Société anonyme. Share capital: €12,869,835

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, 2014**	**Six months to June 30, 2013**	**Year ended Dec. 31, 2013**
INCOME STATEMENT			
Revenues	2,019.6	1,829.4	3,747.9
EBITDA	***624.2***	***585.8***	***1,204.2***
Profit from ordinary activities	281.4	276.6	540.9
Other operating income and expense, net	(1.7)	(1.3)	(3.9)
Operating profit	279.7	275.3	537.0
Finance costs, net	(31.6)	(29.4)	(59.4)
Other financial income and expense, net	(10.9)	(13.1)	(24.3)
Corporate income tax	(97.3)	(91.0)	(187.9)
Profit for the period	**139.9**	**141.8**	**265.4**
BALANCE SHEET			
Non-current assets	3,971.8	3,955.1	3,956.3
Current assets	694.6	810.0	780.5
Of which cash and cash equivalents	*230.6*	*314.5*	*318.1*
Assets held for sale	35.8	48.5	39.5
Total assets	**4,702.2**	**4,813.6**	**4,776.3**
Total equity	2,158.7	1,874.0	2,013.6
Non-current liabilities	1,196.1	1,503.4	1,400.2
Current liabilities	1,347.4	1,436.2	1,362.5
Total equity and liabilities	**4,702.2**	**4,813.6**	**4,776.3**
CASH FLOWS			
Net cash generated from operating activities	518.9	517.4	1,021.3
Net cash used in investing activities	(402.0)	(448.3)	(905.5)
Net change in cash and cash equivalents (excluding financing activities and dividends)	99.2	47.2	84.2
Dividends	(21.6)	(21.4)	(21.4)
Net debt	933.9	1,038.8	1,023.0

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.

Just over two years after it entered the mobile market, the Group has become the third largest telecom operator in France, with more than 14.8 million subscribers, of which over 9 million mobile subscribers and over 5.7 million broadband subscribers. In the first half of 2014, the Group's revenues were up by more than 10% year on year and topped the €2 billion mark for the first time in a six-month period.

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 (up to 1 Gbps download and up to 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 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 around 450 channels (of which some 90 or 200, depending on the type of subscription, are included in the basic packages), with 99 high definition channels and a 50-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 pay-TV channels (Canal+, beIN Sports etc.) 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

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, for 35 days per year and at no additional cost, when they are in the French West Indies, Guiana or Israel, as well as in numerous European countries such as Italy, Germany, Poland and Portugal.

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) Main operating costs of the Group's landline offerings

- **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, 2014:

Operating costs (partial unbundling)

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

Operating costs (full unbundling)

- Rental of the copper pair: .... €9.02[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 €4.39 and €12.41 (since April 1, 2014).

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 2014 were as follows:

- Usage fee per Mbps: €7.00

- Access fees: €5.05

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 or, where technically feasible, to directly offer Option 1 to new subscribers living in an area where the local loop has been unbundled.

- **The Group also offers its subscribers in eligible areas the possibility of migrating to an FTTH offering.** Gross margin and EBITDA margin on FTTH offerings are much higher than Option 1 margins as the Group no longer has to pay the operating costs related to renting the copper pair from the incumbent operator. The Group's objective is therefore to maximize the proportion of FTTH subscribers in eligible areas where technically feasible.

(b) Mobile call termination charges

Since July 1, 2013, Free Mobile has no longer been able to apply asymmetric call termination charges. Consequently, these charges amounted to 0.8 euro cents in first-half 2014 compared with 1.1 euro cents in the first six months of 2013.

(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.

[1] Prior to February 1, 2014 the cost of renting the copper pair was €8.90.

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.

Both gross margin and EBITDA margin are significantly higher for Free Mobile's own-network traffic than for roaming traffic. Margin levels also depend on (i) changes in subscriber usage patterns, particularly in relation to data, and (ii) the proportion of subscribers on the €15.99/€19.99 plan.

The Group's objective is therefore to maximize the amount of traffic carried directly on its own network, by pursuing the rollout targets described in section 1.1.3.c below, and to increase the proportion of subscribers on the €19.99/month plan (€15.99/month for Freebox subscribers), notably by migrating subscribers from the €2/month plan (€0/month for Freebox subscribers) to the €19.99/month plan (€15.99/month for Freebox subscribers) on the back of increasingly frequent daily usage of mobile internet.

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. Since the beginning of 2014 the Group has continued to extend its coverage by opening 820 new subscriber connection nodes, which brought the total number of unbundled subscriber connection nodes to 5,911 at June 30, 2014 and gave Free a network coverage rate of over 85% of the French population.

In line with its pioneering image, during the second half of 2013 the Group launched a large-scale program for migrating its network equipment (Freebox DSLAMs) to VDSL2 technology. During the first six months of 2014 the Group stepped up its equipment migration program, and based on the current pace of rollouts it should be completed during the second half of the year.

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 first-half 2014, the cost of a Freebox ranged from a few dozen euros (for the Freebox Crystal) to €270 for the Freebox Revolution.

- Fees billed 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 or seven 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 seven 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 complete control over its service quality and subscriber relations, and can provide its subscribers with access to a technology that fully 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 June 30, 2014, the Group had 230 sites (optical nodes) in very densely populated areas, representing potential coverage of around 3.4 million FTTH plugs. During first-half 2014, the Group accelerated the pace of its connections in 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 the FTTH lines rolled out by the incumbent operator, by undertaking to co-finance the FTTH network in certain urban areas. 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. By pooling resources to create a single network shared among the fiber optic providers and subscribers the service can be expanded to a wider population. In the first half of 2014, the Group continued to co-finance Orange's rollouts in the sixty non-densely populated urban areas for which it has given network co-financing commitments (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 effectively 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.

In line with its objectives, the Group stepped up the pace of its mobile network rollout process in the first six months of 2014, with over 600 new 3G sites deployed during the period compared with 377 in first-half 2013. At June 30, 2014 the total number of 3G sites in service was 3,122.

The Group's mobile network was designed from the outset to use the latest technologies (an all-IP NGN), which means that both 3G and 4G services can be offered. Using this latest-generation equipment, the Group migrated some 600 sites to 4G in first-half 2014, raising its total number of 4G sites in service to over 1,400 at June 30, 2014 and its 4G mobile coverage rate to almost 25% of the French population.

In parallel with its rollout process, the Group also continued to invest in extending its core network and information systems as well as in mobile site interconnection links.

The Group intends to further accelerate its mobile network rollout process during the second half of the year in order to maximize the volume of traffic carried directly on its own network. 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 the first half of 2014 are as follows:

- Licenses: 18 years

- General equipment: 10 years

- Other equipment: 3 to 5 years

- Other assets: 2 to 10 years

(d) Rollout of the distribution network: stores and self-service kiosks

During the first six months of 2014 the Group significantly strengthened its physical presence in France by:

- Opening six new stores, bringing the total number of Free Centers to 40 at end-June 2014.
- Launching France's first self-service kiosks for mobile subscriptions that have an integrated SIM card dispenser, in partnership with the Maison de la Presse and Mag Presse network. At June 30, 2014 the Group had already set up around 400 such kiosks.

1.2 SIGNIFICANT EVENTS OF THE PERIOD

In € millions	Six months to June 30, 2014	Six months to June 30, 2013	% change
Consolidated revenues	**2,019.6**	**1,829.4**	**+10.4%**
- *Landline*	1,279.3	1,234.6	+3.6%
- *Mobile*	745.7	600.8	+24.1%
- *Intra-group sales*	(5.4)	(6.0)	-10.0%
Consolidated EBITDA	**624.2**	**585.8**	**+6.6%**
Profit from ordinary activities	**281.4**	**276.6**	**+1.7%**
Profit for the period	**139.9**	**141.8**	**-1.3%**
Free Cash Flow from ADSL operations	**371.9**	**291.4**	**+27.6%**
Leverage ratio	**0.75x**	**0.95x**	**-21.1%**

In the first half of 2014 the Group saw continued solid growth, with over 1 million new subscribers (landline and mobile combined) and a more than 10% year-on-year increase in consolidated revenues to over €2 billion.

The most significant events of the period were as follows:

- **Landline business: ongoing growth against a competitive backdrop.** Despite marketing strategies and price reductions implemented by its competitors during the period, the Group continued to grow its broadband business, with 95,000 net adds during the period (representing a 24% net add market share). This performance was particularly impressive given that the Group maintained its broadband ARPU at a high level (€35.80), and saw an increase in this indicator between the first and second quarters of the year. Landline revenues rose by nearly 4% to €1,279 million, despite the negative impact of VAT rises in France during the period.

- **Mobile business: an excellent commercial performance**. During the first six months of 2014 the Group was once again by far France's leading recruiter of mobile subscribers, with over 1 million net adds. Thanks to this outstanding showing, at June 30, 2014 the Group topped the 9 million mark in terms of total mobile subscribers and had a market share of over 13%. This means that just over two years after first launching its mobile offerings it is already close to achieving its initial target of a 15% market share. Revenues generated by the Mobile business jumped 24% during the period to €746 million.

- **Mobile business**: **a commercial strategy focused on innovation and constantly-enriched offers.** During the first six months of 2014 the Group pursued its strategy of enriching its offerings by increasing the number of roaming destinations included in the Free Mobile Plan (adding the French West Indies and Guiana, Italy, Germany, the Netherlands, Poland, Austria, the Czech Republic and Romania). At the same time it continued to roll out its mobile phone installment payment and rental offers launched in December 2013. Although these new offers may weigh on short- and medium-term profitability they enable the Group to keep up its excellent sales momentum.

- **A solid financial performance despite a rise in VAT and the end of asymmetrical call termination charges.** In spite of the negative impact of the higher VAT rates introduced in France (notably for audiovisual offers) and the end of asymmetrical call termination charges, the Group's EBITDA rose by nearly 7% year on year to €624 million. A key driver of this growth was the solid profitability levels recorded by the Landline business during the six months under review. Despite the growth in EBITDA, profit for the period was more or less unchanged from first-half 2013, coming in at just under €140 million. This year-on-year stability in the Group’s bottom line reflects (i) an increase in depreciation charges, notably due to the launch of 4G services, and (ii) a higher corporate income tax rate.

- **A solid financial structure that enabled the Group to finance its capital expenditure programs.** The Group's robust generation of Free Cash Flow from ADSL operations (€372 million versus €291 million in first-half 2013) enabled it to pursue its pro-active capital expenditure strategy, with the rollout of over 600 new 3G sites, the opening of some 600 new 4G sites, and an acceleration of the migration of its landline network to VDSL2 technology. During the first six months of 2014 the Group reinvested some 20% of its revenues (i.e., over €400 million) in capital expenditure programs. Despite this outlay, the Group managed to further strengthen its financial structure by generating around €100 million in Free Cash Flow (before dividends) and once again lowering its leverage ratio (0.75x at June 30, 2014).

1.3 COMPARISON OF RESULTS FOR FIRST-HALF 2014 AND FIRST-HALF 2013

In € millions	Six months to June 30, 2014	Six months to June 30, 2013	% change
Revenues	**2,019.6**	**1,829.4**	**+10.4%**
Purchases used in production	(1,121.8)	(977.9)	+14.7%
Gross profit	**897.8**	**851.5**	**+5.4%**
as a % of revenues	***44.5%***	***46.5%***	
Payroll costs	(102.0)	(97.1)	+5.0%
External charges	(114.2)	(102.9)	+11.0%
Taxes other than on income	(17.3)	(23.8)	-27.3%
Additions to provisions	(35.4)	(44.9)	-21.2%
Other income and expenses from operations, net	(4.7)	3.0	
EBITDA	**624.2**	**585.8**	**+6.6%**
as a % of revenues	***30.9%***	***32.0%***	
Share-based payment expense	(2.9)	(4.1)	-29.3%
Depreciation, amortization and provisions for impairment of non-current assets	(339.9)	(305.1)	+11.4%
Profit from ordinary activities	**281.4**	**276.6**	**+1.7%**
Other operating income and expense, net	(1.7)	(1.3)	+30.8%
OPERATING PROFIT	**279.7**	**275.3**	**+1.6%**
Finance costs, net	(31.6)	(29.4)	+7.5%
Other financial income and expense, net	(10.9)	(13.1)	-16.8%
Corporate income tax	(97.3)	(91.0)	+6.9%
PROFIT FOR THE PERIOD	**139.9**	**141.8**	**-1.3%**

1.3.1 Analysis of consolidated results

(a) Key indicators

	June 30, 2014	June 30, 2013	June 30, 2012
Total number of subscribers:	**14,830,000**	**12,313,000**	**8,747,000**
Broadband subscribers	*5,735,000*	*5,518,000*	*5,147,000*
Mobile subscribers	*9,095,000*	*6,795,000*	*3,600,000*
Percentage of unbundled subscribers	95.60%	94.40%	93.60%

ARPU at end-June (in €)	2014	2013	2012
Broadband ARPU	**35.80**	**35.90**	**35.50**
Freebox Revolution ARPU	*>38.00*	*>38.00*	*>38.00*

(b) Revenues

In the first half of 2014 the Group's revenues topped the €2 billion mark for the first time in a six-month period and were up by nearly €200 million, or more than 10%, on first-half 2013. This robust year-on-year 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 first-half 2014 and first-half 2013 as well as the percentage change between the two periods.

In € millions	Six months to June 30, 2014	Six months to June 30, 2013	% change
Landline	**1,279.3**	**1,234.6**	**+3.6%**
Mobile	**745.7**	**600.8**	**+24.1%**
Intra-group sales	(5.4)	(6.0)	-10.0%
Total consolidated revenues	**2,019.6**	**1,829.4**	**+10.4%**

Landline revenues

Against a competitive backdrop and despite the negative impact of the rise in French VAT rates, the Group managed to keep up the growth momentum for its Landline business, whose revenues climbed nearly 4% year on year to €1,279 million. The main highlights of first-half 2014 for the Landline business were as follows:

- **The Group recruited 95,000 new broadband subscribers**, representing a net add market share of 24%. Despite a highly competitive environment characterized by significant promotional offers by other operators, the Group's market share held firm during the period, thanks to (i) the strong reputation of the Free brand, (ii) the quality and breadth of the Freebox Revolution offering, and (iii) Iliad's strong innovation capacity. At June 30, 2014, the Group had a total of 5,735,000 broadband subscribers.

- **Broadband ARPU remained at a high level, at €35.80.** In spite of the unfavorable effect of the VAT increase, the Group was able to keep its ARPU close to the €36 mark, at €35.80. This performance reflects (i) the success of the Freebox Revolution, whose ARPU is above €38, (ii) a limited use of promotional offers, and (iii) the positive impact of the FIFA World Cup on value-added audiovisual services.

Mobile revenues

The Group’s Mobile business delivered an excellent showing in first-half 2014, with more than 1 million net adds, representing a net add market share of over 65%. The Mobile business now accounts for almost 40% of total consolidated revenues and in the first six months of 2014 its revenue figure came to €746 million, primarily reflecting the following:

- **A commercial strategy focused on innovation and constantly-enriched offers.** During the first six months of 2014 the Group pursued its strategy of enriching its offerings by increasing the number of roaming destinations included in the Free Mobile Plan (adding the French West Indies and Guiana, Italy, Germany, the Netherlands, Poland, Austria, the Czech Republic and Romania). At the same time it continued to roll out its mobile phone installment payment and rental offers launched in December 2013. Although these new offers may weigh on short- and medium-term profitability they enable the Group to keep up its excellent sales momentum.

- **An excellent commercial performance.** During the first six months of 2014 the Group was once again France's leading recruiter of mobile subscribers, with over 1 million net adds. Thanks to this outstanding showing, at June 30, 2014 the Group topped the 9 million mark in terms of total mobile subscribers and had a market share of over 13%. Revenues generated by the Mobile business jumped 24% during the period to €746 million.

- **Higher sales of phones and a better subscriber mix within net adds.** In December 2013, the Group made it easier for subscribers to acquire a mobile phone, notably by offering a rental option and the possibility of paying for phones in installments. This initiative enabled the Group to increase its mobile phone sales in the first half of 2014 and to improve the subscriber mix within its net adds, even though the majority of new subscribers are still taking up the €2 plan.

- **Implementation of an innovative distribution strategy**, with the rollout of France's first self-service kiosks for mobile subscriptions that have an integrated SIM card dispenser. At June 30, 2014 the Group had already set up around 400 such kiosks in partnership with the Maison de la Presse and Mag Presse network.

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 €898 million, consolidated gross profit was €46 million higher than in first-half 2013, representing a year-on-year increase of 5%. As a percentage of revenues, however, it contracted by two percentage points to 44.5%, due to (i) the higher weighting within consolidated revenues of the Mobile business (which has a lower gross margin than the Landline business), and (ii) the adverse effect of the higher VAT rates that have been applicable in France since the beginning of 2014.

(d) Payroll costs

The Group created 199 jobs in France during the period, raising its total headcount to 7,080 at June 30, 2014. This increase mainly reflects the ongoing rollout programs for the Group's landline and mobile networks as well as the extension of its distribution network.

In view of these developments, payroll costs (excluding employee benefits and capitalized costs) rose to €102 million.

(e) External charges

The Group's external charges increased at the same pace as consolidated revenues, coming in at €114 million and representing an 11% rise on the first-half 2013 figure of €103 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 decreased by nearly 30% year on year to €17 million.

(g) Additions to provisions

Additions to provisions – which include provisions for bad debts, impairment of inventories and contingencies and charges – totaled €35 million in first-half 2014, down by more than 20% on the same period of 2013.

(h) Other income and expenses from operations, net

This item represented a net expense of €5 million versus net income of €3 million in first-half 2013.

(i) EBITDA

Consolidated EBITDA rose by nearly 7% year on year to €624 million. However, at 30.9%, EBITDA margin was more than one percentage point lower than in first-half 2013, due to the higher weighting within consolidated revenues of the Mobile business which has a lower EBITDA margin than the Landline business.

The main factors affecting EBITDA during the period were as follows:

- **Better mobile network coverage, partly offset by the effect of no longer being able to apply asymmetrical call termination charges.** Thanks to the Group's extension of its mobile network coverage in the first half of 2014 it was able to increase the volume of traffic carried directly on its own network. This positive effect was, however, partially offset by the end of asymmetrical call termination charges and the above-described enrichment of the Group's offers.

- **A firm level of EBITDA generated by the Landline business**, which enabled the Group to offset the impacts of both the rise in French VAT and the increase in certain taxes on revenues generated by Internet service providers.

- **Ongoing measures to optimize the Group's landline networks (unbundling, migration to VDSL2 technology and rollout of the FTTH network).** During first-half 2014, the Group pursued its measures to (i) extend its ADSL network and increase its unbundling rate to 95.60%, (ii) accelerate the migration of its network equipment to VDSL2 technology, and (iii) roll out its FTTH network. These measures were undertaken against a backdrop of rises in certain regulated prices during the period, particularly an increase in unbundling costs (rental of the copper pair) from €8.90 to €9.02 as from February 1, 2014.

- **Fixed cost advantages achieved due to the Group’s status as an integrated operator (landline/mobile).** The increase in the total number of subscribers during the period enabled the Group to achieve further economies of scale in terms of its fixed cost base (advertising costs, administrative costs, etc.).

(j) Profit from ordinary activities

Profit from ordinary activities amounted to €281 million, up slightly on the first-half 2013 figure as a result of the above-described rise in EBITDA.

Depreciation/amortization expense increased to €340 million, reflecting the beginning of depreciation/amortization for (i) network components that were brought into service during the period and (ii) the 4G license, following the December 2013 launch of the Group's 4G offers.

(k) Profit for the period

Profit for the period edged down 1% year on year, coming in at €140 million versus €142 million in the first six months of 2013. It should, however, be noted that the first-half 2014 figure includes the exceptional tax contribution that was introduced in France in October 2013 and which amounted to over €4 million for the Group.

1.3.2 Cash flows and capital expenditure

In € millions	Six months to June 30, 2014	Six months to June 30, 2013	% change
Consolidated cash flow	**614.9**	**599.3**	**+2.6%**
Change in working capital requirement	9.6	8.8	+9.1%
Operating Free Cash Flow	**624.5**	**608.1**	**+2.7%**
Net cash used in investing activities	(402.0)	(448.3)	-10.3%
Income tax paid	(105.6)	(70.7)	+49.4%
Other	(17.7)	(41.9)	-57.8%
Consolidated Free Cash Flow (excluding financing activities and dividends)	**99.2**	**47.2**	**+110.2%**
Free Cash Flow from ADSL operations	**371.9**	**291.4**	**+27.6%**
Dividends	(21.6)	(21.4)	+0.9%
Cash and cash equivalents at period-end	**224.2**	**306.9**	**-26.9%**

Consolidated Free Cash Flow

Consolidated Free Cash Flow totaled €99 million versus €47 million in first-half 2013. This year-on-year change mainly reflects the following:

- nearly €625 million in operating Free Cash Flow;
- the €10 million change in working capital requirement, stemming from a non-recurring item and improved payment times for certain suppliers, which helped offset the adverse effect on this item resulting from the Group's new offers for mobile phones (rental and payment installment options);
- the Group's ongoing capital expenditure drive, with total capital outlay exceeding €400 million, reflecting an increase in capital expenditure programs for the Mobile business and a slowdown in outlay related to growth in the Landline business's subscriber base (subscriber boxes, access fees, etc.);
- a further increase in Free Cash Flow from ADSL operations, to €372 million;

- €106 million in income tax paid.

Net change in cash and cash equivalents

The Group ended the first half of 2014 with €224 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:

- repayment of the €150 million drawn down on the syndicated credit facility;
- payment of the 2013 dividend amounting to €22 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, 2014, the Group had gross debt of €1,165 million and net debt of €934 million. The Group further strengthened its financial structure during the period and its leverage ratio at June 30, 2014 was once again well below the 1x mark at 0.75x. 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, 2014:

A €500 million short-term commercial paper program

During the first half of 2014 the Group used €190 million of its commercial paper program, representing a stable amount compared with that used during the equivalent period of 2013.

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.

None of the facility had been drawn down at June 30, 2014.

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 June 30, 2014.

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 – also repayable in installments and which matures in July 2022 – had likewise been fully drawn down at June 30, 2014.

At June 30, 2014 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 real estate assets required for its FTTH network rollout and (ii) a portion of the technical equipment in its data centers.

At June 30, 2014, the Group's total obligations under finance leases amounted to €94 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, 2014

At June 30, 2014, Iliad's share capital was made up of 58,369,954 ordinary shares, held by the following shareholders:

- Executive Management: 33,993,467 shares, representing 58.2% of the share capital.
- Public: 24,376,487 shares, representing 41.8% of the share capital.

At June 30, 2014, there were seven Iliad stock option plans in place with a total of 1,085,615 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 1,000 sites in the second half of 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

In late July 2014, Iliad put forward to T-Mobile US's Board of Directors an indicative USD 15 billion cash offer for a 56.6% stake in T-Mobile US, corresponding to USD 33.0 per share. This offer – which has the full support of Xavier Niel (Iliad's founder and majority shareholder) and was unanimously approved by Iliad's Board of Directors – is subject to a number of conditions, notably the results of a due diligence review that would be performed on T-Mobile US.

The offer was determined based on an overall valuation of USD 36.2 for each of the shares making up T-Mobile US's capital.

The acquisition would be financed through a combination of debt and equity and Iliad has the support of leading international banks for the debt component. The equity financing would amount to around €2 billion and Xavier Niel would invest in the corresponding share issue.

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.