554.81, divided into 57,637,805 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 eleventh resolution of the May 24, 2012 Annual General Meeting granted the Board of Directors an 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 until November 23, 2013.

The maximum purchase price under this program is €200 per share.

The objectives of the share buyback program, in decreasing order of priority, were 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 recognized by the French securities regulator (*Autorité des Marchés Financiers* – AMF) as an approved market practice;
- to allocate shares to employees and officers of the Company and Group subsidiaries, in accordance with the applicable laws and regulations, including by carrying out share grants as permitted by Articles L. 225-197-1 *et seq*. of the French Commercial Code, or by granting stock options in accordance with Articles L. 225-177 *et seq*. of said Code, or as part of a profit-sharing plan or a Group employee savings plan in accordance with the applicable legislation, in particular Articles L. 3332-14 *et seq*. of the French Labor Code;
- 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 twelfth resolution of the May 24, 2012 Annual General Meeting;
- to allocate 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 transactions 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 2012:

	Purchases	Sales
Number of shares	511,534	508,168
Average unweighted transaction price *(in €)*	110,872	110,978
Total *(in €)*	55,327,383.42	54,953,571.08

Following the above transactions, the Company held the following Iliad shares at December 31, 2012:

Percentage of capital held directly or indirectly by the Company	**0.05%**
For the purpose of:	
• maintaining a liquid market	0.05%
• allocation on exercise of stock options	0.00%
Number of shares canceled in the past 24 months	0
Number of shares held in the portfolio	26,298
Carrying amount of the portfolio *(in €)*	
Market value of the portfolio *(in €)* [(1)]	3,420,054.90

(1) Based on the Iliad closing share price on December 31, 2012, i.e., €130.05.

At its meeting on March 18, 2013, the Board of Directors decided to recommend to shareholders at the Annual General Meeting to be held on May 22, 2013 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 and the market practices accepted by the AMF (see Appendix C to this registration document).

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, 2012.

Table 8 – Outstanding stock options at December 31, 2012

	January 20, 2004 plan	December 20, 2005 plan	June 14, 2007 plan	August 30, 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[1]	162,455	162,455	541,505	80,000	516,600	610,500[6]	404,800
Total number of beneficiaries	22	84	1	1	95	1	120	160	117
O/w corporate officers[2]	N/A	Cyril Poidatz (40,614) Olivier Rosenfeld[3] (40,614) Michaël Boukobza[4] (40,614) Rani Assaf (40,614) Antoine Levavasseur (40,614)	Maxime Lombardini	Thomas Reynaud	N/A	Maxime Lombardini	Thomas Reynaud (80,000)	N/A	N/A
Start date of exercise period	01/20/2008	1st tranche 12/20/2009 2nd tranche 12/20/2010	06/14/2012	08/30/2012	08/30/2012	11/05/2013	11/05/2013	1st tranche 08/29/2014 2nd tranche 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	406,564	363,854	135,000	48,696	271,617	0	0	0	0
Total number of options canceled or forfeited	76,335	149,802[5]	0	0	48,625	0	52,800	111,000	4,400
Outstanding options at year-end	2,870	27,859	27,455	113,759	221,263	80,000	463,800	499,500	393,800
Dilutive impact	NM	0.05%	0.05%	0.20%	0.38%	0.14%	0.80%	0.87%	0.68%

(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, 2012:

- one Group employee held 2,870 options exercisable for the same number of new Iliad shares at a unit price of €16.30;
- 20 Group employees including a corporate officer held 27,859 options exercisable for the same number of new Iliad shares at a unit price of €48.44;
- one Group corporate officer held 27,455 options exercisable for the same number of new Iliad shares at a unit price of €74.62;
- 49 Group employees including a corporate officer held 335,022 options exercisable for the same number of new Iliad shares at a unit price of €68.17;
- 98 Group employees including two corporate officers held 543,800 options exercisable for the same number of new Iliad shares at a unit price of €53.79;
- 131 Group employees held 498,000 options exercisable for the same number of new Iliad shares at a unit price of €67.67;
- 113 Group employees held 387,200 options exercisable for the same number of new Iliad shares at a unit price of €84.03.

21.1.4.2 OCEANE 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 (OCEANE 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 OCEANE 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 OCEANE 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 Free Mobile shares granted free of consideration

On May 3, 2010 the Board of Directors authorized an incentive plan to be set up for employees and officers of Free Mobile, which is presented in Chapter 15, Sections 15.1.2.3.2 and 15.2 and in Note 26 to the consolidated financial statements in Chapter 20, Section 20.1.

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.

21.1.4.4 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 items relating to (i) the potential dilutive impact on the Company”s capital following the exercise of stock options described in Chapter 21, Section 21.1.4.1 and (ii) the option included in the Free Mobile share grant plans which could result in the issuance of Iliad shares, as described in Chapter 21, Section 21.1.4.3, there are no securities that are convertible, redeemable, exchangeable or otherwise exercisable for the Company”s shares and/or voting rights.

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 €)*
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 OCEANE 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
02/04/2013	Capital increase following exercise of stock options	595,713	132,010.18	38,449,843.21	343,436,913.99	12,772,554.81	57,637,805	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	Amendments to ceilings and/or expiration dates of authorizations as submitted for shareholder-approval at the May 22, 2013 AGM: Duration	Ceiling
To increase the Company's capital, with pre-emptive subscription rights					**Duration**	**Ceiling**
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 (9th resolution)	26 months (07/23/2013)	5,000,000 1,000,000,000	N/A	26 months	5,000,000 1,500,000,000 (15th resolution)
To increase the Company's capital through capitalization of reserves, retained earnings or additional paid-in capital	05/24/2011 (16th resolution)	26 months (07/23/2013)	75,000,000	N/A	26 months	75,000,000 (22nd resolution)
To increase the Company's capital, without pre-emptive subscription rights						
To increase the Company's capital by way of a public offering of shares and/or securities carrying rights to shares or debt securities, without pre-emptive subscription rights for existing shareholders	05/24/2011 (10th resolution)	26 months (07/23/2013)	5,000,000(1) 1,000,000,000(2)	N/A	26 months	5,000,000(3) 1,500,000,000(4) (16th resolution)
To increase the Company's capital by way of a private placement of shares and/or securities carrying rights to shares or debt securities, without pre-emptive subscription rights for existing shareholders	05/24/2011 (11th resolution)	26 months (07/23/2013)	5,000,000(1) 1,000,000,000(2)	N/A	26 months	5,000,000(3) 1,500,000,000(4) (17th resolution)
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 (12th resolution)	26 months (07/23/2013)	5,000,000(1) 1,000,000,000(2)	N/A	26 months	5,000,000(3) 1,500,000,000(4) (18th resolution)
To increase the Company's capital in payment for shares and/or securities carrying rights to shares of another company	05/24/2011 (14th resolution)	26 months (07/23/2013)	10% of the Company's capital as at the issue date (for information purposes, 5,763,781 shares at December 31, 2012)(1)	N/A	26 months	10% of the Company's capital as at the issue date(3) (20th resolution)
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 stock component initiated by the Company	05/24/2011 (15th resolution)	26 months (07/23/2013)	1,500,000(1)	N/A	26 months	1,500,000(3) (21st resolution)
To increase the Company's capital, with or without pre-emptive subscription rights						
To increase the number of securities included in an issue carried out with or without pre-emptive subscription rights if the issue is oversubscribed	05/24/2011 (13th resolution)	26 months (07/23/2013)	15% of the original issue(1)	N/A	26 months	15% of the original issue(3) (19th resolution)
To carry out employee share issues						
To carry out share issues for employees of the Group	05/24/2011 (17th resolution – rejected)	N/A	N/A	N/A	26 months	100,000 (23rd resolution)
To set up stock option and share grant plans						
To issue shares for allocation on exercise of stock options	05/24/2011 (18th resolution)	38 months (07/23/2014)	3% of the Company's share capital at the grant date (for information purposes, 1,324,334 shares at December 31, 2012)	404,800	N/A	N/A
To grant shares free of consideration	05/24/2011 (19th resolution)	38 months (07/23/2014)	0.5% of the Company's share capital at the grant date (for information purposes, 288,189 shares at December 31, 2012)	N/A	N/A	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.
(3) This amount is included in the overall ceiling applicable to issues of shares and/or securities carrying rights to shares as set in the fifteenth resolution to be submitted for shareholder approval at the Annual General Meeting of May 22, 2013.
(4) This amount is included in the overall €1,500,000,000 ceiling applicable to issues of debt securities as set in the fifteenth resolution to be submitted for shareholder approval at the Annual General Meeting of May 22, 2013.

At its March 18, 2013 meeting the Board of Directors decided to recommend to shareholders at the Annual General Meeting of May 22, 2013 to renew the authorizations that are due to expire in 2013. The wording of the draft resolutions is provided in Appendix C to this registration document.

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 the profit or loss for the year calculated by deducting from income for the year all expenses, including 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. 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.

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 Chapter 21, Section 21.2.5.5 and Chapter 18, Section 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 (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 any matters that may 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 Chapter 18, 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 pursuant to the applicable laws or 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, retained earnings or additional paid-in capital, 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 with recorded delivery, or by any equivalent method outside France in the case of shareholders non-resident in France 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, 2012	57,637,805
Closing price at December 31, 2012	€130.05
52-week high	€139.55
52-week low	€90.35
Market capitalization at December 31, 2012	€7,496 million
Average 6-month daily trading volume	102,311
ISIN code	FR0004035913
Stock exchange indices	CAC NEXT 20, SBF 120, SBF 80 and SBF 250

21.3.2 CHANGES IN THE ILIAD SHARE PRICE SINCE JANUARY 1, 2012

	Price per share *(in €)* (1)	
	High	**Low**
2012		
January	98.72	90.35
February	100.30	92.21
March	108.00	98.10
April	104.60	95.60
May	108.75	94.00
June	114.40	101.65
July	116.30	108.80
August	127.80	111.50
September	129.90	121.25
October	128.50	113.60
November	136.80	118.10
December	139.55	127.75
2013		
January	145.45	126.50
February	151.70	136.60

(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 that complies 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 2012:

	Purchases			Sales		
	Number of shares	Unweighted average price *(in €)*	Amount *(in €)*	Number of shares	Unweighted average price *(in €)*	Amount *(in €)*
2012						
January	71,098	93,500	6,647,687	59,976	93,667	5,617,796
February	48,726	95,113	4,634,469	61,130	95,185	5,818,669
March	58,729	100,836	5,921,982	57,447	100,875	5,794,974
April	37,021	98,798	3,657,596	30,164	98,718	2,977,729
May	47,246	100,584	4,752,168	52,772	101,649	5,364,246
June	38,863	105,377	4,095,252	41,913	106,118	4,447,726
July	40,518	113,202	4,586,713	36,037	113,127	4,076,741
August	27,011	116,885	3,157,190	33,927	116,689	3,958,907
September	42,710	124,813	5,330,783	38,556	124,681	4,807,189
October	46,634	120,949	5,640,344	40,871	120,581	4,928,258
November	25,982	125,007	3,247,935	33,084	125,624	4,156,129
December	26,996	135,400	3,655,265	22,291	134,817	3,005,206
TOTAL	**511,534**	**110,872**	**55,327,383.42**	**508,168**	**110,978**	**54,953,571.08**

22

MATERIAL CONTRACTS

22.1 FINANCIAL CONTRACTS

On June 9, 2010, the Group set up a €1,400 million syndicated credit facility with a pool of 11 international banks for the purpose of refinancing the €1,200 million loan granted when it acquired Liberty Surf Group in 2008 (see Chapter 9, Section 9.4.3 of this registration document for further information on the Group's debt).

22.2 OPERATING CONTRACTS

On March 2, 2011, Free Mobile signed a 2G and 3G roaming agreement with Orange France with a view to providing Free Mobile subscribers with roaming services on Orange France's 2G and 3G networks. Orange France has provided roaming services since the launch of Free Mobile. In 2012, the roaming agreement was adapted – notably in terms of interconnection capacity – to take into account the increasing number of Free Mobile subscribers.

Free Mobile has entered into agreements with several mobile telephone suppliers for the purpose of marketing 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**) as well as from the website of the AMF (**www.amf-france.org**).

25

INFORMATION ON SHAREHOLDINGS

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

See Note 2.3.4 to the parent company financial statements in Chapter 20, Section 20.2 of this registration document for a list of the Company’s subsidiaries and affiliates.

GLOSSARY

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

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

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

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

The bandwidth of the line is divided as follows:

0 – 5 kHz:	analog telephone line
30 kHz – 130 kHz:	narrowband channel towards the network (upload)
30 kHz – 1.1 MHz:	broadband channel towards the subscriber (download)

FDM (Frequency Division Multiplexing) is used to separate the various data traffic flows. An echo cancellation system is used for spectrum recovery on the upload and download channels.

Afnic (*Association française pour le nommage Internet en coopération — www.afnic.fr/_en*): Afnic is a non-profit organization whose principal function is to establish and implement a naming registry for the .fr (France) and .re (Reunion Island) domains. It has drawn up naming charters which set out its rules for registering domain names in these geographic areas. Members of Afnic include service providers who have been accredited as registrars of domain names in the French domain name areas.

ATM (Asynchronous Transfer Mode): This network technology is used for the simultaneous transmission of data, voice and video. ATM is based on the transmission of signals in short, fixed-length packets. The transmission of these packets is said to be asynchronous because they are transported over different routes and do not necessarily arrive at their destination in the same chronological order as they were sent.

Backbone: Network consisting of a number of very high bandwidth links to which other, smaller networks are connected (including metropolitan networks).

Bandwidth: The transmission capacity of a transmission line. Bandwidth determines the quantity of data (in bits per second) which can be transmitted simultaneously.

Bit: Contraction of "binary digit". A bit is the smallest unit of data processed by a computer. In a binary system, each bit has a value 0 or 1. Data recorded in digital form are 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 2^{20} bytes (and not 1,000,000 bytes).

Call termination: This operation consists of the routing of calls to subscribers on a particular network. In principle, call termination requires either that the call be made from the network on which the called party is a subscriber or from an interconnected network.

CNIL (*Commission Nationale de l'Informatique et des libertés* – http://www.cnil.fr/english/): The CNIL (National Commission for Information Technology and Freedom) is an independent administrative authority established by Law No. 78-17 of January 6, 1978, known as the "Information technology and freedom" (*informatique et libertés*) law. Its principal role is the protection of privacy and of personal or public freedom, and it is responsible for ensuring compliance with the information technology and freedom law.

Co-location facilities or space: A room located in the incumbent operator'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'Audiovisuel* – 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's 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 plus or minus changes in working capital and minus investments made in connection with property, plant and equipment and intangible assets acquired for the Group's ADSL operations.

FTTH (fiber-to-the-home): Data delivery technology that directly connects subscribers' homes to an optical node (ON).

Full unbundling: Full unbundling consists of allowing a third party operator to control the entire local loop (both low and high frequencies).

Gross profit: corresponds to revenues less purchases used in production.

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 Telecom) 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 (Mulitmedia 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 broadband 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.

Total mobile subscribers: represents, at the end of a period, the total number of subscribers, identified by their telephone lines, who have subscribed to a Free mobile offering, 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 the Group's ADSL or FTTH service through a 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.

APPENDIX 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 governing the preparation and organization of the work of the Board, and on the risk management and internal control procedures put in place by Iliad SA (the **"Company"**) during 2012 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.

The Board has stated that the Company uses 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.

1 CORPORATE GOVERNANCE

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

On December 12, 2003, the Board of Directors decided to separate the duties of Chairman of the Board 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 executive 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 and has the broadest powers to act on behalf of the Company in all circumstances.

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.

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 by Management.

The Board reviews in advance any transaction falling outside the scope of the Company's stated business strategy or which could significantly affect or change the Company's financial structure or results.

Consequently, the Board is regularly informed of – and may at any time request information on – the Company's operations and results as well as its cash and debt position, and more generally, any commitments given by the Company.

Members of the Board of Directors

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

Each director must own at least one hundred (100) shares in the Company, corresponding to the threshold that has been deemed appropriate and which will not cause a conflict of interest.

The Board's members are selected for their expertise and experience in the Company's areas of business, as well as for their integrity.

With a view to having a balanced structure – particularly in terms of gender equality – nearly 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
Chairman of the Board of Directors			
Cyril Poidatz	December 12, 2003	June 23, 2009	December 31, 2012
Chief Executive Officer and a director			
Maxime Lombardini	May 29, 2007	May 24, 2011	December 31, 2014
Senior Vice-President and a director			
Xavier Niel	December 12, 2003	June 23, 2009	December 31, 2012
Antoine Levavasseur	May 27, 2005	June 23, 2009	December 31, 2012
Thomas Reynaud	May 29, 2008	May 24, 2012	December 31, 2015
Independent director			
Olivier Rosenfeld	December 12, 2003	June 23, 2009	December 31, 2012
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	May 24, 2012	December 31, 2015
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 General Meeting on June 23, 2009 the Company's shareholders approved the proposal put forward by the Board of Directors to reduce the duration of all directors' terms office from six to four years.

The terms of office of eight directors are due to expire at the close of the next Annual General Meeting.

In order for directors' terms of office to expire on a more staggered basis the Board of Directors examined the possibility of changing the duration of directors' terms of office when these directors are re-elected.

Consequently, at the Annual General Meeting of May 22, 2013 the Board will invite shareholders to amend the Company's bylaws for the purpose of putting in place a staggered renewal system for directors' terms of office. If approved, the amended version of the bylaws will provide that exceptionally, and for the sole purpose of gradually putting in place this renewal system, shareholders may reduce the term of office of one or more directors.

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 its 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 18, 2013 meeting, the Board carried out its annual review of the independence of its members and decided that the following directors qualify as independent: Alain Weill, Pierre Pringuet, Marie-Christine Levet, Orla Noonan, Virginie Calmels and Olivier Rosenfeld.

Independent directors make up 55% of the Board's members, corresponding to a higher proportion than the third recommended in the AFEP-MEDEF 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 March 7, 2011. These rules, which round out the applicable laws and the 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 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.

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 2012 were called by the Chairman.

Frequency and length of Board meetings and average attendance rate

The Board of Directors draws up a schedule for future Board meetings which is approved by the directors.

At each Board meeting, the Chairman informs the directors of the significant events that have arisen in relation to the Group since the previous meeting.

Board meetings also provide the directors with an opportunity to review and discuss the Company's operations and outlook and make any required amendments to its overall strategy.

Additional and/or special meetings are called if there are any issues that need to be urgently addressed.

In 2012, Iliad's Board of Directors met seven times, with an average attendance rate of around 95%.

Work of the Board of Directors in 2012

In 2012 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 2012, after review by the Audit Committee;
- determined the Chief Executive Officer's authorizations and powers in terms of granting guarantees and deposits;
- allocated directors' fees among the individual members of the Board based on the recommendation put forward by the Compensation Committee.

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

Board meetings held in 2012 took place at the Company's head office.

In accordance with Article L. 823-17 of the French Commercial Code (*Code de commerce*), in 2012 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 18, 2013, 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.

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 Committees 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 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' networks 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 four times in 2012, with the meeting dates coinciding with the Company's major financial reporting dates. The average attendance rate at the meetings was 85%. During its meetings the committee discussed the renewal of the term of office of a Statutory Auditor, reviewed the Group's new segment presentation of revenues, analyzed the policy for recognizing provisions and examined the risk management policy.

The meetings held in 2012 also covered various other 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 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 2012.

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.

Iliad's Compensation Committee was set up by the Board of Directors at its meeting held on December 14, 2010 and the Board appointed the following independent directors as its three members: Pierre Pringuet, Alain Weill and Virginie Calmels.

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.

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) executive 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 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 executive 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 prior 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.

The terms of office of the Chief Executive Officer and the Senior Vice-Presidents are due to expire at the end of 2014.

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 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 executive 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 provide executive officers with competitive compensation packages that increase annually at a steady pace.

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 Annual General Meeting held on May 24, 2012 the annual fees to be allocated among the Company's independent directors were set at €100,000. Pursuant to this decision, at its July 2, 2012 meeting the Board of Directors resolved to allocate this amount equally among the independent non-executive directors who were members of the Board during 2012, in accordance with their attendance rate at Board meetings.

Compensation payable to the Chairman, Chief Executive Officer and Senior Vice-Presidents

Based on the recommendation of the Compensation Committee, on August 30, 2012 the Board of Directors modified the compensation payable to certain executive officers.

During the year ended December 31, 2012 the Company's executive officers received the following compensation:

	Compensation received
Cyril Poidatz Chairman of the Board of Directors	€157,200
Maxime Lombardini Chief Executive Officer and a director	€384,000
Xavier Niel Senior Vice-President and a director	€175,360
Antoine Levavasseur Senior Vice-President and a director	€175,200
Thomas Reynaud Senior Vice-President and a director	€384,000
Rani Assaf Senior Vice-President	€163,200

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 executive 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 he 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 would 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 would 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 would not take into account the impact of any regulatory changes:

(a) positive free cash flow from ADSL operations;

(b) Ebitda margin on the landline business maintained at the level recorded in 2010;

(c) average revenue growth of at least 5% over the reference period;

(d) average *per annum* optical fiber subscriber growth of at least 50,000 subscribers;

(e) 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:

(a) if the Chief Executive Officer is removed from office, except in the event of willful misconduct (*faute lourde*, as defined under French labor law);

(b) 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 would 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.

No-compete commitment

No indemnities are payable to executive officers under no-compete clauses.

Stock option and share grant plans

For many years the Company has regularly granted stock options and made share grants under attractive conditions. The objective of these grants is to offer executive officers and a large number of Group employees a long-term incentive to encourage them to create value for shareholders.

In accordance with the applicable regulations concerning stock options and 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.

Employment contracts

In accordance with the Corporate Governance Code, neither the Chairman of the Board of Directors nor the Chief Executive Officer hold an employment contract with the Company.

Service agreements

Apart from the contracts described in Chapter 15, Section 15.2 of this registration document, during the year ended December 31, 2012 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 at 16 rue de la Ville l'Evêque in Paris, which simplifies the tasks of relaying information and monitoring and harmonizing internal control procedures.

In addition, all of the Group's corporate departments – encompassing finance and accounting, legal affairs, human resources, technology and marketing – are cross-functional and are identical for each Group entity. This structure enables the Group to be managed consistently and makes it easier to perform controls.

2.2 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 operational decision-making body. It 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. It meets as often as required and 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.

Committees reporting to Senior Management

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, 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, which 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 are effectively shared, which helps strengthen the financial control function;
- the Subscriber Relations Committee, comprising the heads of the call centers and managers from the Subscriber Department. This committee meets monthly in order to coordinate the work of the call centers and anticipate future needs. It also ensures that all the requisite resources have been allocated to the call centers in order to meet the requirements of subscribers and foster their loyalty;
- the Environment and Sustainable Development Committee, set up at end-2012. This committee puts forward proposals aimed at defining and putting in place the Group's policies and commitments concerning the environment and corporate social responsibility. It also issues recommendations to the Board of Directors on the report provided for in Article L. 225-102-1 of the French Commercial Code on the social and environmental impact of the Company's operations.

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 Chapter 4 of this registration document.

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 through automated controls, and the finance team through 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 times. 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 appropriate service quality and to control the operational risks inherent to this 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 on a cross-functional basis by Senior Management.

In order to limit 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 Group's sales activities and the rollout of its mobile network. 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 revenues of each Group company are controlled by the Finance Department in conjunction with the operating teams concerned, by carrying out tests on sales movements, valuations and invoicing of communications 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 landline 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 pursuant to Article L. 225-100-3 of the French Commercial Code are provided in the following chapters of this registration document: Chapter 10 – "Capital resources", Chapter 18 – "Major shareholders", and Chapter 21 – "Additional information".

The Chairman of the Board of Directors

APPENDIX 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, 2012)

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, 2012.

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 19, 2013

The Statutory Auditors

PricewaterhouseCoopers Audit	**Boissière Expertise Audit**
Xavier Cauchois	Tita Zeitoun

APPENDIX C

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 the original French language version of the document takes precedence over this translation.

RESOLUTIONS PRESENTED TO THE ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING OF MAY 22, 2013

ORDINARY RESOLUTIONS

- Approval of the parent company financial statements for the year ended December 31, 2012;
- Approval of the consolidated financial statements for the year ended December 31, 2012;
- Appropriation of profit for the year ended December 31, 2012 (as presented in the parent company financial statements) and approval of a dividend payment;
- Approval of related-party agreements governed by Articles L. 225-38 *et seq*. of the French Commercial Code;
- Re-election of Virginie Calmels as a director;
- Re-election of Xavier Niel as a director;
- Re-election of Orla Noonan as a director;
- Re-election of Pierre Pringuet as a director;
- Re-election of Antoine Levavasseur as a director;
- Re-election of Cyril Poidatz as a director;
- Re-election of Olivier Rosenfeld as a director;
- Re-election of Alain Weill as a director;
- Setting directors' fees;
- Authorization for the Board of Directors to carry out a share buyback program.

EXTRAORDINARY RESOLUTIONS

- Authorization for the Board of Directors to issue, with pre-emptive subscription rights, shares and/or securities carrying rights to shares of the Company (or of any entity that controls or is controlled by the Company) and/or securities carrying rights to debt securities;
- Authorization for the Board of Directors to issue, through a public offering and without pre-emptive subscription rights, shares and/or securities carrying rights to shares of the Company (or of any entity that controls or is controlled by the Company) and/or securities carrying rights to debt securities;
- Authorization for the Board of Directors to issue, through a private placement and without pre-emptive subscription rights, shares and/or securities carrying rights to shares of the Company (or of any entity that controls or is controlled by the Company) and/or securities carrying rights to debt securities;
- Authorization for the Board of Directors to set the issue price for issues of shares and/or securities carrying rights to shares carried out without pre-emptive subscription rights and through a public offering or a private placement, subject to a ceiling of 10% of the Company's capital;
- Authorization for the Board of Directors to increase the number of securities included in an issue carried out with or without pre-emptive subscription rights;
- Authorization for the Board of Directors to issue shares and/or securities carrying rights to shares of the Company, in payment for shares and/or securities carrying rights to shares of another company;
- Authorization for the Board of Directors to issue shares and/or securities carrying rights to shares of the Company in connection with a public offering with a stock component initiated by the Company;
- Authorization for the Board of Directors to increase the Company's capital by capitalizing reserves, retained earnings, additional paid-in capital or other eligible items;

- Authorization for the Board of Directors to issue shares to members of an employee stock ownership plan, without pre-emptive subscription rights;
- Authorization for the Board of Directors to reduce the Company's capital by canceling treasury shares;
- Amendment to Article 16 of the Company's bylaws – Duration of directors' terms of office;
- Powers to carry out formalities.

ORDINARY RESOLUTIONS

In accordance with paragraph 3 of Article L. 225-98 of the French Commercial Code (Code de Commerce), in order to be validly adopted, the following fourteen ordinary resolutions must be approved by the majority of shareholders present or represented.

First resolution

Approval of the parent company financial statements for the year ended December 31, 2012

Having considered:

- the Board of Directors' management report for the year ended December 31, 2012;
- the Statutory Auditors' report on the parent company financial statements for the year ended December 31, 2012;
- the report of the Chairman of the Board of Directors on the work of the Board and the Company's internal control and risk management procedures; and
- the Statutory Auditors' report on the Chairman's report;

the shareholders approve the parent company financial statements for the year ended December 31, 2012, as presented, together with the transactions reflected in those financial statements and summarized in those reports.

Second resolution

Approval of the consolidated financial statements for the year ended December 31, 2012

Having considered:

- the Board of Directors' management report for the year ended December 31, 2012; and
- the Statutory Auditors' report on the consolidated financial statements for the year ended December 31, 2012;

the shareholders approve the consolidated financial statements for the year ended December 31, 2012, as presented, together with the transactions reflected in those financial statements and summarized in those reports.

Third resolution

Appropriation of profit for the year ended December 31, 2012 (as presented in the parent company financial statements) and approval of a dividend payment

Having approved the parent company financial statements which show:

In €	
Profit for the year of:	**785,741,533**
Less prior-year losses of:	0
Plus retained earnings of:	326,593,731
Giving distributable profit of:	**1,112,335,264**
The shareholders resolve to appropriate this distributable profit as follows:	
To the legal reserve:	18,122
To a dividend payment representing a maximum of:	21,471,474
i.e., €0.37 per share	
And to allocate the balance of:	**1,090,845,668**
To retained earnings.	

The shareholders note that a maximum of 58,031,011 shares are eligible for the 2012 dividend, corresponding to the sum of the 57,637,805 shares making up the Company's capital at December 31, 2012 and the 393,206 shares that are potentially issuable between January 1, 2013 and the ex-dividend date on the exercise of stock options granted by the Board of Directors on (i) January 20, 2004, (ii) December 20, 2005, (iii) June 14, 2007 and (iv) August 30, 2007.

The shareholders approve the payment of a per-share dividend of €0.37. The ex-dividend date will be June 25, 2013 and the dividend will be paid as from June 28, 2013 on positions closed as of the close of business on June 27, 2013.

The total amount of the dividends paid must take into account all shares outstanding at the ex-dividend date. If on that date (i) the Company holds any of its own shares, or (ii) all of the shares that are potentially issuable on the exercise of stock options granted by the Board of Directors on (a) January 20, 2004, (b) December 20, 2005, (c) June 14, 2007 and (d) August 30, 2007 have not actually been issued, then the aggregate amount of the unpaid dividends related to the shares referred to in (i) and (ii) will be credited to the "Other reserves" account.

For individual shareholders who are tax resident in France, the Company will withhold at source from the dividend payment the amount required under French law, after deducting the 40% tax relief for which the dividends are eligible, unless the shareholder concerned has applied for an exemption from this withholding tax in compliance with Article 242 *quater* of the French Tax Code (*Code general des impôts*).

In accordance with the disclosure requirements in Article 243 *bis* of the French Tax Code, dividends for the last three years were as follows:

	2009	2010	2011
Total number of shares making up the Company's capital(1)	54,525,813	54,710,741	57,080,629
Aggregate net dividends *(in €)*	20,174,551	21,884,296	21,119,833
Net dividend per share(2) *(in €)*	0.37	0.40	0.37

(1) Number of shares outstanding at the ex-dividend date.
(2) Dividend eligible for the 40% tax relief provided for in Article 158.3.2 of the French Tax Code.

Fourth resolution

Approval of related-party agreements governed by Articles L. 225-38 *et seq*. of the French Commercial Code

Having considered the Statutory Auditors' special report on related-party agreements governed by Article L. 225-38 of the French Commercial Code, the shareholders place on record the findings of said report and note that no new agreements falling within the scope of application of said Article were entered into during 2012.

Fifth resolution

Re-election of Virginie Calmels as a director

Based on the recommendation of the Board of Directors, the shareholders resolve to re-elect Virginie Calmels as a director, for a four-year term expiring at the close of the Annual Shareholders' Meeting to be called to approve the financial statements for the year ending December 31, 2016.

Ms. Calmels has agreed to another term of office and has stated that she still meets the relevant eligibility requirements.

Sixth resolution

Re-election of Xavier Niel as a director

Based on the recommendation of the Board of Directors, the shareholders resolve to re-elect Xavier Niel as a director, for a four-year term expiring at the close of the Annual Shareholders' Meeting to be called to approve the financial statements for the year ending December 31, 2016.

Mr. Niel has agreed to another term of office and has stated that he still meets the relevant eligibility requirements.

Seventh resolution

Re-election of Orla Noonan as a director

Based on the recommendation of the Board of Directors, the shareholders resolve to re-elect Orla Noonan as a director, for a four-year term expiring at the close of the Annual Shareholders' Meeting to be called to approve the financial statements for the year ending December 31, 2016.

Ms. Noonan has agreed to another term of office and has stated that she still meets the relevant eligibility requirements.

Eighth resolution

Re-election of Pierre Pringuet as a director

Based on the recommendation of the Board of Directors, the shareholders resolve to re-elect Pierre Pringuet as a director, for a four-year term expiring at the close of the Annual Shareholders' Meeting to be called to approve the financial statements for the year ending December 31, 2016.

Mr. Pringuet has agreed to another term of office and has stated that he still meets the relevant eligibility requirements.

Ninth resolution

Re-election of Antoine Levavasseur as a director

Based on the recommendation of the Board of Directors, and subject to the adoption of the twenty-fifth resolution, the shareholders resolve to re-elect Antoine Levavasseur as a director, for a three-year term expiring at the close of the Annual Shareholders' Meeting to be called to approve the financial statements for the year ending December 31, 2015.

Mr. Levavasseur has agreed to another term of office and has stated that he still meets the relevant eligibility requirements.

Tenth resolution

Re-election of Cyril Poidatz as a director

Based on the recommendation of the Board of Directors, and subject to the adoption of the twenty-fifth resolution, the shareholders resolve to re-elect Cyril Poidatz as a director, for a three-year term expiring at the close of the Annual Shareholders' Meeting to be called to approve the financial statements for the year ending December 31, 2015.

Mr. Poidatz has agreed to another term of office and has stated that he still meets the relevant eligibility requirements.

Eleventh resolution

Re-election of Olivier Rosenfeld as a director

Based on the recommendation of the Board of Directors, and subject to the adoption of the twenty-fifth resolution, the shareholders resolve to re-elect Olivier Rosenfeld as a director, for a three-year term expiring at the close of the Annual Shareholders' Meeting to be called to approve the financial statements for the year ending December 31, 2015.

Mr. Rosenfeld has agreed to another term of office and has stated that he still meets the relevant eligibility requirements.

Twelfth resolution

Re-election of Alain Weill as a director

Based on the recommendation of the Board of Directors, and subject to the adoption of the twenty-fifth resolution, the shareholders resolve to re-elect Alain Weill as a director, for a three-year term expiring at the close of the Annual Shareholders' Meeting to be called to approve the financial statements for the year ending December 31, 2015.

Mr. Weill has agreed to another term of office and has stated that he still meets the relevant eligibility requirements.

Thirteenth resolution

Setting directors' fees

Having considered the report of the Board of Directors, the shareholders set the aggregate amount of directors' fees at €120,000 for 2013, to be allocated among the Company's individual, non-salaried independent directors.

Fourteenth resolution

Authorization for the Board of Directors to carry out a share buyback program

Having considered the report of the Board of Directors, the shareholders authorize the Board of Directors to carry out a share buyback program in accordance with Articles L. 225-209 *et seq*. of the French Commercial Code, European Commission Regulation 2273/2003 dated December 22, 2003, and market practices approved by the French securities regulator (*Autorité des Marchés Financiers* – AMF). Under this authorization – which may be delegated as provided for by law – the Board of Directors may purchase Iliad S.A. shares on behalf of the Company, directly or indirectly, in one or several transactions at the Board's discretion, provided that the total number of shares purchased does not represent more than 10% of the Company's capital at the time of the buyback(s) (as adjusted for any corporate actions carried out subsequent to this Annual Shareholders' Meeting). When shares are bought back to maintain a liquid market in the Company's shares as set out below, the number of shares taken into account for the calculation of this 10% ceiling will correspond to the number of shares purchased, less the number of shares sold during the period covered by this authorization.

The shareholders resolve that this authorization may be used for the following purposes:

1. 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 recognized by the AMF as an approved market practice;
2. to allocate shares to employees and executive officers of the Company and Group subsidiaries, in accordance with the terms and conditions set down by law, including by carrying out share grants as permitted under Articles L. 225-197-1 *et seq*. of the French Commercial Code, or by granting stock options as permitted under Articles L. 225-177 *et seq*. of said Code, or as part of a profit-sharing plan or an employee savings plan in accordance with the applicable legislation, in particular Articles L. 3332-14 *et seq*. of the French Labor Code (*Code du travail*);
3. to hold shares in treasury – representing up to a maximum of 5% of the Company's capital as at the date of the buyback(s) – for subsequent remittance in exchange or payment in connection with external growth transactions;
4. to allocate shares on exercise of stock options granted to employees and executive officers of the Company and its subsidiaries, in accordance with the applicable law, on the dates decided by the Board of Directors or its delegated representative;
5. to cancel all or some of the shares bought back, subject to the adoption of the twenty-fourth resolution;
6. to allocate shares on exercise of rights attached to securities redeemable, convertible, exchangeable or otherwise exercisable for shares of the Company in accordance with the applicable regulations, and to carry out any hedging transactions relating to such operations, on the dates determined by the Board of Directors or its delegated representative.

This share buyback program may also be used for any other purpose currently authorized or that may be authorized in the future under the applicable laws or regulations and for carrying out any market practices that may be authorized in the future by the AMF, provided that the Company notifies its shareholders of any said use by means of a press release.

The shares may be purchased, held, sold, exchanged or transferred in one or several transactions, at any time – including while a public tender offer for the shares or other securities issued by the Company or a public tender offer initiated by the Company is in progress, but excluding the blackout periods provided for by law and the applicable regulations – on or off market – by any method permitted under the applicable law and regulations, including through block trades and the use of derivatives, on the dates decided by the Board of Directors or its delegated representative.

The maximum purchase price is set at €250 per share. However, the shareholders grant the Board of Directors full powers – which may be delegated as provided for by law – to adjust this maximum price to take into account the impact on the share price of any corporate actions, including a change in the par value of the Company's shares, a capital increase paid up by capitalizing reserves, retained earnings or additional paid-in capital, a bonus share issue, a reverse stock split, a distribution of reserves or any other assets, or a capital redemption.

For information purposes, based on the Company's capital at December 31, 2012, the total amount invested in the share buyback program would not exceed €1,440,945,250, corresponding to a maximum of 5,763,781 shares purchased at the above-mentioned maximum price of €250.

The use of this authorization may not in any circumstances result in the Company directly or indirectly holding more than 10% of its capital as at the time of the buyback.

The shareholders grant full powers to the Board of Directors – which may be delegated as provided for by law – to use this authorization to carry out a share buyback program and if necessary, to set the terms and conditions thereof, place any and all buy and sell orders, enter into any and all agreements, carry out any and all formalities, disclosures and filings with the AMF and any other authority and generally do whatever is necessary.

The Board of Directors shall report to the Annual Shareholders' Meeting on all transactions carried out under this authorization.

This authorization is granted for a period of eighteen months from the date of this Meeting and supersedes the authorization given for the same purpose in the eleventh resolution of the May 24, 2012 Annual Shareholders' Meeting.

EXTRAORDINARY RESOLUTIONS

In accordance with paragraph 3 of Article L. 225-96 of the French Commercial Code, in order to be validly adopted, the following extraordinary resolutions must be approved by a two-thirds majority of shareholders present or represented.

Fifteenth resolution

Authorization for the Board of Directors to issue, with pre-emptive subscription rights, shares and/or securities carrying rights to shares of the Company (or of an entity that controls or is controlled by the Company) and/or securities carrying rights to debt securities

Having considered the report of the Board of Directors and the Statutory Auditors' special report and having noted that the Company's capital is fully paid up, in accordance with Articles L. 225-129 *et seq.* of the French Commercial Code and notably Articles L. 225-129-2, L. 225-132, L. 225-134, L. 228-91, L. 228-92 and L. 228-93, the shareholders:

1. authorize the Board of Directors to issue, on one or more occasions, with pre-emptive subscription rights for existing shareholders, the shares and/or securities set out in paragraphs (a) to (d) below. The Board of Directors shall have full powers – which may be delegated as provided for by law – to determine the amount and timing of said issue(s), which may be carried out in France and/or abroad and may be denominated in euros, in foreign currency or in a monetary unit determined by reference to a basket of currencies:

(a) ordinary shares of the Company (excluding preference shares),

(b) any securities carrying immediate or deferred rights (exercisable with or without consideration) to (i) existing or new ordinary shares of the Company or (ii) debt securities,

(c) any securities carrying immediate or deferred rights to existing or new shares of (i) an entity that owns, directly or indirectly, over half of the Company's capital or (ii) an entity in which the Company directly or indirectly holds over half of the capital (a **Subsidiary**), provided that such issues are approved by these entities' shareholders in an extraordinary general meeting. Securities carrying rights to shares of the Company or a Subsidiary or an entity that directly or indirectly owns over half of the Company's capital may consist of debt securities or may be issued jointly with debt securities or carry rights to debt securities,

(d) securities carrying rights to shares of the Company following the issuance of such securities by (i) a Subsidiary, or (ii) an entity that directly or indirectly owns over half of the Company's capital, provided that such issues are approved by these entities' shareholders in an extraordinary general meeting.

The issue(s) may be paid up in cash or by capitalizing debt, or by capitalizing reserves, retained earnings or additional paid-in capital.

Debt securities issued under this authorization may notably take the form of dated or undated subordinated or unsubordinated notes (with a maximum term of 20 years for dated instruments). They may pay either a fixed or floating rate of interest or the interest thereon may be capitalized subject to the limits set down by law. They may be pledged as collateral or any other form of guarantee, be redeemed (with or without a premium) or amortized, and the Company may buy back the securities directly in the market or through tender offers;

2. resolve that the aggregate nominal amount of any capital increases carried out pursuant to this authorization – immediately and/or on exercise of rights to shares – may not exceed €5,000,000 (or the euro equivalent of this amount at the issue date for issues denominated in foreign currency or a monetary unit determined by reference to a basket of currencies). This ceiling (i) will not include the par value of any additional shares to be issued pursuant to the applicable laws, regulations and any contractual provisions to protect the rights of existing holders of securities carrying rights to the Company's shares, and (ii) corresponds to a blanket ceiling applicable to all capital increases carried out pursuant to this authorization as well as the authorizations given in the sixteenth to twenty-first resolutions, provided said resolutions are adopted by the shareholders;
3. resolve that the aggregate nominal amount of debt securities issued pursuant to this authorization – immediately and/or on exercise of rights to debt securities – may not exceed €1,500,000,000 (or the euro equivalent of this amount at the issue date for issues denominated in foreign currency or a monetary unit determined by reference to a basket of currencies). This ceiling (i) does not include any above-par redemption premiums, (ii) corresponds to a blanket ceiling applicable to all issues of debt securities that may be carried out pursuant to this authorization as well as the authorizations given in the sixteenth to eighteenth resolutions, provided said resolutions are adopted by shareholders, and (iii) is separate to and does not include the amount of any debt securities whose issue may be decided or authorized by the Board of Directors in accordance with Article L. 228-40 of the French Commercial Code;
4. resolve that if the Board of Directors uses this authorization:
   - existing shareholders will be granted pre-emptive rights to subscribe for the shares and/or other securities issued, in proportion to their existing interest in the Company's capital. The Board of Directors may grant shareholders additional pre-emptive rights to subscribe for any shares and/or other securities not taken up by other shareholders, in which case such additional pre-emptive rights will also be exercisable in proportion to the existing interest in the Company's capital of the shareholders concerned,
   - if an issue is not taken up in full by shareholders exercising their pre-emptive rights as described above, the Board of Directors may take one or more of the following courses of action, subject to the conditions set down by law and in the order of its choice:
     - limit the amount of the issue to the subscriptions received, provided that at least three-quarters of the issue is taken up,
     - freely allocate all or some of the unsubscribed securities, and/or
     - offer all or some of the unsubscribed securities for subscription by the public, either in France or abroad;
5. resolve that if warrants to subscribe for the Company's shares are issued they may be offered for subscription or allocated among holders of existing shares without consideration. In the latter case, the Board of Directors will have full discretionary powers to decide that rights to fractions of warrants will be non-transferable and non-tradable and that the corresponding warrants will be sold;
6. note that in the event of an issue of securities carrying rights to shares of the Company under this resolution, existing shareholders shall not have pre-emptive rights to subscribe for the shares to be issued on exercise of the rights attached to said securities;
7. grant the Board of Directors full powers – which may be delegated as provided for by law – to use this authorization and notably to:
   - set the terms and conditions of any issue(s) carried out, including the form and characteristics of the securities, the basis for allocating the shares offered on exercise of rights attached to the securities issued under this authorization, and the dates on which said rights may be exercised,
   - determine – based on the information provided in the Board of Directors' report – (i) the issue price of the securities (either with or without a premium), (ii) the method by which the securities will be paid up, (iii) the cum-rights date (which may be retroactive), (iv) the terms and conditions for exercising the rights attached to securities carrying rights to shares of the Company or an entity referred to in paragraph 1(c) of this resolution, (v) in the case of an issue of debt securities, the ranking of any subordinated debt, and (vi) the conditions under which the exercise of rights attached to securities carrying rights to shares of the Company will be suspended (for a maximum period of three months),
   - charge, at its sole discretion, the issuance costs against the related premium and deduct from the premium the amounts necessary to raise the legal reserve to the required level,
   - make any and all adjustments to take into account the impact of any corporate actions and determine the method to be used to ensure that the rights of existing holders of securities carrying rights to shares are protected,
   - enter into any and all agreements and take all appropriate measures required for the successful completion of the issue(s),
   - place on record the capital increase(s), amend the Company's bylaws to reflect the new capital, carry out all required formalities and generally do whatever is necessary;
8. resolve that this authorization is valid for a period of twenty-six months from the date of this Meeting and supersedes the unused portion of the authorization given for the same purpose in the ninth resolution of the Annual Shareholders' Meeting of May 24, 2011.

In accordance with Article L. 233-32 III of the French Commercial Code, the shareholders note that this authorization may not be used while a tender offer for the Company is in progress, except if it is used within the Company's routine operations and such use would not be likely to cause the offer to fail.

Sixteenth resolution

Authorization for the Board of Directors to issue, through a public offering and without pre-emptive subscription rights, shares and/or securities carrying rights to shares of the Company (or of an entity that controls or is controlled by the Company) and/or securities carrying rights to debt securities

Having considered the report of the Board of Directors and the Statutory Auditors' special report and having noted that the Company's capital is fully paid up, in accordance with Articles L. 225-129 to L. 225-129-6, L. 225-135, L. 225-136, and L. 228-91 *et seq*. of the French Commercial Code, the shareholders:

1. authorize the Board of Directors to issue, on one or more occasions, through a public offering and without pre-emptive subscription rights for existing shareholders, the shares and/or securities set out in paragraphs (a) to (d) below. The Board of Directors shall have full powers – which may be delegated as provided for by law – to determine the amount and timing of said issue(s), which may be carried out in France and/or abroad and may be denominated in euros, in a foreign currency or in a monetary unit determined by reference to a basket of currencies:

(a) ordinary shares of the Company (excluding preference shares),

(b) any securities carrying immediate or deferred rights (exercisable with or without consideration) to (i) existing or new ordinary shares of the Company, or (ii) debt securities,

(c) any securities carrying immediate or deferred rights to existing or new shares of (i) an entity that owns, directly or indirectly, over half of the Company's capital or (ii) an entity in which the Company directly or indirectly holds over half the capital (a **Subsidiary**), provided that such issues are approved by these entities' shareholders in an extraordinary general meeting. Securities carrying rights to shares of the Company or a Subsidiary or an entity that directly or indirectly owns over half of the Company's capital may consist of debt securities or may be issued jointly with debt securities or carry rights to debt securities. Debt securities issued under this authorization may notably take the form of dated or undated subordinated or unsubordinated notes (with a maximum term of 20 years for dated instruments). They may pay either a fixed or floating rate of interest or the interest thereon may be capitalized subject to the limits set down by law. They may be pledged as collateral or any other form of guarantee, be redeemed (with or without a premium) or amortized, and the Company may buy back the securities directly in the market or through tender offers,

(d) securities carrying rights to shares of the Company following the issuance of such securities by (i) a Subsidiary, or (ii) an entity that directly or indirectly owns over half of the Company's capital, provided that such issues are approved by these entities' shareholders in an extraordinary general meeting.

The issue(s) may be paid up in cash or by capitalizing debt, or by capitalizing reserves, retained earnings or additional paid-in capital;

2. resolve that the aggregate nominal amount of any capital increases carried out pursuant to this authorization – immediately and/or on exercise of rights to shares – may not exceed €5,000,000 (or the euro equivalent of this amount at the issue date for issues denominated in foreign currency or a monetary unit determined by reference to a basket of currencies). This ceiling (i) will not include the par value of any additional shares to be issued pursuant to the applicable laws, regulations and any contractual provisions to protect the rights of existing holders of securities carrying rights to the Company's shares, and (ii) is included in the blanket ceiling set in the fifteenth resolution;
3. resolve that the aggregate nominal amount of debt securities issued pursuant to this authorization may not exceed €1,500,000,000 (or the euro equivalent of this amount at the issue date for issues denominated in foreign currency or a monetary unit determined by reference to a basket of currencies). This ceiling (i) does not include any above-par redemption premiums, (ii) is included in the blanket ceiling set in the fifteenth resolution, and (iii) is separate to and does not include the amount of any debt securities whose issue may be decided or authorized by the Board of Directors in accordance with Article L. 228-40 of the French Commercial Code;
4. resolve to waive shareholders' pre-emptive rights to subscribe for the shares or other securities to be issued under this authorization. However, in accordance with paragraph 2 of Article L. 225-135 of the French Commercial Code, the Board of Directors may grant shareholders a priority right to subscribe for all or part of any issue. The securities offered for subscription under this priority right will be allocated in proportion to shareholders' existing interests in the Company's capital. If certain shareholders elect not to exercise this right, the Board of Directors may offer the unsubscribed securities to the other shareholders, again in proportion to their existing interests. Any such priority rights given to shareholders shall be non-transferable and non-tradable;
5. resolve that if an issue is not taken up in full (including by shareholders exercising their above-mentioned priority rights), the Board of Directors may take one or more of the following courses of action in the order of its choice:
   - limit the amount of the issue to the subscriptions received, provided that at least three-quarters of the issue is taken up,
   - freely allocate all or some of the unsubscribed securities, and/or
   - offer all or some of the unsubscribed securities for subscription by the public, either in France or abroad;

6. note that in the event of an issue of securities carrying rights to shares of the Company under this resolution, existing shareholders shall not have pre-emptive rights to subscribe for the shares to be issued on exercise of the rights attached to said securities;
7. resolve, in accordance with paragraph 1 of Article L. 225-136 1° of the French Commercial Code:
   - that the issue price of shares issued directly under this authorization will be at least equal to the minimum price provided for in the regulations in force on the issue date (currently corresponding to the weighted average of the prices quoted for the Company's shares on NYSE Euronext Paris over the three trading days preceding the pricing date, less a discount of no more than 5%), and
   - that the issue price of securities carrying rights to shares will be set in such a way that the amount received by the Company at the time of issue plus any amount to be received on exercise of the rights attached to the issued securities is at least equal to the minimum issue price defined in the above paragraph;
8. grant the Board of Directors full powers – which may be delegated as provided for by law – to use this authorization and notably to:
   - set the terms and conditions of any issue(s) carried out, including the form and characteristics of the securities, the basis for allocating the shares offered on exercise of rights attached to the securities issued under this authorization, and the dates on which said rights may be exercised,
   - in the event that existing shareholders are granted priority subscription rights, set the terms and conditions of how such priority rights will be applied and exercised,
   - determine – based on the information provided in the Board of Directors' report – (i) the issue price of the securities (either with or without a premium), (ii) the method by which the securities will be paid up, (iii) the cum-rights date (which may be retroactive), (iv) the terms and conditions for exercising the rights attached to securities carrying rights to shares of the Company or an entity referred to in paragraph 1(c) of this resolution, (v) in the case of an issue of debt securities, the ranking of any subordinated debt, and (vi) the conditions under which the exercise of rights attached to securities carrying rights to shares of the Company will be suspended (for a maximum period of three months),
   - charge, at its sole discretion, the issuance costs against the related premium and deduct from the premium the amounts necessary to raise the legal reserve to the required level,
   - make any and all adjustments to take into account the impact of any corporate actions and determine the method to be used to ensure that the rights of existing holders of securities carrying rights to shares are protected,
   - enter into any and all agreements and take all appropriate measures necessary for successful completion of the issue(s),
   - place on record the capital increase(s), amend the Company's bylaws to reflect the new capital, carry out all required formalities and generally do whatever is necessary;
9. resolve that this authorization is valid for a period of twenty-six months from the date of this Meeting and supersedes the unused portion of the authorization given for the same purpose in the tenth resolution of the Annual Shareholders' Meeting of May 24, 2011.

In accordance with Article L. 233-32 III of the French Commercial Code, the shareholders note that this authorization may not be used while a tender offer for the Company is in progress, except if it is used within the Company's routine operations and such use would not be likely to cause the offer to fail.

Seventeenth resolution

Authorization for the Board of Directors to issue, through a private placement and without pre-emptive subscription rights, shares and/or securities carrying rights to shares of the Company (or of an entity that controls or is controlled by the Company) and/or securities carrying rights to debt securities

Having considered the report of the Board of Directors and the Statutory Auditors' special report and in accordance with Articles L. 225-129 *et seq.* of the French Commercial Code, notably Articles L. 225-129-2, L. 225-135, L. 225-136 and Articles L. 228-91 *et seq.*, the shareholders:

1. authorize the Board of Directors to issue, on one or more occasions, through a private placement governed by Article L. 411-2 II of the French Monetary and Financial Code, the shares and/or securities set out in paragraphs (a) to (d) below. The Board of Directors shall have full powers – which may be delegated as provided for by law – to determine the amount and timing of said issue(s) – subject to the provisions of Article L. 233-32 of the French Commercial Code – which may be carried out in France and/or abroad and may be denominated in euros, in foreign currency or in a monetary unit determined by reference to a basket of currencies:

(a) ordinary shares of the Company (excluding preference shares),

(b) any securities carrying immediate or deferred rights (exercisable with or without consideration) to (i) existing or new ordinary shares of the Company, or (ii) debt securities,

(c) any securities carrying immediate or deferred rights to existing or new shares of (i) an entity that owns, directly or indirectly, over half of the Company's capital or (ii) an entity in which the Company directly or indirectly holds over half the capital (a "Subsidiary"), provided that such issues are approved by these entities' shareholders in an extraordinary general meeting,

(d) securities carrying rights to shares of the Company following the issuance of such securities by (i) a Subsidiary or (ii) an entity that directly or indirectly owns half of the Company's capital, provided that such issues are approved by these entities' shareholders in an extraordinary general meeting.

The issue(s) may be paid up in cash or by capitalizing liquid and callable debt. The private placement(s) governed by Article L. 411-2 II of the French Monetary and Financial Code undertaken in accordance with this authorization may be carried out jointly or simultaneously with one or more public offerings initiated pursuant to the sixteenth resolution.

Securities carrying rights to shares of the Company or a Subsidiary or an entity that directly or indirectly owns over half of the Company's capital may consist of debt securities or may be issued jointly with debt securities or carry rights to debt securities. Debt securities issued under this authorization may notably take the form of dated or undated subordinated or unsubordinated notes (with a maximum term of 20 years for dated instruments). They may pay either a fixed or floating rate of interest or the interest thereon may be capitalized subject to the limits set down by law. They may be pledged as collateral or any other form of guarantee, be redeemed (with or without a premium) or amortized, and the Company may buy back the securities directly in the market or through tender offers;

2. resolve that the aggregate nominal amount of any capital increases carried out pursuant to this authorization – immediately and/ or on exercise of rights to shares – may not exceed €5,000,000 (or the euro equivalent of this amount at the issue date for issues denominated in foreign currency or a monetary unit determined by reference to a basket of currencies). This ceiling (i) will not include the par value of any additional shares to be issued pursuant to the applicable laws and regulations to protect the rights of existing holders of securities carrying rights to the Company's shares, and (ii) is included in the blanket ceiling set in the fifteenth resolution. In addition, in all circumstances, the aggregate nominal amount of any capital increases carried out as a result of a private placement governed by Article L. 411-2 II of the French Monetary and Financial Code may not exceed a ceiling of 20% of the Company's capital (as at the issue) in any given year as provided for in Article 225-136 3° of the French Commercial Code or any other ceiling that may be set by law in the future;
3. resolve that the aggregate nominal amount of debt securities issued pursuant to this authorization may not exceed €1,500,000,000 (or the euro equivalent of this amount at the issue date for issues denominated in foreign currency or a monetary unit determined by reference to a basket of currencies). This ceiling (i) does not include any above-par redemption premiums, (ii) is included in the ceiling set in the fifteenth resolution, and (iii) is separate to and does not include the amount of any debt securities whose issue may be decided or authorized by the Board of Directors in accordance with Article L. 228-40 of the French Commercial Code;
4. resolve to waive shareholders' pre-emptive rights to subscribe for the shares or other securities to be issued under this authorization;
5. resolve that if an issue is not taken up in full, the Board of Directors may take one or more of the following courses of action in the order of its choice: limit the amount of the issue to the subscriptions received, provided that at least three-quarters of the issue is taken up; freely allocate all or some of the unsubscribed securities, and/or offer all or some of the unsubscribed securities for subscription by the public, either in France or abroad;
6. note that in the event of an issue of securities carrying rights to shares of the Company under this resolution, existing shareholders shall not have pre-emptive rights to subscribe for the shares to be issued on exercise of the rights attached to said securities;
7. resolve that:
   - the issue price of shares issued directly under this authorization will be at least equal to the minimum price provided for in the regulations in force on the issue date (currently corresponding to the weighted average of the prices quoted for the Company's shares on NYSE Euronext Paris over the three trading days preceding the pricing date, less a discount of no more than 5%), and
   - the issue price of securities carrying rights to shares and the number of shares allocated on the conversion, redemption or exercise of said securities will be set in such a way that the amount received by the Company at the time of issue plus any amount to be received on exercise of the rights attached to the issued securities is at least equal to the minimum issue price defined in the above paragraph for each share issued;
8. grant the Board of Directors full powers – which may be delegated as provided for by law – to use this authorization and notably to:
   - set the terms and conditions of any issue(s) carried out, including the form and characteristics of the securities, the basis for allocating the shares offered on exercise of rights attached to the securities issued under this authorization, and the dates on which said rights may be exercised,
   - charge, at its sole discretion, the issuance costs against the related premium and deduct from the premium the amounts necessary to raise the legal reserve to the required level,
   - make any and all adjustments to take into account the impact of any corporate actions and determine the method to be used to ensure that the rights of existing holders of securities carrying rights to shares are protected,

- enter into any and all agreements and take all appropriate measures necessary for successful completion of the issue(s),
- place on record the capital increase(s), amend the Company's bylaws to reflect the new capital, carry out all required formalities and generally do whatever is necessary;

9. this authorization is valid for a period of twenty-six months from the date of this Meeting and supersedes the unused portion of the authorization given for the same purpose in the eleventh resolution of the Annual Shareholders' Meeting of May 24, 2011.

In accordance with Article L. 233-32 III of the French Commercial Code, the shareholders note that this authorization may not be used while a tender offer for the Company is in progress, except if it is used within the Company's routine operations and such use would not be likely to cause the offer to fail.

Eighteenth resolution

Authorization for the Board of Directors to set the issue price for issues of shares and/or securities carrying rights to shares carried out without pre-emptive subscription rights and through a public offering or a private placement, subject to a ceiling of 10% of the Company's capital

Having considered the report of the Board of Directors and the Statutory Auditors' special report, in accordance with Articles L. 225-129-2 and L. 225-136 of the French Commercial Code, the shareholders:

1. resolve that for issues carried out under the sixteenth and seventeenth resolutions, the Board of Directors will have full powers – which may be delegated as provided for by law – to decide not to apply the pricing conditions provided for in said resolutions and instead to set the issue price in accordance with the conditions described below. The issues for which the Board of Directors may set the issue price in this way will be subject to a ceiling representing 10% of the Company's capital (as at the issue date) in any given year and adjusted for any corporate actions carried out subsequent to this Meeting. The applicable conditions will be as follows:
   - the issue price of new ordinary shares to be issued by the Company must be at least equal to one of the following, as selected by the Board: either (i) the volume weighted average price of the Company's shares in the trading session immediately prior to the pricing date, or (ii) the volume weighted average of the prices quoted for the Company's shares between the start of trading on the pricing date and the time when the price is set. In both cases, a maximum 20% discount may be applied. However, in all circumstances the amount received for each share must be at least equal to the par value,
   - the issue price of securities carrying rights to shares will be set in such a way that the amount received by the Company at the time of issue plus any amount to be received on conversion, exchange, redemption or exercise of the rights attached to the securities is, for each share issued, at least equal to the minimum issue price defined above;
2. resolve that the aggregate par value of any shares issued pursuant to this resolution, directly or on exercise of rights attached to securities carrying rights to shares, shall be included in the ceilings set in the sixteenth and seventeenth resolutions;
3. note that if the Board of Directors uses this authorization, it will draw up an additional report – certified by the Statutory Auditors – describing the final terms of the issue concerned, including its estimated impact on the situation of existing shareholders;
4. resolve that this authorization is valid for a period of twenty-six months from the date of this Meeting and supersedes the unused portion of the authorization given for the same purpose in the twelfth resolution of the Annual Shareholders' Meeting of May 24, 2011.

Ninteenth resolution

Authorization for the Board of Directors to increase the number of securities included in an issue carried out with or without pre-emptive subscription rights

Having considered the report of the Board of Directors and the Statutory Auditors' special report, and in accordance with Article L. 225-135-1 of the French Commercial Code, the shareholders:

1. grant the Board of Directors a twenty-six month authorization from the date of this Meeting – which may be delegated as provided for by law – to increase the number of securities included in any issue of shares and/or securities carrying rights to shares decided by the Board (with or without pre-emptive subscription rights), notably in order to grant a greenshoe option in accordance with standard market practices. Said additional securities will be issued at the same price as for the original issue in accordance with the conditions and ceilings specified in the regulations applicable on the original issue date (currently the additional securities must be issued within thirty days of the close of the original subscription period and may not represent more than 15% of the original issue amount);
2. resolve that the nominal amount of any capital increases resulting from the use of this authorization will be included both in the ceiling provided for in the resolution under which the original issue was carried out and the blanket ceiling set in the fifteenth resolution;
3. note that this authorization supersedes the unused portion of the authorization given for the same purpose in the thirteenth resolution of the Annual Shareholders' Meeting of May 24, 2011.

Twentieth resolution

Authorization for the Board of Directors to issue shares and/or securities carrying rights to shares of the Company, in payment for shares and/or securities carrying rights to shares of another company

Having considered the report of the Board of Directors and the Statutory Auditors' special report, and in accordance with Articles L. 225-147 and L. 228-92 of the French Commercial Code, the shareholders:

1. grant the Board of Directors full powers – which may be delegated as provided for by law – to issue shares of the Company and/or securities carrying immediate or deferred rights to shares of the Company (excluding preference shares) in payment for shares and/or securities carrying rights to shares of another company in transactions not governed by Article L. 225-148 of the French Commercial Code. The amount of any such issue will be determined based on the values specified in the report issued by the appraisal auditor(s) appointed pursuant to the first and second paragraphs of Article L. 225-147 of said Code;
2. resolve to waive shareholders' pre-emptive rights to subscribe for any shares or other securities to be issued under this authorization;
3. resolve that the aggregate nominal amount of any capital increases carried out pursuant to this authorization – immediately and/or on exercise of rights to shares, may not exceed 10% of the Company's capital as at the issue date. This ceiling is included in the blanket ceiling set in the fifteenth resolution but does not include the par value of any additional shares to be issued pursuant to the applicable laws, regulations and any contractual provisions to protect the rights of existing holders of securities carrying rights to the Company's shares;
4. note that, in accordance with Article L. 225-132 of the French Commercial Code, in the event of an issue of securities carrying rights to shares under this resolution, existing shareholders shall not have pre-emptive rights to subscribe for the shares to be issued on exercise of the rights attached to said securities;
5. resolve that the Board of Directors shall have full powers – which may be delegated as provided for by law – to use this authorization and notably to (i) draw up the list of the securities to be transferred to the Company, (ii) set the terms and conditions of the issue(s), (iii) approve the report of the appraisal auditor(s) appointed pursuant to the first and second paragraphs of Article L. 225-147 of the French Commercial Code on the value of the acquired shares and/or other securities as well as of any specific benefits to be granted, (iv) place on record the related capital increase(s) and amend the Company's bylaws to reflect the new capital, (v) charge any issuance costs against the contribution premium, and (vi) carry out any and all filing and other formalities and obtain any authorizations necessary to complete the issue(s);
6. resolve that this authorization is valid for a period of twenty-six months from the date of this Meeting and supersedes the unused portion of the authorization given for the same purpose in the fourteenth resolution of the Annual Shareholders' Meeting of May 24, 2011.

Twenty-first resolution

Authorization for the Board of Directors to issue shares and/or securities carrying rights to shares of the Company in connection with a public offering with a stock component initiated by the Company

Having considered the report of the Board of Directors and the Statutory Auditors' special report and in accordance with Articles L. 225-129 *et seq.* of the French Commercial Code, notably Articles L. 225-129-2, L. 225-148 and L. 228-92, the shareholders:

1. grant the Board of Directors a twenty-six month authorization from the date of this Meeting – which may be delegated as provided for by law – to issue, pursuant to the conditions set out in the sixteenth resolution, shares and/or securities carrying immediate or deferred rights to shares of the Company, as payment for securities of another company listed on one of the regulated markets referred to in Article L. 225-148 of the French Commercial Code that are tendered to a public offering with a stock component, carried out in France or abroad in accordance with the applicable local laws and regulations. The Board of Directors may cancel the pre-emptive rights of existing shareholders to subscribe for the shares and/or other securities issued under this authorization;
2. note that, in accordance with Article L. 225-132 of the French Commercial Code, in the event of an issue of securities carrying rights to shares under this resolution, existing shareholders shall not have pre-emptive rights to subscribe for the shares to be issued on exercise of the rights attached to said securities;
3. resolve that the aggregate nominal amount of any capital increases carried out pursuant to this authorization – immediately and/or on exercise of rights to shares – may not exceed €1,500,000 (or the euro equivalent of this amount at the issue date in the case of issues denominated in foreign currency or a monetary unit determined by reference to a basket of currencies). This ceiling is included in the ceiling set in the fifteenth resolution but does not include the par value of any additional shares to be issued pursuant to the applicable laws, regulations and any contractual provisions to protect the rights of existing holders of securities carrying rights to the Company's shares;

4. grant the Board of Directors full powers – which may be delegated as provided for by law – to use this authorization and notably to:
   - set the exchange ratio and determine any balance to be paid in cash,
   - place on record the number of securities tendered to the offer,
   - determine the dates and conditions of issue, including the issue price and cum-rights date (which may be retroactive) of new shares or securities carrying immediate or deferred rights to shares of the Company,
   - credit the difference between the issue price of the new shares and their par value to a "contribution premium" account to which all shareholders will have equivalent rights,
   - charge the issuance costs against the contribution premium,
   - deduct from the contribution premium the amounts necessary to raise the legal reserve to the required level,
   - generally, take all appropriate measures and enter into any and all agreements necessary for the successful completion of the authorized transaction, place on record the capital increase(s) and amend the Company's bylaws to reflect the new capital;
5. resolve that this authorization is valid for a period of twenty-six months from the date of this Meeting and supersedes the unused portion of the authorization given for the same purpose in the fifteenth resolution of the Annual Shareholders' Meeting of May 24, 2011.

Twenty-second resolution

Authorization for the Board of Directors to increase the Company's capital by capitalizing reserves, retained earnings, additional paid-in capital or other eligible items

Having considered the report of the Board of Directors and in accordance with Articles L. 225-129, L. 225-129-2, L. 225-129-4 and L. 225-130 of the French Commercial Code, the shareholders:

1. grant the Board of Directors full powers – which may be delegated as provided for by law – to increase the Company's capital on one or more occasions, in the amounts and on the dates it deems appropriate, by issuing bonus shares and/or raising the par value of existing shares, to be paid up by capitalizing reserves, retained earnings, additional paid-in capital or other items that are eligible for capitalization in accordance with the applicable laws and the Company's bylaws;
2. resolve that the aggregate nominal amount of any capital increases carried out in accordance with this authorization may not exceed €75 million (or the euro equivalent of this amount at the issue date for issues denominated in foreign currency or a monetary unit determined by reference to a basket of currencies). This ceiling is separate to and not included in the blanket ceiling set in the fifteenth resolution;
3. grant the Board of Directors full powers – which may be delegated as provided for by law – to use this authorization and notably to:
   - determine the amount and types of items to be capitalized, the number of new shares to be issued and/or the amount by which the par value of existing shares will be increased, and to set the date – which may be retroactive – from which the new shares will carry dividend and voting rights or the date on which the increase in par value will be effective,
   - decide in the event of a bonus share issue:
     - that rights to fractions of shares will be non-transferable and non-tradable and that the corresponding shares will be sold in accordance with Article L. 225-130 of the French Commercial Code, with the proceeds of such a sale allocated to holders of rights in accordance with the applicable law and regulations,
     - to make any and all adjustments to take into account the impact of any corporate actions, including in the case of a change in the par value of the shares, a capital increase paid up by capitalizing reserves, a bonus share issue, a stock-split or reverse stock-split, a distribution of reserves or any other assets, or a redemption of share capital, or any other transaction affecting shareholders' equity, and to determine the method to be used to ensure that the rights of existing holders of securities carrying rights to shares are protected,
     - to place on record the capital increase(s) and amend the Company's bylaws to reflect the new capital,
     - generally, to enter into any and all agreements, take all appropriate measures and carry out all formalities necessary for the issue, listing and service of the securities issued in accordance with this authorization and for the exercise of any related rights;
4. resolve that this authorization is valid for a period of twenty-six months from the date of this Meeting and supersedes the unused portion of the authorization given for the same purpose in the sixteenth resolution of the Annual Shareholders' Meeting of May 24, 2011.

Twenty-third resolution

Authorization for the Board of Directors to issue shares to members of an employee stock ownership plan, without pre-emptive subscription rights

Having considered the report of the Board of Directors and the Statutory Auditors' special report, and in accordance with Articles L. 225-129-2, L. 225-129-6 and L. 225-138-1 of the French Commercial Code and Articles L. 3332-1 *et seq*. of the French Labor Code, the shareholders:

1. grant the Board of Directors full powers – which may be delegated as provided for by law – to issue shares to employees of the Company and/or of related entities, within the meaning of Article L. 233-16 of the French Commercial Code and Articles L. 3344-1 and L. 3344-2 of the French Labor Code, who are members of an employee stock ownership plan. The authorization may be used on one or more occasions to carry out issues in France or abroad, in amounts and on dates decided by the Board, and the new shares may be offered for subscription either directly or through a corporate mutual fund;
2. resolve to waive the pre-emptive rights of existing shareholders to subscribe for any shares to be issued in accordance with this authorization, as well as any rights to any shares offered to employees free of consideration pursuant to this authorization;
3. resolve that the beneficiaries of the above-described employee share issue(s) shall be members of an employee stock ownership plan of the Company or of related entities within the meaning of Article L. 233-16 of the French Commercial Code and Article L. 3332-18 of the French Labor Code and must meet any eligibility criteria set by the Board of Directors;
4. resolve that the aggregate amount of any capital increases carried out pursuant to this authorization may not exceed €100,000, not including any adjustments made in accordance with the applicable laws, regulations and any contractual provisions to protect the rights of existing holders of securities carrying rights to the Company's shares;
5. resolve that the price of the shares offered under this authorization, determined in accordance with Article L. 3332-18 of the French Labor Code, may not be more than 20% lower than the average of the prices quoted for the Company's shares over the twenty trading days preceding the date on which the opening date of the subscription period is set. However, the Board of Directors may reduce this 20% discount on a case-by-case basis due to any locally applicable tax, labor law or accounting restrictions in particular countries. It may also grant shares to employees free of consideration in replacement of the discount or for the purposes of employer top-up payments;
6. give full powers to the Board of Directors – which may be delegated as provided for by law – to use this authorization, subject to the conditions set out above, and notably to:
   - draw up the list of companies whose current and former employees will be eligible for the shares to be issued under this authorization, and to set the conditions, including any seniority conditions, to be met by beneficiaries in order to subscribe for the shares, either individually or through a corporate mutual fund,
   - to determine the amounts of the issue(s) and set the price, dates, timing and terms and conditions of each issue including the terms and conditions under which the shares issued pursuant to this authorization will be subscribed, paid up and delivered, as well as the cum-rights date, which may be retroactive,
   - decide, in accordance with Article L. 3332-18 of the French Labor Code, to allocate existing or new shares free of consideration, as an employer top-up payment and/or in replacement of a discount, provided that the monetary value of said free shares, calculated at the subscription price, does not exceed the ceilings set in Articles L. 3332-18 and L. 3332-11 *et seq*. of the French Labor Code,
   - set the period granted to beneficiaries to settle the subscription price of the shares,
   - place on record the capital increase(s) resulting from the subscription of shares,
   - charge, at its sole discretion, the share issuance costs against the related premium and deduct from the premium the amount necessary to raise the legal reserve to 10% of the new share capital after each issue,
   - generally, take all necessary measures and carry out any and all formalities required for the issue and listing of the shares issued under this authorization;
7. resolve that this authorization is valid for a period of twenty-six months as from the date of this Meeting.

In accordance with Article L. 233-32 III of the French Commercial Code, the shareholders note that this authorization may not be used while a tender offer for the Company is in progress, except if it is used within the Company's routine operations and would not be likely to cause the offer to fail.

Twenty-fourth resolution

Authorization for the Board of Directors to reduce the Company's capital by canceling treasury shares

Having considered the report of the Board of Directors and the Statutory Auditors' special report and having noted the adoption of the fourteenth resolution, in accordance with Article L. 225-209 and other relevant provisions of the French Commercial Code, the shareholders:

1. grant the Board of Directors full discretionary powers to reduce the Company's capital, on one or more occasions, in the amounts and on the dates it deems appropriate, by canceling all or some of the shares bought back by the Company under the buyback program authorized in the fourteenth resolution of this Annual Shareholders' Meeting, and to charge the difference between the purchase price of the canceled shares and their par value against additional paid-in capital or available reserves;
2. resolve that the number of shares canceled in accordance with this resolution during any twenty-four month period may not exceed 10% of the Company's issued capital, as adjusted to take into account any corporate actions carried out subsequent to this Meeting;
3. note that this authorization supersedes the unused portion of the authorization given for the same purpose in the twentieth resolution of the Annual Shareholders' Meeting of May 24, 2012;
4. resolve that this authorization is given for an eighteen-month period as from the date of this Meeting;
5. grant full powers to the Board of Directors – which may be delegated as provided for by law – to determine the final amounts and terms of any capital reductions carried out pursuant to this authorization and place on record their completion, amend the Company's bylaws to reflect the new capital, and carry out all necessary formalities.

Twenty-fifth resolution

Amendment to Article 16 of the Company's bylaws – Duration of directors' terms of office

Having considered the report of the Board of Directors and the recommendations contained in the AFEP-MEDEF Corporate Governance Code, the shareholders resolve to amend the first paragraph of Article 16 of the Company's bylaws entitled "Duration of directors' terms of office" to read as follows:

"The duration of directors' terms of office shall be four (4) years.

The duties of a director shall cease at the close of the Annual Shareholders' Meeting held in the year in which his or her term of office expires, called for the purpose of approving the financial statements for the previous year.

Outgoing directors may be re-elected without restriction.

The re-election of directors shall take place on a staggered basis so that the terms of office expiring at each scheduled date will only affect a portion of the Board of Directors' members.

Exceptionally, and for the sole purpose of gradually putting in place this renewal system, shareholders in an Ordinary General Meeting may reduce the term of office of one or more directors, so that the terms of office of the members of the Board of Directors expire on a more staggered basis."

Twenty-sixth resolution

Powers to carry out formalities

The shareholders give full powers to the bearer of an original, copy or extract of the minutes of this Meeting to carry out all necessary publication, filing and other formalities.

CROSS-REFERENCE TABLES

INFORMATION REQUIRED IN THE ANNUAL FINANCIAL REPORT

Information required in the annual financial report	Section of the registration document	Page number of the registration document
Parent company financial statements	**20.2**	**176**
Consolidated financial statements	**20.1**	**130**
Management report	**9**	**57**
Table summarizing authorizations in force concerning capital increases and use of these authorizations during the year	21.1.8	202
Disclosure required by Article L. 225-100-3 of the French Commercial Code relating to important information that could have an impact in the event of a public offer	4.1.2 Appendix A	14 223
Information relating to share buybacks (paragraph 2 of Article L. 225-211 of the French Commercial Code)	21.1.3	198
Statement by the persons responsible for the annual financial report	**1.2**	**4**
Statutory Auditors' report on the parent company financial statements	**20.2**	**194**
Statutory Auditors' report on the consolidated financial statements	**20.1**	**175**

CSR CROSS-REFERENCE TABLE

INFORMATION REQUIRED PURSUANT TO IMPLEMENTING DECREE 2012-557 DATED APRIL 24, 2012 FOR THE GRENELLE 2 LAW ON THE ENVIRONMENT

Information required pursuant to Article L. 225-102-1 of the French Commercial Code	Section of the registration document	Page number of the registration document
1° Human resources data		
a) Employment	**17.1.1**	**106**
• total headcount and breakdown of workforce by gender, age and geographic region	17.1.1	106
• recruitments, redundancies and dismissals	17.1.1.2	108
• compensation policy and changes in compensation	17.1.1.3	108
b) Work organization	**17.1.2**	**109**
• organization of working time	17.1.2.1	109
• absenteeism	17.1.2.2	110
c) Employee relations	17.1.4	111
• organization of labor-management discussions, including information and consultation procedures and negotiations with employees	17.1.4.1	111
• collective agreements	17.1.4.2	111
d) Health and safety	17.1.5	111
• workplace health and safety conditions	17.1.5	111
• agreements signed with unions or employee representatives related to workplace health and safety	17.1.4.2	111
• work accidents, including frequency and severity rates, and occupational illnesses	17.1.5	111
• respecting the principles of the fundamental conventions of the ILO	17.1.7	112
e) Training	**17.1.3**	**110**
• training policies	17.1.3.1	110
• total number of training hours	17.1.3.2	110
f) Equal opportunities	**17.1.6**	**112**
• measures taken to promote gender equality	17.1.6.1	112
• measures taken to promote the recruitment and integration of people with disabilities	17.1.6.2	112
• anti-discrimination policy	17.1.6	112
g) Promoting and respecting the principles of the fundamental conventions of the International Labour Organization on:		
• freedom of association and the effective recognition of the right to collective bargaining	17.1.4.2	111
• elimination of discrimination in respect of employment and occupation	17.1.6	112
• elimination of all forms of forced or compulsory labor	17.1.7	112
• effective abolition of child labor	17.1.7	112
2° Environmental information		
a) General environmental policy	**17.2**	**113**
• organizational measures to take into account environmental issues in business activities and any environmental evaluation or certification processes	17.2	113
• training and information provided to employees on environmental protection	17.2.1.2 / 17.2.2.1	113/114
• resources dedicated to preventing environmental risks and pollution	17.3.1.2	116
• amount of provisions and guarantees in place for environmental risks, provided the disclosure of such information does not cause the company serious prejudice in relation to any outstanding disputes or lawsuits	17.2.2.3	115
b) Pollution and waste management	**17.2.2.3**	**114**
• measures to prevent, reduce or clean up discharges into air, water and soil which seriously affect the environment	N/A	N/A

Information required pursuant to Article L. 225-102-1 of the French Commercial Code	Section of the registration document	Page number of the registration document
• measures to prevent, recycle and eliminate waste	17.2.2.1/17.2.2.2/ 17.2.2.3	114
• factoring in noise pollution and other forms of pollution specific to the business	17.3.2.1	117
c) Sustainable use of resources		
• water use and water supply based on any local restrictions	N/A	N/A
• consumption of raw materials and related efficiency measures	17.2.2.1/17.2.2.2	114
• energy consumption, energy efficiency measures and use of renewable energies	17.2.1	113
• land use	N/A	N/A
d) Climate change		
• greenhouse gas emissions	17.2.1	113
• adapting to the consequences of climate change	N/A	N/A
e) Protecting biodiversity		
• measures taken to protect or promote biodiversity	17.2.3	116
3° Information on sustainable development commitments made to civic communities		
a) Impact of the company's business from a regional, economic and social perspective		
• in terms of employment and regional development	17.1.1/17.3.4.3	106/119
• in terms of effects on local residents and populations	17.4.2	120
b) Relations with persons and organizations interested in the company's operations, notably social inclusion organizations, training and educational establishments, environmental-protection associations, consumer associations and local residents	17.3.2.3/17.3.3.3	117/118
• dialog with these stakeholders		
• partnerships and corporate sponsorship	17.4.1	121
c) Subcontractors and suppliers		
• factoring social and environmental issues into the purchasing policy	17.3.4	118
• the extent of recourse to subcontracting, and taking into account suppliers' and subcontractors' CSR policies when selecting external providers	17.3.4.1	118
d) Fair practices		
• anti-corruption measures	17.3.4.2	119
• measures taken to promote the health and safety of consumers	17.3.1.3/17.3.3.1	116/118
e) Other actions taken in connection with commitments related to sustainable development or human rights	17.4.3	120

This document was printed in France by an Imprim'Vert certified printer on recyclable, chlorine-free and PEFC certified paper produced from sustainably managed forests.

Labrador +33 (0)1 53 06 30 80

16, rue de la Ville l'Evêque – 75008 Paris (France)
Tel. : +33(0) 1 73 50 20 00
www.iliad.fr

iliad