Société anonyme. Share capital: €12,869,835.44

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1. ANALYSIS OF THE GROUP'S BUSINESS AND RESULTS

KEY CONSOLIDATED FINANCIAL DATA

In € millions	**Year ended December 31, 2013**	**Year ended December 31, 2012**	**Year ended December 31, 2011**
INCOME STATEMENT			
Revenues	3,747.9	3,153.3	2,122.1
EBITDA	***1,204.2***	***921.4***	***833.4***
Profit from ordinary activities	540.9	411.7	498.2
Other operating income and expense, net	(3.9)	(6.4)	(4.6)
Operating profit	537.0	405.3	493.6
Finance costs, net	(59.4)	(56.8)	(46.8)
Other financial income and expense, net	(24.3)	(34.3)	(34.0)
Corporate income tax	(187.9)	(127.7)	(161.0)
Profit for the period	**265.4**	**186.5**	**251.8**
BALANCE SHEET			
Non-current assets	3,956.3	3,924.4	3,204.0
Current assets	780.5	772.6	600.5
Of which cash and cash equivalents	*318.1*	*384.2*	*357.4*
Assets held for sale	39.5	50.0	54.9
Total assets	**4,776.3**	**4,747.0**	**3,859.4**
Total equity	2,013.6	1,726.7	1,523.9
Non-current liabilities	1,400.2	1,679.8	1,466.3
Current liabilities	1,362.5	1,340.5	869.2
Total equity and liabilities	**4,776.3**	**4,747.0**	**3,859.4**
CASH FLOWS			
Net cash generated from operating activities	1,021.3	921.5	779.6
Net cash used in investing activities	(905.5)	(945.2)	(1,156.4)
Net change in cash and cash equivalents (excluding financing activities and dividends)	84.2	(38.0)	(391.0)
Dividends	(21.5)	(21.2)	(21.9)
Cash and cash equivalents at year-end	315.1	382.6	350.5

1.1 OVERVIEW

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

At December 31, 2013, just two years after it entered the mobile market, the Group has over 13.6 million subscribers, of which 8 million mobile subscribers and 5.6 million broadband subscribers. In 2013, the Group generated more than €3.7 billion in revenues, up 19% on 2012.

As substantially all of its operations are in France, the Group 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 offerings

Offerings and services available under the Free and Alice brands

The Group offers its subscribers a number of different Internet access solutions (at prices ranging from €9.99 to €37.97 per month), with a box provided and no installation fees. Depending on the eligibility of the subscriber's line, the following broadband offers are available:

- **Via ADSL**, which allows subscribers to access the Internet at a speed of at least 2 Mbps and up to 22.4 Mbps in areas where the local loop is unbundled, and 17.6 Mbps in non-unbundled areas, depending on whether a subscriber's line is eligible (IP speeds).

- **Via VDLS2**, which gives subscribers in unbundled areas and with short lines Internet access at speeds of up to 100 Mbps download and 40 Mbps upload.

- **Via optical fiber (FTTH)**, which is available in selected areas chosen by Free and provides subscribers with ultra-fast broadband (1 Gbps download and 200 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 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 450 channels (of which some 60 or 200 are included in the basic packages) with 62 high definition channels and a 45-channel catch-up TV service.

- **Free also offers its subscribers numerous value added services** including Freebox Replay (its catch-up TV service), 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 available:

- **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 offerings at December 31, 2013

The Group proposes two simple value-for-money mobile offerings, with 4G included since December 2013.

- **The €2/month plan (€0/month for Freebox subscribers)** which includes 120 minutes of voice calls per month in mainland France and to French overseas departments (*départements d'outre-mer* – DOM), as well as to 100 destinations outside mainland France and to mobiles in the United States (including Alaska and Hawaii), Canada, French overseas departments and China, plus unlimited SMS/MMS messages in mainland France, 3G/4G mobile internet with 50 MB data volume, and unlimited access to the FreeWifi network. This no-commitment 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 and data volume as well as for calls to additional foreign countries and from abroad.

- **The Free Mobile Plan at €19.99/month (€15.99/month for Freebox subscribers)** with unlimited voice calls and SMS and MMS messages, and Internet access of up to 3 GB for 3G and 20 GB for 4G (fair use policy with speeds slowed in excess of these thresholds).

All subscribers to this no-commitment plan can make unlimited calls to landlines in 100 destinations outside mainland France and to mobiles in the United States (including Alaska and Hawaii), Canada, French overseas departments and China, and also have unlimited access to the FreeWifi network. In addition, subscribers can use their Free Mobile Plan when in Portugal and Italy, for 35 days per year.

In tandem, the Group offers a selection of the best mobile phones on 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 wish to obtain their phone from Free are proposed several solutions:

- Purchasing a phone and paying for it upfront.
- Purchasing a phone and paying for it in several installments (4 interest-free installments and/or 24 installments, depending on the model).
- Renting a phone: since December 2013 subscribers can have access to high-end smartphones by renting a mobile.

In all cases, the Group recognizes the corresponding revenue when the phone is received by the subscriber.

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 December 31, 2013:

Operating costs (partial unbundling)

- Rental of the copper pair and the ADSL splitter: €1.64

Operating costs (full unbundling)

- Rental of the copper pair: .... €8.90[1]

- **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 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, notably 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 24, 2012, ARCEP (the French electronic communications regulator) 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 Telecom	1.0	0.8	0.8
Free Mobile	1.6	1.1	0.8

In 2013 Free Mobile was able to apply asymmetric call termination charges only during the first half of the year.

[1] As from February 1, 2014 the cost of renting the copper pair will be €9.02.

(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

(i) Transmission network and unbundling the local loop

Having laid over 76,000 km of fiber in less than 15 years, Iliad has rolled out one of the largest IP networks in France, both in terms of coverage and traffic volumes. The Group draws on this extensive network to connect up subscriber connection nodes and unbundle the local loop. During 2013, the Group continued to extend its coverage by opening over 400 new subscriber connection nodes, which brought the total number of unbundled subscriber connection nodes to around 5,100 at the year-end and gave Free a network coverage rate of 84% of the French population.

2013 also saw the migration of some of the Group’s network equipment (Freebox DSLAMs) to ensure its compatibility with VDSL2 technology. The Group is aiming to complete its equipment migration program during the course of 2014.

The optical fiber used in the transmission network is depreciated over periods ranging between 10 and 27 years. The equipment installed in the subscriber connection nodes (Freebox DSLAMs) is depreciated over 5 or 6 years.

(ii) Operating costs and capital expenditure by subscriber

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 relate 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 2013, the cost of a Freebox ranged from a few dozen euros (for the Freebox Crystal) to €270 for the Freebox Revolution.
- 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, Free Infrastructure, IRE and Immobilière Iliad.

By rolling out its own optical fiber local loop, the Group directly owns all of its fiber to the home infrastructure and is therefore totally independent from the incumbent operator. This means that it has full control over its service quality and subscriber relations, and can provide its subscribers with access to a technology that meets their growing bandwidth requirements.

The FTTH rollout is a logical extension of Iliad's strategy of investing in the deployment of its own infrastructure with the aim of raising margins and profitability.

Very densely populated areas. At December 31, 2013, the Group had 229 sites (optical nodes) in very densely populated areas, representing potential coverage of around 3.4 million FTTH plugs. During the year, the Group concentrated its production resources on connecting up buildings made available by third-party operators under rollout pooling agreements in areas where the horizontal rollout process was already completed.

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 2013, the Group stepped up its participation in co-financing the FTTH network outside very densely populated areas and at the year-end it had made commitments covering some sixty urban areas, representing over four million homes that will be provided with FTTH coverage by 2020.

(c) Rollout of a network of mobile masts

Since it was awarded France's fourth 3G mobile license, the Group has implemented its mobile network rollout strategy by drawing on its extensive landline transmission network (see paragraph (a) above) and putting in place a specific organizational structure to manage and oversee the network rollout process. This management and oversight role 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 2013 the Group continued its mobile network rollout process by deploying 700 new sites, which raised its total number of 3G sites in service to over 2,500 at the year-end. The deployment of these new sites enabled the Group to increase its 3G mobile coverage rate by some 20 points to over 60% of the French population at December 31, 2013.

Another highlight of 2013 was the commercial launch of the Group's 4G services, with over 700 sites in service at the time of the launch. As Free’s network was designed from the outset to use the latest technologies (an all-IP NGN), the Group can offer both 3G and 4G services to its subscribers and intends to rapidly increase the number of 4G sites in service. At December 31, 2013 the total number of these sites had already risen to 824.

Also during the year, the Group continued to roll out its core network and information systems and paid the fixed portion of the charges due for 2013 under the roaming agreement.

The Group intends to step up the pace of its mobile network rollout in order to maximize the volume of traffic carried directly on its own network. Consequently, it is planning to deploy over 1,500 new 3G sites in 2014. In view of the progress of its rollouts, the Group is standing by the coverage commitments it made to ARCEP in connection with its 3G and 4G licenses:

- 3G license: 75% of the French population covered by 2015 and 90% by 2018.
- 4G license: 25% of the French population covered by October 2015, 60% by October 2019 and 75% by October 2023.

The depreciation/amortization periods applied for the main assets brought into service in 2013 are as follows:

- Licenses: 18 years
- General equipment: 10 years
- Other equipment: 3 to 5 years
- Other assets: 2 to 10 years

1.2 SIGNIFICANT EVENTS OF THE YEAR

In € millions	2013	2012	% change
Consolidated revenues	**3,747.9**	**3,153.3**	**+18.9%**
- *Landline*	2,497.5	2,321.4	+7.6%
- *Mobile*	1,261.3	843.9	+49.5%
- *Intra-group sales*	(10.9)	(12.0)	-9.2%
***Consolidated* EBITDA**	**1,204.2**	**921.4**	**+30.7%**
- *Landline*	1,090.7	967.5	+12.7%
- *Mobile*	113.5	(46.1)	-
Profit from ordinary activities	**540.9**	**411.7**	**+31.4%**
Profit for the period	**265.4**	**186.5**	**+42.3%**
Free Cash Flow from ADSL operations	**636.0**	**508.8**	**+25.0%**
Leverage ratio	**0.85x**	**1.16x**	**-26.7%**

In line with the Group's objectives, 2013 was another year of strong growth, with over 3.1 million new subscribers (including 2.8 million mobile subscribers) and a 19% rise in revenues.

As well as pursuing these growth objectives, the Group was able to further strengthen its financial position during the year thanks to (i) a positive contribution to consolidated EBITDA by the mobile business, (ii) very strong Free Cash Flow generation from ADSL operations which helped finance the Group's capital expenditure drive, and (iii) the refinancing of its €1.4 billion credit facility.

The most significant events of 2013 were as follows:

- **Landline business: Ongoing development of the Group's profitable growth model.** With 276,000 net adds and a net add market share of 35%, in 2013 the Group was France’s leading recruiter of broadband subscribers for the second year in a row, despite a fiercely competitive environment. Landline revenues climbed by almost 8% year on year to €2,498 million and EBITDA advanced 13%.

- **Mobile business: 2.8 million new subscribers, the highest number of net adds among French mobile operators in 2013.** This sharp increase in Free Mobile’s subscriber base drove up the Group’s market share to 12% at December 31, 2013, less than two years after its mobile offerings were first launched. Revenues generated by the mobile business surged 50% year on year to €1,261 million, representing a third of the Group's total revenue figure.

- **Mobile business: A €114 million contribution to consolidated EBITDA.** The mobile business contributed €114 million to consolidated EBITDA in 2013, compared with a negative €46 million in 2012. The 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 network's extended coverage. This performance was particularly impressive given that the Group was able to apply asymmetric call termination charges only during the first half of the year.

- **A solid financial performance and an even stronger financial structure:** Consolidated EBITDA topped €1 billion for the first time in the Group's history, coming in 31% higher than in 2012 at €1,204 million. Profit for the period jumped by just over 42% to €265 million. The Group further strengthened its already very solid financial structure during the year, by (i) refinancing its main credit facility (representing €1.4 billion) and extending its maturity, (ii) increasing its Free Cash Flow from ADSL operations to €636 million from €509 million in 2012, and (iii) significantly decreasing its leverage ratio, which stood at 0.85x at December 31, 2013.

1.3 COMPARISON OF RESULTS FOR 2013 AND 2012

In € millions	2013	2012	% change
Revenues	**3,747.9**	**3,153.3**	**+18.9%**
Purchases used in production	(2,023.0)	(1,668.4)	+21.3%
Gross profit	**1,724.9**	**1,484.9**	**+16.2%**
as a % of revenues	***46.0%***	***47.1%***	
Payroll costs	(197.9)	(170.2)	+16.3%
External charges	(210.1)	(192.3)	+9.3%
Taxes other than on income	(37.5)	(29.8)	+25.8%
Additions to provisions	(81.0)	(148.1)	-45.3%
Other income and expenses from operations, net	5.8	(23.1)	-
EBITDA	**1,204.2**	**921.4**	**+30.7%**
as a % of revenues	***32.1%***	***29.2%***	
Share-based payment expense	(7.8)	(10.4)	-25.0%
Depreciation, amortization and provisions for impairment of non-current assets	(655.5)	(499.3)	+31.3%
Profit from ordinary activities	**540.9**	**411.7**	**+31.4%**
Other operating income and expense, net	(3.9)	(6.4)	-39.1%
OPERATING PROFIT	**537.0**	**405.3**	**+32.5%**
Finance costs, net	(59.4)	(56.8)	+4.6%
Other financial income and expense, net	(24.3)	(34.3)	-29.2%
Corporate income tax	(187.9)	(127.7)	+47.1%
PROFIT FOR THE PERIOD	**265.4**	**186.5**	**+42.3%**

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1.3.1 Analysis of consolidated results

(a) Key indicators

In € millions	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
Total number of subscribers:	**13,680,000**	**10,569,000**	**4,849,000**
Broadband subscribers	*5,640,000*	*5,364,000*	*4,849,000*
Mobile subscribers	*8,040,000*	*5,205,000*	-
Percentage of unbundled subscribers	94.8%	94.1%	92.2%

ARPU at end-December (in €)	2013	2012	2011
Broadband ARPU	**36.00**	**36.00**	**35.50**
Freebox Revolution ARPU	*>38.00*	*>38.00*	*>38.00*

(b) Revenues

Consolidated revenues for the year ended December 31, 2013 totaled €3,748 million, up by nearly €600 million, or 19%, on 2012. This robust rise was primarily attributable to the expansion of the Group's mobile business and, to a lesser extent, ongoing growth in the landline business.

The table below shows the breakdown of revenues by category for 2013 and 2012 as well as the percentage change between the two years.

In € millions	2013	2012	% change
Landline	**2,497.5**	**2,321.4**	**+7.6%**
Mobile	**1,261.3**	**843.9**	**+49.5%**
Telecom services	*1,121.1*	*719.5*	*+55.8%*
Terminals	*140.2*	*124.4*	*+12.7%*
Intra-group sales	(10.9)	(12.0)	-9.2%
Total consolidated revenues	**3,747.9**	**3,153.3**	**+18.9%**

Landline revenues

Despite the fiercely competitive environment in the French broadband market, the Group continued to grow its landline business in 2013, with revenues climbing nearly 8% year on year to €2,498 million. The main highlights of 2013 for the Landline business were as follows:

- **Iliad was once again the operator that attracted the largest number of broadband subscribers**, with 276,000 net adds and a net add market share of 35% in 2013. This excellent showing demonstrates (i) the strong reputation of the Free brand, (ii) the major efforts undertaken in recent years to improve the quality of subscriber service, and (iii) the Group's dynamic innovations including, among others, the launch of new functions for the Freebox OS and the opening up of VDSL2 technology. At December 31, 2013, the Group had a total of 5,640,000 broadband subscribers.

- **Broadband ARPU held firm at €36.00, unchanged from 2012,** testifying to the success of the Freebox Revolution, which now represents over 50% of the Group's total subscriber base. This performance was particularly noteworthy given that 2013 was a year that saw a number of major advertising campaigns launched by France's other operators.

Mobile revenues

2013 was another year of strong growth for the Group's mobile business, with over 2.8 million net adds, representing a net add market share of 81%. The mobile business now accounts for a third of total consolidated revenues and in 2013 its revenue figure came to €1,261 million, primarily reflecting the following:

- **Ongoing commercial success for Free's mobile offerings.** With 2,835,000 net adds and a 12% share of the mobile market in 2013, the Group was once again France's leading recruiter of mobile subscribers during the year. In line with its strategy of enhancing its commercial offerings, Free proposed numerous innovations in 2013, including roaming services in Portugal, the launch of Femtocells, 4G services and a rental offer for smartphones. Although these innovations could weigh on margins in the short and medium term they will enable the Group to keep up its excellent sales momentum.

- **Continuing appeal of the €2/month plan.** Since December 6, 2012, when Free enhanced its €2/month mobile plan, the Group has accelerated its adds of users who make only moderate use of their mobiles.

- **A slight year-on-year increase in revenues from sales of terminals,** to €140 million.

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 €1,725 million, consolidated gross profit was €240 million higher than in 2012, representing a year-on-year increase of 16%. As a percentage of revenues, however, it contracted by 1.1 percentage points to 46%, due to the higher weighting within consolidated revenues of the mobile business, which has a lower gross margin than the landline business.

The main factors affecting gross profit during the year were:

- **Ongoing unbundling and economies of scale for the fixed cost base.** Throughout 2013 the Group kept up its drive to extend its ADSL network and raise its unbundling rate to 95% thanks to its some 5,100 subscriber connection nodes. This was achieved despite the fact that certain regulated prices rose during the year, particularly unbundling costs, which increased from €8.80 to €8.90 in the first half of 2013.

- **Higher gross profit for the mobile business due to an increase in traffic carried on Free Mobile's network.** The rise in gross profit for the mobile business was primarily due to the use of 900 MHz frequencies in densely populated areas and the extended coverage of the Free Mobile network. When analyzing the 2013 figure it is important to note that gross profit was adversely affected in the second half of the year because the Group was no longer permitted to apply asymmetric call termination charges.

- **Synergies leveraged between the landline and mobile businesses.** The continued 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, as from 2010 the Group began to roll out a distribution network based on physical sales outlets. During the year under review, 19 new stores were opened, raising the overall total to 34 at December 31.

Also in 2013 the Group created 618 jobs in France, increasing its total headcount to 6,876 at December 31.

In view of these developments, payroll costs (excluding employee benefits and capitalized costs) rose during the year to €198 million.

(e) External charges

The Group's external charges increased at a slower pace than consolidated revenues, coming in at €210 million and representing a 9% rise on the 2012 figure of €192 million. 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 €8 million year on year to €38 million.

(g) Additions to provisions

Additions to provisions – which include provisions for bad debts, impairment of inventories and contingencies and charges – totaled €81 million in 2013, down by nearly 45% on 2012. The basis of comparison with 2012 is skewed, however, by the fact that a strict policy was put in place during that year concerning the recognition of provisions for certain expenses, claims and litigation, and bad debts related to the Group's new and rapidly-growing mobile business.

(h) Other income and expenses from operations, net

This item represented net income of €6 million versus a net expense of €23 million in 2012. The year-on-year positive swing primarily reflects non-recurring income recorded in 2013 as well as a decrease in other expenses.

(i) EBITDA

Consolidated EBITDA advanced by more than 30% in 2013 to €1,204 million, and the EBITDA margin widened by nearly 3 percentage points, coming in at 32%.

The Group continued to boost the profitability of its landline business, thanks notably to the increase in its unbundling rate and economies of scale achieved for the fixed cost base. This drove a 13% year-on-year rise in the business's EBITDA.

The mobile business contributed €114 million to consolidated EBITDA in 2013 compared with a negative €46 million in 2012. The sharp year-on-year upswing was due to the increase in gross profit recorded by the business as well as the economies of scale achieved for the fixed cost base as a result of the business's growth. This performance was particularly impressive given that the Group was able to apply asymmetric call termination charges only in the first half of 2013.

(j) Profit from ordinary activities

Profit from ordinary activities climbed 31% to €541 million, fueled by the above-described increase in margins.

Depreciation/amortization expense rose to €656 million, primarily due to the beginning of depreciation/amortization for (i) the 4G license, and (ii) network components capitalized during the year. At December 31, 2013, property, plant and equipment were written down by €15 million due to the retirement of certain network components.

(k) Profit for the period

In view of the above-described achievements, profit for the period surged 42% year on year to €265 million from €187 million in 2012.

1.3.2 Cash flows and capital expenditure

In € millions	2013	2012	% change
Consolidated cash flow	**1,226.2**	**987.2**	**+24.2%**
Change in working capital requirement	(23.2)	130.8	-
Operating Free Cash Flow	**1,203.0**	**1,118.0**	**+7.6%**
Net cash used in investing activities	(905.5)	(945.2)	-4.2%
Income tax paid	(161.7)	(196.5)	-17.7%
Other	(51.6)	(14.3)	-
Consolidated Free Cash Flow (excluding financing activities and dividends)	**84.2**	**(38.0)**	**-**
Free Cash Flow from ADSL operations	**636.0**	**508.8**	**+25.0%**
Dividends	(21.5)	(21.2)	+1.4%
Cash and cash equivalents at year-end	**315.1**	**382.6**	**-17.6%**

Consolidated Free Cash Flow

Consolidated Free Cash Flow totaled a positive €84 million versus a negative €38 million in 2012. This year-on-year change mainly reflects the following:

- an 8% rise in operating Free Cash Flow to €1,203 million;
- total capital outlay of €906 million during the year due to an ongoing proactive capital expenditure policy;
- a further increase in Free Cash Flow from ADSL operations, which doubled between 2011 and 2013, reaching €636 million;
- €162 million in income tax paid.

Net change in cash and cash equivalents

The Group ended 2013 with €315 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 refinancing of the €1.4 billion syndicated credit facility and the repayment of €200 million in drawdowns under the 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 December 31, 2013 the Group had gross debt of €1,341 million and net debt of €1,023 million. The Group further strengthened its financial structure during the year and its leverage ratio at December 31, 2013 returned to well below the 1x mark at 0.85x. 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 December 31, 2013:

A €500 million short-term commercial paper program

During 2013 the Group used €194 million of its commercial paper program, on a par with the amount used in 2012.

A €1,400 million syndicated credit facility

On November 28, 2013, the Group refinanced its €1,400 million syndicated credit facility with a pool of 12 international banks. The new facility – whose entire amount is in the form of a revolving credit – has an initial maturity of five years, expiring in 2018, with an option to extend it to seven years (expiring in 2020).

The applicable interest rate is based on Euribor plus a margin of between 0.60% and 1.35% 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, 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 likewise been fully drawn down at December 31, 2013.

At December 31, 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 the technical equipment in its datacenters.

At December 31, 2013, the Group's total obligations under finance leases amounted to €102 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 December 31, 2013

At December 31, 2013, Iliad's share capital was made up of 58,076,797 ordinary shares, held by the following shareholders:

- Executive Management: 34,048,427 shares, representing 58.6% of the share capital.
- Public: 24,028,370 shares, representing 41.4% of the share capital.

At December 31, 2013, there were seven Iliad stock option plans in place with a total of 1,378,772 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.
  - Generate over €700 million in Free Cash Flow from ADSL operations in 2014.

- Mobile business:

  - Deploy more than 1,500 sites in 2014.
  - Reach a 3G coverage rate of 75% of the French population by end-2014.
  - Reach a 4G coverage rate of around 50% of the French population in 2014.
  - Achieve a 25% market share in the long term (objective raised due to the attainment of a 12% market share at December 31, 2013).

- Group:

  - Raise revenues to more than €4 billion by 2015.
  - Achieve consolidated EBITDA margin of over 40% by the end of the decade.

1.4.2 Events after the reporting period

Iliad has announced on March 9, 2014 that it has signed an agreement for exclusive negotiations with Bouygues and Bouygues Telecom with a view to purchasing both a portfolio of 2G/3G/4G frequencies and Bouygues Telecom's mobile telephony network for a sum that could go up to €1.8 billion.

This transaction will only go through if the takeover of SFR by Bouygues is complete, and the necessary authorisations have been obtained.

In a potential market configuration back to three players, this operation would enable Free Mobile to speed up its ambitious commercial dynamics - to the benefit of the consumer - in a context where infrastructure competitiveness reigns. Indeed Free Mobile thus considerably strengthens both its autonomy and its frequency portfolio.

This operation is due to be financed by the Group's own and bank resources, without resorting to capital increase.

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 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.