Société anonyme. Share capital: €12,772,555

Registered office: 16, rue de la Ville l'Evêque – 75008
Paris

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1. ANALYSIS OF THE GROUP'S BUSINESS AND RESULTS

KEY CONSOLIDATED FINANCIAL DATA

In € millions	Six months to June 30, 2013	Six months to June 30, 2012	Year ended Dec. 31, 2012
INCOME STATEMENT			
Revenues	1,829.4	1,444.3	3,153.3
EBITDA	***585.8***	***417.3***	***921.4***
Profit from ordinary activities	276.6	178.5	411.7
Other operating income and expense, net	(1.3)	(3.6)	(6.4)
Operating profit	275.3	174.9	405.3
Finance costs, net	(29.4)	(26.8)	(56.8)
Other financial income and expense, net	(13.1)	(15.1)	(34.3)
Corporate income tax	(91.0)	(53.4)	(127.7)
Profit for the period	**141.8**	**79.6**	**186.5**
BALANCE SHEET			
Non-current assets	3,955.1	3,582.0	3,924.4
Current assets	810.0	854.3	772.6
Of which cash and cash equivalents	*314.5*	*402.9*	*384.2*
Assets held for sale	48.5	50.6	50.0
Total assets	**4,813.6**	**4,486.9**	**4,747.0**
Total equity	1,874.0	1,589.9	1,726.7
Non-current liabilities	1,503.4	1,731.2	1,679.8
Current liabilities	1,436.2	1,165.9	1,340.5
Total equity and liabilities	**4,813.6**	**4,486.9**	**4,747.0**
CASH FLOWS			
Net cash generated from operating activities	517.4	385.3	921.5
Net cash used in investing activities	(448.3)	(479.0)	(945.2)
Net change in cash and cash equivalents (excluding financing activities and dividends)	47.2	(129.6)	(38.0)
Dividends	(21.4)	(21.2)	(21.2)
Cash and cash equivalents at period-end	306.9	395.8	382.6

1.1 OVERVIEW

Fueled by the success of its broadband offering marketed under the Free brand, the Iliad Group (also referred to as the "**Group**") has positioned itself as a major player in the French telecommunications market. In addition, since January 10, 2012 when it launched its mobile offerings, the Group has become an integrated operator present in both the broadband and mobile markets.

The Iliad Group is the second largest landline operator in France, with a market share of around 24% in the ADSL segment. It also holds a 10.3% share of the French mobile market, and its mobile business has already reached critical mass in the space of just over a year since its launch. At June 30, 2013, the Group had over 12 million subscribers in all (5.5 million landline subscribers and 6.8 million mobile subscribers). Consolidated revenues for first-half 2013 totaled €1,829 million.

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

However, this presentation may change in the future, depending on operating criteria and the development of the Group's businesses.

EBITDA – which corresponds to profit from ordinary activities before share-based payment expense, depreciation, amortization and provisions for impairment of non-current assets – is a key performance indicator for the Group and is used throughout this management report.

1.1.1 Breakdown of revenues

(a) 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).

- **Unlimited broadband via VDSL2**, which gives subscribers broadband Internet access at speeds of up to 100 Mbps download and 40 Mbps upload in areas that are eligible for the offering.

- **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 over 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.

When a subscriber signs up to one of the Group's offerings they are provided with a box. Two main boxes are currently offered:

- **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. It incorporates state-of-the-art technologies such as PLC (Power Line Communication), a gyroscopic remote control, a gamepad and loud speakers.

- **The Freebox Crystal, which is an upgraded version of the Freebox v5,** and offers a new high-performing TV interface with additional channels and VOD services and also simplifies the installation process for subscribers thanks to new-format packaging.

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 and 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.

(b) Mobile revenues

The Group proposes two simple value-for-money mobile offerings:

- **A €2/month no-contract offering (€0/month 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 41 destinations outside mainland France, as well as unlimited SMS messages. 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 Internet.

- **A €19.99/month no-contract offering (€15.99/month for Freebox subscribers)** with unlimited voice calls, SMS, MMS and Internet up to 3 GB (fair usage policy with speeds slowed once 3 GB is reached). All subscribers to this plan can make free landline calls to 41 destinations outside mainland France and to mobiles in Canada and the United States (including Alaska and Hawaii), 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. 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.

1.1.2 The Group's main operating costs

(a) 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 subscription and per month, as mentioned in the basic unbundling offer, were as follows at June 30, 2013:

Operating costs (partial unbundling)

- Rental of the copper pair and the ADSL splitter: €1.64
- Other costs (backhaul cables, room rental, optical fiber leasing payments, etc.): €1.68

Operating costs (full unbundling)

- Rental of the copper pair: €8.90
- Other costs (backhaul cables, room rental, optical fiber leasing payments, etc.): €1.68

- **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 subscription 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 €4.09 and €12.21 (since March 1, 2013).

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 first-half 2013 were as follows:

- Usage fee per Mbps: €12.00
- Access fees: €3.99

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.

(b) 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 euro 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**

As shown in the above table, from July 1, 2013 Free Mobile will no longer be able to apply asymmetric call termination charges, which will reduce the revenues and margins generated for the Group from incoming calls.

(c) 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 used (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 1.1.3.c below.

1.1.3 Capital expenditure and depreciation

(a) 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.

The main costs that the Group capitalizes for Option 1 related to the following:

- The boxes provided to subscribers: either the Freebox Crystal under the traditional offering or the latest-generation Freebox under the Freebox Revolution offer. In the first half of 2013, the cost of a Freebox ranged from a few dozen euros to €275 for the Freebox Revolution.
- Freebox DSLAMs.
- Fees invoiced by the incumbent operator for access to unbundling services (also known as cabling costs or access fees), which amount to €56 per subscriber for full unbundling and €66 per subscriber for partial unbundling.
- Logistics and modem dispatch costs.

All of the above 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 Crystal modems, which only cost a few dozen euros.

The main capitalized costs 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 a period of five years as from when the related services are provided.

(b) 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.

(i) Very densely populated areas

In very densely populated areas, the FTTH 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 June 30, 2013 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 first-half 2013, the Group completed its rollouts in those areas where work had previously begun.

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.

(ii) Other areas

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 create a single network shared among the fiber optic providers and subscribers is aimed at expanding the service to a wider population.

In the first six months of 2013, the Group stepped up its participation in co-financing the FTTH network outside very densely populated areas and at June 30, 2013 it had made commitments covering some sixty urban areas, representing over 4 million homes that will be provided with FTTH coverage by 2020.

(c) Rollout of a network of mobile masts

On January 12, 2010, Iliad’s subsidiary Free Mobile was authorized to use frequencies in the 2.1GHz and 900MHz 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.

During first-half 2013 the Group continued to roll out its mobile network, with the following objectives:

- Deploying sites in new areas in order to increase its direct coverage rate (which was over 50% at June 30, 2013 based on the ARCEP definition). In view of the progress of its rollouts, the Group is standing by the coverage commitments it made to ARCEP, namely to cover 75% of the French population by 2015 and 90% by 2018.
- Diversifying its network of mobile masts in areas already covered in order to increase the volume of traffic carried on the Free Mobile network.
- Accelerating the rollout of 4G technologies at Free Mobile sites.

During the period, the Group also continued to roll out its core network and information systems and paid the fixed portion of charges due under the roaming agreement.

The depreciation/amortization periods applied for the various assets brought into service in the first half of 2013 are as follows:

- 3G license: 18 years
- Network equipment: 4 years
- Other equipment: 6 years

1.2 SIGNIFICANT EVENTS OF THE PERIOD

In € millions	Six months to June 30, 2013	Six months to June 30, 2012	% change
Consolidated revenues	**1,829.4**	**1,444.3**	**+26.7%**
- *Landline*	*1,234.6*	*1,130.4*	*+9.2%*
- *Mobile*	*600.8*	*319.5*	*+88.0%*
- *Intra-group sales*	*(6.0)*	*(5.6)*	*+7.1%*
***Consolidated* EBITDA**	**585.8**	**417.3**	**+40.4%**
- *Landline*	*531.6*	*461.6*	*+15.2%*
- *Mobile*	*54.2*	*(44.3)*	-
Profit from ordinary activities	**276.6**	**178.5**	**+55.0%**
Profit for the period	**141.8**	**79.6**	**+78.1%**
Free Cash Flow from ADSL operations	**291.4**	**229.4**	**+27.0%**
Leverage ratio	**0.95x**	**1.35x**	**-**

In the first half of 2013 the Group saw continued growth for both its landline and mobile businesses as well as a widening of its margins. The main drivers of this performance were (i) Free's dynamic technological and commercial innovations, (ii) the ongoing commercial success of our mobile offerings, with total subscribers reaching 6.8 million, (iii) a €54 million positive contribution to consolidated EBITDA by the mobile business, (iv) sustained growth for our landline business, with 154,000 new subscribers added during the period, and (v) another robust financial showing.

- **Numerous innovations during the period.** The first half of 2013 was particularly dynamic for Free in terms of innovation, with the launch of the Freebox OS and Femtocells, the opening up of VDSL2 technology to subscribers and the introduction of a new offer for France's large Portuguese community.

- **Continued commercial success for the mobile business.** Net adds for the Group's mobile business came to over 1.5 million in the first half of 2013 bringing the total number of mobile subscribers to 6.8 million, which represents a market share of over 10%. First-half revenues generated by the mobile business totaled €600 million.

- **A €54 million contribution by the mobile business to consolidated EBITDA.** The mobile business contributed €54 million to consolidated EBITDA in the first six months of 2013 compared with a negative €44 million in the same period of 2012. This positive swing was attributable to (i) the business reaching the critical mass necessary to absorb its fixed cost base, and (ii) the increase in traffic carried on the Free Mobile network, primarily due to the use of 900MHz frequencies in densely populated areas and the extended coverage of the Free Mobile network.

- **Another period of strong growth for the landline business.** The first six months of 2013 saw strong growth of over 9% for the landline business. In parallel, the business's profitability continued to rise, with EBITDA up by more than 15%, thanks to the Group's ongoing focus on unbundling and optimizing its fixed cost base.

- **Stronger financial structure and performance.** At €586 million, consolidated EBITDA was 40% higher than in first-half 2012.

  Profit from ordinary activities climbed 55% year on year, coming in at €277 million.

  These figures drove a sharp increase in profit for the period to €141 million from €80 million in first-half 2012.

  Consolidated Free Cash Flow (excluding financing activities and dividends) came to €47 million in the first half of 2013, reflecting the combined impacts of the following:

  - a 21% rise in operating Free Cash Flow to almost €610 million;
  - total capital outlay of €448 million during the period due to an ongoing proactive capital expenditure policy;
  - a 27% increase in Free Cash Flow from ADSL operations to €291 million.
  - payment of the 2012 dividend amounting to €21 million.

1.3 COMPARISON OF RESULTS FOR FIRST-HALF 2013 AND FIRST-HALF 2012

In € millions	Six months to June 30, 2013	Six months to June 30, 2012	% change
Revenues	**1,829.4**	**1,444.3**	**+26.7%**
Purchases used in production	(977.9)	(770.0)	+27.0%
Gross profit	**851.5**	**674.3**	**+26.3%**
as a % of revenues	***46.5%***	***46.7%***	
Payroll costs	(97.1)	(83.0)	+17.0%
External charges	(102.9)	(95.8)	+7.4%
Taxes other than on income	(23.8)	(14.5)	+64.1%
Additions to provisions	(44.9)	(56.0)	-19.8%
Other income and expenses from operations, net	3.0	(7.7)	-
EBITDA	**585.8**	**417.3**	**+40.4%**
as a % of revenues	***32.0%***	***28.9%***	***+3.1 pts***
Share-based payment expense	(4.1)	(5.8)	-29.3%
Depreciation, amortization and provisions for impairment of non-current assets	(305.1)	(233.0)	+30.9%
Profit from ordinary activities	**276.6**	**178.5**	**+55.0%**
Other operating income and expense, net	(1.3)	(3.6)	-63.9%
OPERATING PROFIT	**275.3**	**174.9**	**+57.4%**
Finance costs, net	(29.4)	(26.8)	+9.7%
Other financial income and expense, net	(13.1)	(15.1)	-13.2%
Corporate income tax	(91.0)	(53.4)	+70.4%
PROFIT FOR THE PERIOD	**141.8**	**79.6**	**+78.1%**

1.3.1 Analysis of consolidated results

(a) Key indicators

	June 30, 2013	June 30, 2012	June 30, 2011
Total mobile subscribers	**6,795,000**	**3,600,000**	**-**
Total broadband subscribers	**5,518,000**	**5,147,000**	**4,717,000**
- Free	5,388,000	4,885,000	4,245,000
of which migrations from Alice to Free	*45,000*	*90,000*	*44,000*
- Alice	130,000	262,000	472,000
Percentage of unbundled subscribers	**94.40%**	**93.60%**	**90.80%**

In €	June 30, 2013 End of period	June 30, 2012 End of period	June 30, 2011 End of period
Broadband ARPU	**35.9**	**35.5**	**35.5**
Freebox Revolution ARPU	*>38*	*>38*	*>38*

(b) Revenues

Consolidated revenues for the six months ended June 30, 2013 topped €1.8 billion, up by almost 27% on first-half 2012. This strong year-on-year increase was primarily driven by the sustained rapid business development reported by both landline and mobile operations.

The table below shows the breakdown of revenues by business and category for first-half 2013 and first-half 2012 as well as the percentage change between the two periods.

In € millions	Six months to June 30, 2013	Six months to June 30, 2012	% change
Landline	**1,234.6**	**1,130.4**	**+9.2%**
Mobile	**600.8**	**319.5**	**+88.0%**
Telecom services	*535.4*	*264.2*	*-*
Terminals	*65.3*	*55.3*	*+18.1%*
Intra-group sales	(6.0)	(5.6)	+7.1%
Total consolidated revenues	**1,829.4**	**1,444.3**	**+26.7%**

Landline revenues

Landline revenues advanced from €1,130 million in first-half 2012 to €1,235 million in the first six months of 2013, representing growth of more than 9%. The year-on-year rise primarily reflects the impacts of the following:

- **Another robust sales performance in first-half 2013.** The Group's landline business delivered an excellent showing in the first six months of 2013, with more than 154,000 new subscribers during the period (net of terminations and excluding migrations from Alice) and a market share at 41%. This achievement demonstrates the strong reputation of the Free brand and its dynamic technological and commercial innovations, as well as the appeal of the Freebox Revolution offerings and the significant revenue synergies leveraged between our landline and mobile businesses. At June 30, 2013, the Group had a total of 5,518,000 broadband subscribers.

- **Success of the migration 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 45,000 Alice subscribers took up this option during the first half of 2013.

- **Broadband ARPU of €35.9 at end-June 2013, close to its record high** and up slightly on first-half 2012.

Mobile revenues

The Group's share of the French mobile market topped 10% in first-half 2013, with 6,795,000 total subscribers at June 30, 2013. Revenues generated by this business during the period came to over €600 million, reflecting the following:

- **Continued commercial success for the innovative mobile offerings proposed by Free**, which enabled the Group to attract 1,590,000 new subscribers during the period. Since December 2012, when Free enhanced its €2 mobile plan, the Group has accelerated its adds of users who make only moderate use of their mobiles and who are therefore attracted by the €2 plan.

- **A modest rise in revenues from sales of terminals** to €65 million, reflecting unfavorable seasonal effects.

Intra-group sales

Intra-group 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.

(c) Gross profit

At €852 million, consolidated gross profit was €177 million higher than in first-half 2012, representing a year-on-year increase of 26%. The main factors affecting gross profit during the period were:

- **The positive effects of lower operating costs and a rise in the unbundling rate.** During the first six months of 2013 the Group continued its drive to extend its ADSL network, increasing its unbundling rate to over 94% thanks to its 4,804 connection nodes. This was achieved despite the fact that certain regulated prices rose during the period, particularly unbundling costs, which increased from €8.80 to €8.90.

- **Higher gross profit for the mobile business due to a significant increase in traffic carried on Free Mobile's network.** The increase in gross profit for the mobile business was primarily due to the use of 900MHz frequencies in densely populated areas and the extended coverage of the Free Mobile network. However, it should be noted that the Group was still permitted to apply asymmetric mobile call termination charges during the period. This will no longer be possible as from July 1, 2013, which will have an adverse effect on profitability.

- **Synergies leveraged between the landline and mobile businesses.** The ongoing rapid development of the Group's mobile offerings has enabled it to increase the synergies between its two businesses, especially concerning interconnection charges and intra-group calls.

(d) 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 has been carried out in mainland France 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-June 2013 it had 22 stores (Free Centers) located in France's major towns and cities, with the flagship store based in Paris.

The Group created a total of 471 jobs in France during first-half 2013 bringing its total headcount to 6,864 at June 30, 2013.

Consequently, payroll costs (excluding employee benefits and capitalized costs) increased during the period to €97 million.

All of these efforts to enhance our subscriber relations were rewarded by the following in first-half 2013:

- Free's subscriber relations system was awarded NF Service certification by AFNOR for its mobile business and its European certification was renewed for the landline business.

- For the fourth time in a row, Free came top in the customer satisfaction survey for ISPs carried out by France's largest consumer association (UFC – Que Choisir), and the Group's overall subscriber satisfaction levels are continually improving.

- Free beat its competitors to win the Test'n Trust annual prize awarded by consumers in the ISP category, and was ranked first for customer satisfaction in the mobile telephony and ADSL category.

(e) External charges

The Group's external charges edged up to €103 million in the first six months of 2013 from just under €96 million in the equivalent period of 2012. This item mainly includes the costs of network maintenance, equipment hosting, insurance, advertising and sub-contracting.

(f) Taxes other than on income

Taxes other than on income rose by more than €9 million year on year to €24 million.

(g) Additions to provisions

Additions to provisions – which include provisions for bad debts, impairment of inventories and contingencies and charges – totaled €45 million in first-half 2013, down by nearly 20% on the same period of 2012.

(h) Other income and expenses from operations, net

This item represented net income of €3 million versus a net expense of €8 million in first-half 2012, primarily reflecting non-recurring income recorded during the period.

(i) EBITDA

Consolidated EBITDA rose by more than 40% year on year to almost €586 million. EBITDA margin widened by nearly 3 points, coming in at 32%.

The Group continued to boost the profitability of its landline business by pursuing its focus on unbundling and optimizing the fixed cost base. As a result, EBITDA for that business was up by more than 15% year on year.

The mobile business contributed €54 million to consolidated EBITDA in the first six months of 2013 compared with a negative €44 million in the same period of 2012, and its EBITDA margin stood at 9%. This year-on-year upswing was driven by the increase in gross profit recorded by the business as well as the economies of scale achieved in relation to the fixed cost base. However, it should be noted that the Group was still permitted to apply asymmetric call termination charges in the first half of 2013.

(j) Profit from ordinary activities

Profit from ordinary activities amounted to €277 million in first-half 2013, up 55% year on year. The increase was primarily due to the mobile business's wider margins.

Depreciation/amortization expense came to €305 million, remaining relatively stable at 16.7% of revenues.

(k) Profit for the period

In view of the above-described achievements, profit for the period surged 78% year on year to €142 million from just under €80 million in the first half of 2012.

1.3.2 Cash flows and capital expenditure

In € millions	Six months to June 30, 2013	Six months to June 30, 2012	% change
Consolidated cash flow	**599.3**	**422.2**	**+41.9%**
Change in working capital requirement	8.8	78.7	-88.8%
Operating Free Cash Flow	**608.1**	**500.9**	**+21.4%**
Net cash used in investing activities	(448.3)	(479.0)	-6.4%
Income tax paid	(70.7)	(115.5)	-38.8%
Other	(41.9)	(36.0)	+16.4%
Consolidated Free Cash Flow (excluding financing activities and dividends)	**47.2**	**(129.6)**	**-**
Free Cash Flow from ADSL operations	**291.4**	**229.4**	**+27.0%**
Dividends	(21.4)	(21.2)	+0.9%
Cash and cash equivalents at period-end	**306.9**	**395.8**	**-22.5%**

Consolidated Free Cash Flow

Consolidated Free Cash Flow totaled a positive €47 million versus a negative €130 million in the first half of 2012. This year-on-year change mainly reflects the following:

- a 21% rise in operating Free Cash Flow to almost €610 million;
- total capital outlay of €448 million during the period due to an ongoing proactive capital expenditure policy;
- a 27% jump in Free Cash Flow from ADSL operations to €291 million;
- payment of €71 million in tax.

Net change in cash and cash equivalents

The Group ended the first half of 2013 with €307 million in available cash and cash equivalents. Excluding the operating items presented above, the main changes in cash and cash equivalents during the period related to:

- the repayment of €200 million worth of the Group's €1,400 million syndicated credit facility;
- the drawdown of the last €100 million tranche of the second loan granted to the Group by the EIB;
- payment of the 2012 dividend amounting to €21 million.

1.3.3 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 June 30, 2013, the Group had gross debt of €1,353 million and net debt of €1,039 million. The Group strengthened its financial structure during the period and its leverage ratio at June 30, 2013 returned to below the 1x mark at 0.95x. This 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 June 30, 2013:

A €500 million short-term commercial paper program

During the first half of 2013 the Group used €202 million of its commercial paper program, on a par with the amount used during the equivalent period of 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 €150 million had been drawn down at June 30, 2013.

- A revolving tranche of €800 million expiring in June 2015. None of this tranche had been drawn down at June 30, 2013.

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. The loan is repayable in installments with a final maturity in July 2020. This loan had been fully drawn down at June 30, 2013.

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 fully drawn down at June 30, 2013.

At June 30, 2013 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 June 30, 2013, the Group's total obligations under finance leases amounted to €104 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.

1.3.4 Ownership structure at June 30, 2013

At June 30, 2013, Iliad's share capital was made up of 57,878,669 ordinary shares, held by the following shareholders:

- Executive Management: 35,886,950 shares, representing 62.0% of the share capital;
- Public: 21,991,719 shares, representing 38.0% of the share capital.

At June 30, 2013, there were seven Iliad stock option plans in place with a total of 1,585,742 shares under option.

1.4 ADDITIONAL INFORMATION

1.4.1 Strategic objectives

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

- Landline business:
  - 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 business:
  - Continue and intensify site rollouts;
  - Reach the 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.

1.4.2 Events after the reporting period

1.4.3 Glossary

The definitions of the main terms used by Iliad are set out below:

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 broadband subscribers invoiced for the period.

Broadband subscribers: Subscribers who have signed up for the Group's ADSL or FTTH offerings.

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).

Gross profit: Corresponds to revenues less purchases used in production.

Leverage ratio: Represents the ratio between net debt (short- and long-term financial liabilities less cash and cash equivalents) and EBITDA.

Net adds: Represents the difference between total broadband subscribers at the end of two different periods.

Total broadband subscribers: Represents, at the end of a period, the total number of subscribers identified by their telephone 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.

Unbundled subscribers: Subscribers who have signed up for the Group's ADSL or FTTH offerings through a telephone exchange unbundled by Free.