Société anonyme. Share capital: €12,953,409

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

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1. ANALYSIS OF THE GROUP'S BUSINESS AND RESULTS

KEY CONSOLIDATED FINANCIAL DATA

In € millions	Year ended Dec. 31, 2014	Year ended Dec. 31, 2013	Year ended Dec. 31, 2012
INCOME STATEMENT			
Revenues	4,167.6	3,747.9	3,153.3
EBITDA	***1,283.6***	***1,204.2***	***921.4***
Profit from ordinary activities	569.5	540.9	411.7
Other operating income and expense, net	(3.6)	(3.9)	(6.4)
Operating profit	565.9	537.0	405.3
Finance costs, net	(63.8)	(59.4)	(56.8)
Other financial income and expense, net	(21.7)	(24.3)	(34.3)
Corporate income tax	(202.0)	(187.9)	(127.7)
Profit for the period	**278.4**	**265.4**	**186.5**
BALANCE SHEET			
Non-current assets	4,269.3	3,956.3	3,924.4
Current assets	744.6	780.5	772.6
Of which cash and cash equivalents	*137.4*	*318.1*	*384.2*
Assets held for sale	34.4	39.5	50.0
Total assets	**5,048.3**	**4,776.3**	**4,747.0**
Total equity	2,310.4	2,013.6	1,726.7
Non-current liabilities	1,209.1	1,400.2	1,679.8
Current liabilities	1,528.8	1,362.5	1,340.5
Total equity and liabilities	**5,048.3**	**4,776.3**	**4,747.0**
CASH FLOWS			
Cash flows from operations	1,236.5	1,226.2	987.2
Net cash used in investing activities	(968.3)	(905.5)	(945.2)
Net change in cash and cash equivalents (excluding financing activities and dividends)	(37.2)	84.2	(38.0)
Dividends	(21.7)	(21.5)	(21.2)
Cash and cash equivalents at year-end	132.3	315.1	382.6

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 first launched its mobile offerings, the Group has become an integrated operator present in both the broadband and mobile segments. The Group's success in these two markets has been built on three fundamentals – attractive prices, excellent service quality and technological innovation.

By December 31, 2014, just three years after it entered the mobile market, the Group had become the third largest telecom operator in France, with around 16 million subscribers, of which more than 10 million mobile subscribers and almost 5.9 million broadband subscribers. At that date it had market shares of 23% for broadband and 15% for mobile.

The Group has experienced very strong growth over the past decade, and in 2014 its annual consolidated revenues topped €4 billion for the first time, compared with €0.5 billion ten years before. In addition, it has developed a highly efficient business model which has enabled it to be extremely profitable (with EBITDA of €1.3 billion in 2014) and to have a solid financial structure as it is one of the European telecom operators with the least amount of debt (leverage ratio of 0.84x at end-2014).

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 covered 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 calls through their modem to landline numbers in Metropolitan France (apart from short numbers and special numbers), as well as to 60 or 108 landline destinations outside Metropolitan France depending on the terms of their package. Additionally, certain of the Group's offers include free calls or packaged deals for calls to mobile numbers in Metropolitan France.

- **Free proposes the largest 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), including some 100 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 Metropolitan France. It incorporates state-of-the-art technologies including 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 Metropolitan France and to French overseas departments (*départements d'outre-mer* – DOM), as well as to 100 landline destinations outside Metropolitan France and to mobiles in the United States (including Alaska and Hawaii), Canada, French overseas departments and China, plus unlimited SMS/MMS messages in Metropolitan 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 as well as 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 Metropolitan 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 per destination, when they are in the French West Indies, Guiana or Israel as well as in around a dozen European countries.

In tandem, the Group offers a selection of the latest mobile phones on the market, including top-of-the-range Apple, Samsung and Nokia 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. Several different solutions are available for subscribers who choose to obtain their phone from Free:

- purchasing a phone and paying for it upfront;
- purchasing a phone and spreading the installments (four interest-free installments or 24 installments, depending on the model);
- renting a phone: subscribers can rent high-end smartphones for 24 months. Depending on the type of phone chosen, the subscriber makes an initial payment of between €9 and €99 and then pays a monthly rental fee of between €9 and €18 (again, depending on the phone) over a period of 24 months. At the end of the 24-month period subscribers can return their phone and get a latest-generation phone under a new rental agreement, or can extend the rental period of their existing phone.

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

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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 set out in the basic incumbent operator unbundling offer, were as follows at December 31, 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.

Access costs

- The respective monthly fees for the "DSL Access" and "DSL Access Only" services are €4.39 and €12.41 (since April 1, 2014).

IP transit service costs

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 2014 were as follows:

- Usage fee per Mbps: €7.00
- Access fees: €5.05

Option 1 gross margin and EBITDA margin are therefore significantly higher than Option 5 margins. The Group's objective is therefore to maximize the proportion of Option 1 subscribers or, where technically feasible, by directly offering Option 1 to new subscribers living in an area where the local loop has been unbundled.

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

- **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 2014 compared with 1.1 euro cents and 0.8 cents in the first and second halves of 2013 respectively.

(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. The 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 has been amended since it was first signed – 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.

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 Free plan (or €15.99 for Freebox subscribers), notably by migrating subscribers on the €2 plan (or €0 for Freebox subscribers) to the €19.99/€15.99 plan. Achieving this objective should be helped by the fact that people are increasingly using mobile Internet on a daily basis.

1.1.3 Capital expenditure and depreciation

(a) Broadband

(i) Transmission network and unbundling the local loop

Having laid some 80,000 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. In 2014 the Group continued to extend its coverage by opening around 1,600 new subscriber connection nodes, which brought the total number of unbundled subscriber connection nodes to 6,682 at the year-end and gave Free a network coverage rate of over 87% of the French population.

In line with its pioneering image, in the second half of 2013 the Group launched a large-scale plan for migrating its network equipment (Freebox DSLAMs) to VDSL2 technology. During 2014 the Group stepped up its drive to complete this equipment migration plan, which is aimed at offering a maximum number of subscribers faster Internet speeds.

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 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.

There are two distinct geographic rollout zones, each subject to different deployment processes:

- **Very densely populated areas.** At December 31, 2014, the Group had 230 sites (optical nodes) in very densely populated areas, representing potential coverage of around 3.4 million FTTH plugs. During 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 Orange'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 2014, the Group stepped up its participation in co-financing the FTTH network in non-densely populated areas by undertaking to co-finance the rollout in an additional 20 urban areas, representing 0.4 million homes. At the year-end the Group had given network co-financing commitments covering more than 4.5 million homes in these areas, which 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 in 2010, 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 (seeking out sites, undertaking discussions with all types of lessors, carrying out administrative and regulatory procedures, performing installation works and ensuring compliance with the related safety rules, monitoring the operation and maintenance of radio equipment at sites where it has been installed).

In line with its objectives, the Group intensified the pace of its mobile network rollout process in 2014, with some 1,900 new sites deployed during the year, including 1,300 in the second half. At December 31, 2014 the Group had a total of 4,428 sites in service, giving it a direct 3G mobile coverage rate of 75% of the French population (thus meeting the requirements under its license).

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. Although the Group's priority in 2014 was to deploy and open 3G sites, it was also able to activate almost 1,300 new sites to 4G during the year, raising its total number of 4G sites in service to 2,099 by the year-end and its 4G coverage rate to almost 40% of the French population.

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

In the coming years, the Group will keep up a sustained pace for its mobile network rollout process. In 2015, it intends to (i) focus its deployment efforts on densely populated areas, with more than 1,500 new sites planned for the year in order to maximize the volume of traffic carried directly on its own network, and (ii) accelerate the conversion of existing sites to 4G in order to achieve a coverage rate of around 60% of the French population by the year-end.

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: 90% of the French population covered by 2018.

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

In addition, in December 2014 ARCEP (the French telecommunications regulatory agency) issued Free Mobile a license to use 5 MHz duplex in the 1800 MHz frequency band.

The depreciation/amortization periods applied for the main assets brought into service in 2014 are as follows:

- Licenses: 18 years
- General equipment: 10 years
- Mobile technical equipment: 6 to 18 years
- Other equipment: 3 to 5 years
- Other assets: 2 to 10 years

(d) Rollout of the distribution network: stores and dispensers

During 2014 the Group significantly strengthened its physical presence in France by:

- opening nine new stores, raising the total number of Free Centers to 43 at end-December 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 store network. At December 31, 2014, the Group had already set up around 1,000 such kiosks across France.

1.2 SIGNIFICANT EVENTS OF THE YEAR

In € millions	**2014**	**2013**	**% change**
Consolidated revenues	**4,167.6**	**3,747.9**	**+11.2%**
- *Landline*	2,564.2	2,497.5	+2.7%
- *Mobile*	1,614.3	1,261.3	+28.0%
- *Intra-group sales*	(10.9)	(10.9)	0.0%
Consolidated EBITDA	**1,283.6**	**1,204.2**	**+6.6%**
Profit from ordinary activities	**569.5**	**540.9**	**+5.3%**
Profit for the period	**278.4**	**265.4**	**+4.9%**
Free Cash Flow from ADSL operations	**736.7**	**636.0**	**+15.8%**
Leverage ratio	**0.84x**	**0.85x**	**-1.2%**

In 2014 the Group saw continued rapid growth and for the first time in its history its annual revenues topped €4 billion – a year ahead of its initial target – representing an increase of more than 11% compared with 2013. The number of new subscribers was also very high during the year, with over 2.2 million additional subscribers signing up for the Group's landline and mobile offerings.

The most significant events of 2014 were as follows:

- **Landline business: 228,000 net adds** for landline broadband offerings, representing a net add market share of 26%. This performance was particularly impressive given the fiercely competitive environment throughout the year, with aggressive marketing and pricing strategies from the Group's competitors. Despite this competition and the extremely negative impact of the VAT rise in France in 2014, the Group managed to keep its ARPU above €35, which drove a near-3% increase in its landline revenues to €2.6 billion.

- **Mobile business: 15% market share achieved in just three years**. In 2014 the Group was once again France's leading recruiter of mobile subscribers, with over two million net adds during the year, particularly thanks to (i) its enriched offerings (with a dozen new roaming destinations included in the Free Mobile Plan), and (ii) its innovation capacity (with the rollout and success of the solutions launched in December 2013 for mobile handsets, including payments in installments and a rental offering, as well as the introduction of France's first self-service subscription kiosks with integrated SIM-card dispensers). By the year-end the total number of mobile subscribers had topped 10 million and the Group had a market share of 15%, which means that it has already achieved its initial long-term target for the Mobile business just three years after its first offerings were launched. Revenues generated by the Mobile business jumped 28% year on year to more than €1.6 billion.

- **An excellent 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 €1,284 million in 2014. Furthermore, at €278 million, profit for the period was up nearly 5% on 2013 despite an increase in depreciation charges (notably due to the Group's launch of 4G services) and a higher corporate income tax rate.

- **A capital expenditure strategy backed by a solid financial structure.** The Group's robust generation of Free Cash Flow (FCF) from ADSL operations (€737 million versus €636 million in 2013) enabled it to pursue its pro-active capital expenditure strategy, with the rollout of some 1,900 new 3G sites, the opening of around 1,300 4G sites, and an acceleration of the migration of its landline network to VDSL2 and FTTH technologies. During 2014 the Group's capital spending totaled €968 million (versus €906 million in 2013). Despite this outlay, its financial structure remained strong, with a leverage ratio of 0.84x at December 31, 2014.

1.3 COMPARISON OF RESULTS FOR 2014 AND 2013

In € millions	2014	2013	% change
Revenues	**4,167.6**	**3,747.9**	**+11.2%**
Purchases used in production	(2,323.1)	(2,023.0)	+14.8%
Gross profit	**1,844.6**	**1,724.9**	**+6.9%**
as a % of revenues	***44.3%***	***46.0%***	
Payroll costs	(208.5)	(197.9)	+5.4%
External charges	(244.1)	(210.1)	+16.2%
Taxes other than on income	(40.8)	(37.5)	+8.8%
Additions to provisions	(63.4)	(81.0)	-21.7%
Other income and expenses from operations, net	(4.1)	5.8	
EBITDA	**1,283.6**	**1,204.2**	**+6.6%**
as a % of revenues	***30.8%***	***32.1%***	
Share-based payment expense	(5.6)	(7.8)	-28.2%
Depreciation, amortization and provisions for impairment of non-current assets	(708.5)	(655.5)	+8.1%
Profit from ordinary activities	**569.5**	**540.9**	**+5.3%**
Other operating income and expense, net	(3.6)	(3.9)	-7.7%
OPERATING PROFIT	**565.9**	**537.0**	**+5.4%**
Finance costs, net	(63.8)	(59.4)	+7.4%
Other financial income and expense, net	(21.7)	(24.3)	-10.7%
Corporate income tax	(202.0)	(187.9)	+7.5%
PROFIT FOR THE PERIOD	**278.4**	**265.4**	**+4.9%**

1.3.1 Analysis of consolidated results

(a) Key indicators

	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012
Total number of subscribers:	**15,973,000**	**13,680,000**	**10,569,000**
Broadband subscribers	*5,868,000*	*5,640,000*	*5,364,000*
Mobile subscribers	*10,105,000*	*8,040,000*	*5,205,000*
Percentage of unbundled subscribers	96.40%	94.80%	94.10%

ARPU at end-December (in €)	2014	2013	2012
Broadband ARPU	**35.10**	**36.00**	**36.00**
Freebox Revolution ARPU	*>38.00*	*>38.00*	*>38.00*

(b) Revenues

In 2014 the Group's annual revenues topped the €4 billion mark for the first time and were up by more than €400 million (over 11%) on 2013. 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 2014 and 2013 as well as the percentage change between the two years.

In € millions	2014	2013	% change
Landline	**2,564.2**	**2,497.5**	**+2.7%**
Mobile	**1,614.3**	**1,261.3**	**+28.0%**
Intra-group sales	(10.9)	(10.9)	0.0%
Total consolidated revenues	**4,167.6**	**3,747.9**	**+11.2%**

Landline revenues

Against a fiercely 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 3% year on year to €2,564 million. The significant events of 2014 for the Mobile business were as follows:

- **The Group recruited 228,000 new broadband subscribers**, representing a net add market share of 26%. Despite a highly competitive environment characterized by numerous promotional offers by other operators, the Group's market share held firm during the year, thanks to (i) the strong reputation of the Free brand, (ii) the major efforts undertaken in recent years to improve the quality of subscriber service, (iii) Iliad's strong innovation capacity, and (iv) the use of one-off online offers (representing around 10% of the total subscribers recruited over the year). At December 31, 2014, the Group had 5,868,000 broadband subscribers.

- **Broadband ARPU slightly decreased to €35.10.** In spite of the adverse effect of the VAT increase and intense competition, the Group was able to keep its ARPU above €35.00, at €35.10. This performance reflects the success of the Freebox Revolution, whose ARPU stayed above €38.

Mobile revenues

The Group's Mobile business delivered an excellent showing in 2014, with more than two million net adds as two new subscribers out of three chose Free Mobile. The Mobile business now accounts for almost 40% of total consolidated revenues and in 2014 its revenue figure came to €1,614 million. The significant events of 2014 for the Mobile business were as follows:

- **A commercial strategy focused on innovation and constantly-enriched offers.** During 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, Portugal, Austria, the Czech Republic, Romania, Greece, the United Kingdom, Spain, Belgium and Israel). Although these new offers may weigh on short- and medium-term profitability they enable the Group to keep up its excellent sales momentum by making the Free offering unique in the market.

- **Implementation of an innovative commercial distribution strategy**, with the rollout of France's first self-service kiosks for mobile subscriptions that have an integrated SIM card dispenser. At December 31, 2014 the Group had already set up around 1,000 such kiosks in partnership with the Maison de la Presse and Mag Presse store network.

- **15% market share**. In 2014 the Group was once again France's leading recruiter of mobile subscribers, with over two million net adds. By the year-end the total number of mobile subscribers had topped 10 million and the Group had a market share of 15%, which means that it has already achieved its initial long-term target for the Mobile business just three years after its first offerings were launched. Revenues generated by the Mobile business jumped 28% year on year to more than €1.6 billion.

- **Successful phone rental offerings 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 proposing a rental option and the possibility of paying for phones in installments. The success of the phone rental offerings (which accounted for almost 50% of revenues generated from handsets), combined with excellent sales of phones in the last quarter of the year – fuelled by the launch of the iPhone 6 – drove a sharp increase in revenue from handsets and improved the subscriber mix within net adds, even though the majority of new subscribers are still taking up the €2 plan.

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 €1,845 million, consolidated gross profit was €120 million higher than in 2013, representing a year-on-year increase of 7%.

As a percentage of revenues, however, it contracted by almost two percentage points to 44.3%, 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 in France.

(d) Payroll costs

The Group created 318 direct jobs in France in 2014 (permanent contracts), raising its total headcount to 7,164 by December 31, 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 €209 million during the year.

(e) External charges

The Group's external charges were up by €34 million to €244 million. This item mainly includes network costs (maintenance, rental of mobile sites etc.) and the costs of equipment hosting, insurance, advertising and sub-contracting. The year-on-year rise chiefly reflects the increase in the number of mobile sites in service in 2014.

(f) Taxes other than on income

Taxes other than on income rose by 9% to €41 million.

(g) Additions to provisions

Additions to provisions – which include provisions for bad debts, impairment of inventories and contingencies and charges – totaled €63 million in 2014, down €19 million on 2013.

(h) Other income and expenses from operations, net

This item represented a net expense of €4 million in 2014 versus net income of €6 million in 2013.

(i) EBITDA

Consolidated EBITDA rose by nearly 7% year on year to €1,284 million. The EBITDA margin narrowed by more than one point, however, coming in at 30.8%, 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 year were as follows:

- **Better mobile network coverage, partly offset by the effect of no longer being able to apply asymmetrical call termination charges and the enrichment of the Group's offers.** Thanks to the Group's extension of its mobile network coverage in 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, notably those that include roaming services in Europe.

- **Ongoing measures to optimize the Group's landline networks (unbundling, migration to VDSL2 technology and rollout of the FTTH network).** During 2014, the Group pursued its measures to (i) extend its ADSL network and increase its unbundling rate to 96.40%, (ii) complete the migration of its network equipment to VDSL2 technology, and (iii) deploy its FTTH network. Thanks to the Group's ongoing drive to roll out its landline networks it was able to maintain a very solid EBITDA margin for its Landline business despite the effects of (i) the rises introduced in France for VAT and certain sales taxes specific to Internet service providers, and (ii) higher regulated prices during the year, particularly an increase in unbundling costs 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 year 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 €570 million, up slightly on the 2013 figure.

Depreciation/amortization expense increased to €709 million, reflecting the beginning of depreciation/amortization for (i) network components brought into service during the year and (ii) the 4G license, following the December 2013 launch of the Group's 4G offers. As a percentage of revenues, however, depreciation/amortization was nearly 0.5 of a point lower than in 2013, representing 17%.

(k) Profit for the period

Profit for the period climbed nearly 5% year on year to €278 million from €265 million in 2013.

1.3.2 Cash flows and capital expenditure

In € millions	2014	2013	% change
Consolidated cash flows from operations	**1,236.5**	**1,226.2**	**+0.8%**
Change in working capital requirement	(72.1)	(23.2)	+210.8%
Operating Free Cash Flow	**1,164.4**	**1,203.0**	**-3.2%**
Net cash used in investing activities	(968.3)	(905.5)	+6.9%
Income tax paid	(203.4)	(161.7)	+25.8%
Other	(29.9)	(51.6)	-42.1%
Consolidated Free Cash Flow (excluding financing activities and dividends)	**(37.2)**	**84.2**	**-144.2%**
Free Cash Flow from ADSL operations	**736.7**	**636.0**	**+15.8%**
Dividends	(21.7)	(21.5)	+0.9%
Cash and cash equivalents at year-end	**132.3**	**315.1**	**-58.0%**

Consolidated Free Cash Flow

Consolidated Free Cash Flow was slightly negative in 2014 versus a positive €84 million in 2013. The year-on-year change in Consolidated Free Cash Flow reflects the following:

- €1,237 million in consolidated cash flows from operations;
- a sharply positive change in working capital requirement (down €72 million), due in particular to the success of new offers for handsets (rental option and the possibility of paying in installments) which had the effect of reducing working capital requirement;
- an increase in the Group's capital expenditure, with total net cash used in investing activities amounting to €968 million, primarily as a result of the faster pace of rollout programs for the mobile network;
- a record level of Free Cash Flow from ADSL operations, which reached €737 million;
- €203 million in income tax paid.

Net change in cash and cash equivalents

The Group ended 2014 with €132 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 repayment of the €150 million drawn down on the syndicated credit facility;
- the 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 December 31, 2014, the Group had gross debt of €1,221 million and net debt of €1,084 million. The Group maintained its solid financial structure during the year and its leverage ratio at December 31, 2014 was once again well below the 1x mark at 0.84x. 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, 2014:

A €500 million short-term commercial paper program

At December 31, 2014 this program had been used to issue €249 million worth of commercial paper.

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 December 31, 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. The loan is repayable in installments with a final maturity in July 2020. This loan had been fully drawn down at December 31, 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. The loan – also repayable in installments and which matures in July 2022 – had likewise been fully drawn down at December 31, 2014.

At December 31, 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 premises required to roll out its FTTH network and (ii) a portion of the technical equipment in its datacenters.

At December 31, 2014, the Group's total obligations under finance leases amounted to €90 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, 2014

At December 31, 2014, Iliad's share capital was made up of 58,453,935 ordinary shares, held by the following shareholders:

- Executive Management: 33,980,202 shares, representing 58.1% of the share capital.
- Public: 24,473,733 shares, representing 41.9% of the share capital.

At December 31, 2014, there were six Iliad stock option plans in place with a total of 984,334 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 FTTH rollouts and step up the pace of net subscriber adds.

- Mobile business:
  - Deploy more than 1,500 sites in 2015.
  - Reach a 4G coverage rate of around 60% of the French population by end-2015.
  - Achieve a 25% market share in the long term.

- Group:
  - Achieve more than 10% growth in consolidated EBITDA in 2015.
  - Achieve consolidated EBITDA margin of over 40% by the end of the decade.

1.4.2 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, VDSL 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, VDSL or FTTH offerings through a telephone exchange unbundled by Free.