

# 1H 2016 Strategy & Results Presentation

August 31, 2016

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## 1H 2016 Highlights

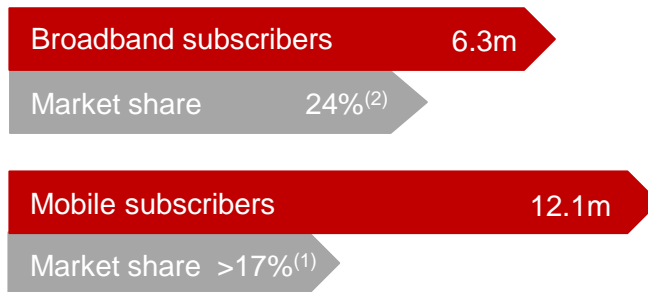
# 1H 2016 Highlights



OPERATIONAL  
KPIs



**Alternative Broadband Operator**



FINANCIAL  
KPIs



## 4G

- c.40% of subscriber base in 4G
- 3.9GB data usage / month / subscriber
- 69% population coverage
- Improving subscriber mix

## FTTH

- >600k new connectible sockets
- Total footprint of nearly 3.1m connectible sockets
- Launch of commercial offerings in medium populated areas

Service revenues +7.3%

Mobile service revenues +14%

EBITDA +11.5%

EBITDA margin +1.6pp

**Robust financial results and operational momentum backed by strong capex  
Iliad is the leading alternative Broadband operator in France**

<sup>(1)</sup> Mobile market in Metropolitan France excl. M2M

<sup>(2)</sup> Company estimate

# Robust Strategy Driving Performance

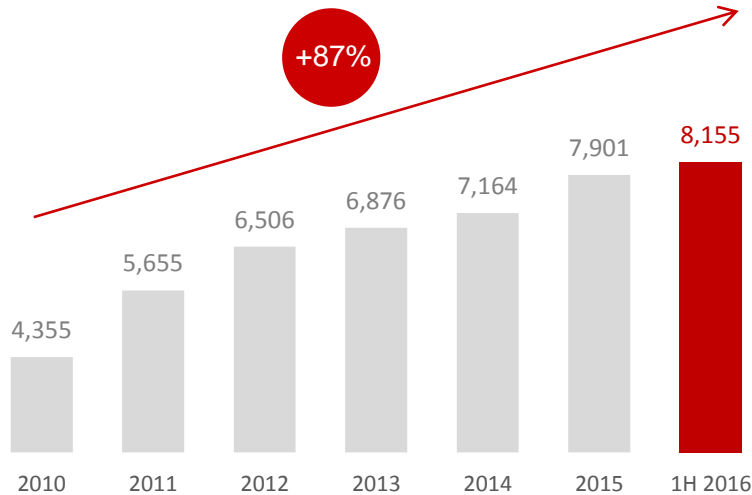


Subscriber KPIs	June 2015	Dec. 2015	June 2016
- Broadband	5,991,000	6,138,000	6,261,000
<i>FTTH subscribers</i>	-	<i>c.200,000</i>	<i>c.250,000</i>
- Mobile	10,925,000	11,685,000	12,080,000
4G	2.4m	3.7m	4.7m
<i>Average 4G data usage</i>	<i>2.2 GB/month</i>	<i>3.2 GB/month</i>	<i>3.9 GB/month</i>
Total number of subscribers	16,916,000	17,823,000	18,341,000

## Other Broadband KPIs (end of period)

Broadband ARPU (incl. promos)	€34.50	€34.50	€33.90
<i>Freebox Revolution ARPU (excl. promos)</i>	<i>&gt; €38.00</i>	<i>&gt; €38.00</i>	<i>&gt; €38.00</i>
FTTH connectible sockets	-	2.5m	3.1m

## Growth in staff numbers since launch of mobile project



### Iliad has been one of France's leading recruiters in recent years

- The Group employed more than 8k people as of June 2016
- Since 2012, the total number of people working within the Group has increased by 87%, with 4k new employees since the launch of our mobile business
- Strong dynamic in terms of human resources and capex, particularly for the FTTH and mobile rollouts and customer care
- The Group plans to continue to hire in line with the growth in its broadband and mobile activities and the rollout of next generation networks

**Iliad is the only French telco whose headcount has grown over recent years, reflecting the increase in its subscriber base and its network rollout drive**

# New Disruptive Communication Campaign



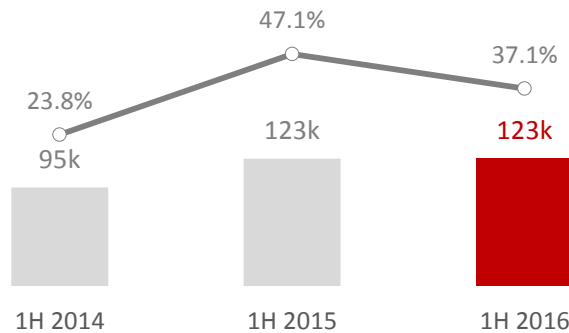
- Free goes back to basics with a new TV advertising campaign for its mobile services, which uses humor to showcase the significant advantages of Free's offers: international roaming, generous data volumes and low prices
- A new slogan that summarizes Free's DNA: *"Always giving you more for the same price"*
- Very good feedback from the press and social media

**Iliad once again ranked in the top 50 most innovative company in the world and 2<sup>nd</sup> in France by Forbes**

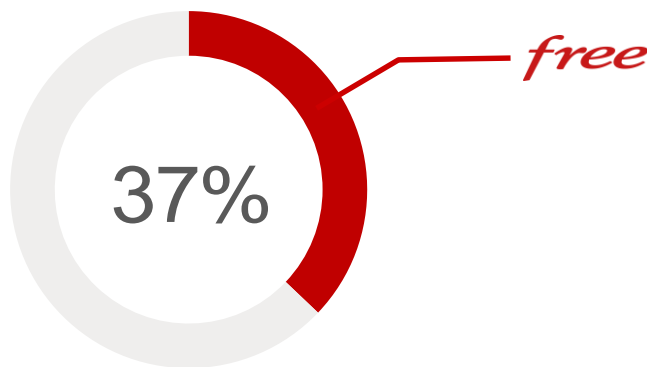
# Broadband Business



## Change in net adds market share since 1H 2014



## Iliad 1H 2016 net adds market share<sup>(1)</sup>



### Strong performance in a dynamic & competitive market

- Net adds up on 1H 2014 and stable compared with the same period of 2015
- Competitive environment in 1H 2016, with a high level of promotions
- Net adds market share higher than the Group's market share, at 37.1%<sup>(1)</sup>
- Free is the only French operator to provide its subscribers with no box rental fee on top

**Strong momentum in a dynamic market and winning new market share**

<sup>(1)</sup> Company estimate

# Freebox: New Channels / New Destinations

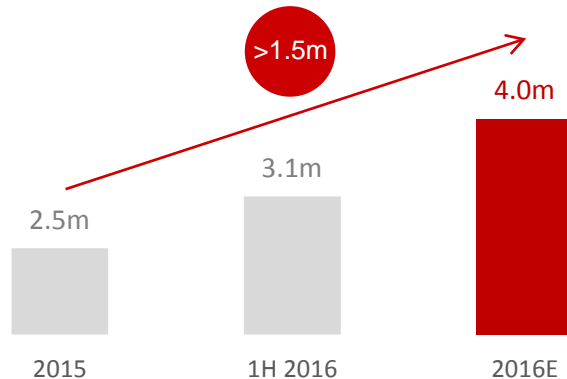


- No.1 for total number of channels offered: over 500
- No.1 for total number of High Definition (HD) channels: over 170 / new HD channels included
- No.1 for total number of Replay channels (catch-up TV): 70 channels / new Replay channels included
- Strong premium offers: Canal+, Canal+ Infinity, OCS, Beln...

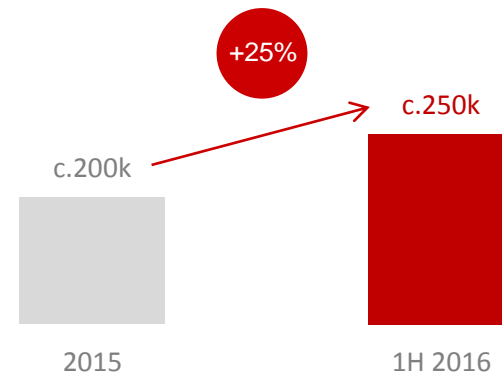
- No.1 for total number of foreign channels: over 235 / new foreign channels included
- New local channels
- More inclusive landline destinations: over 110 / new destinations included

# Strong Step-Up in FTTH Rollout

### FTTH connectible sockets



### Growth in FTTH subscriber base evolution



**More than 600k new connectible sockets opened in 1H 2016**

**Acceleration in FTTH rollout in very densely populated areas**

- New EPON architecture in very densely populated areas to accelerate the rollout

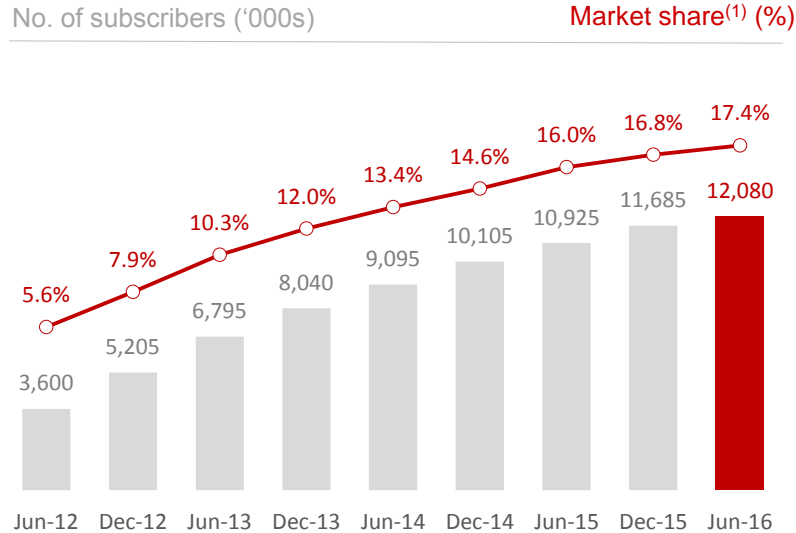
**Rising coverage in medium populated areas**

- Positive momentum in net adds

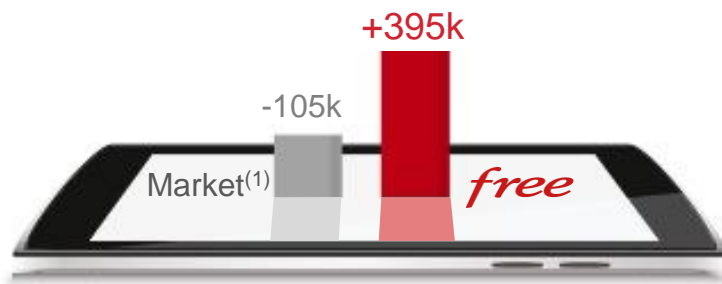
**Growing investment delivering results, Iliad is on track to achieve its targets**

# Mobile Business

# Undisputed Leadership for Subscriber Recruitments



## 1H 2016 net adds



### More than 17% market share at end-June 2016, with 12.1m subscribers

- Leading recruiter since launch in January 2012
- Outperforming the market – 395k net adds
- On track to achieve our long-term market share target of 25%

### Positive changes in the subscriber mix

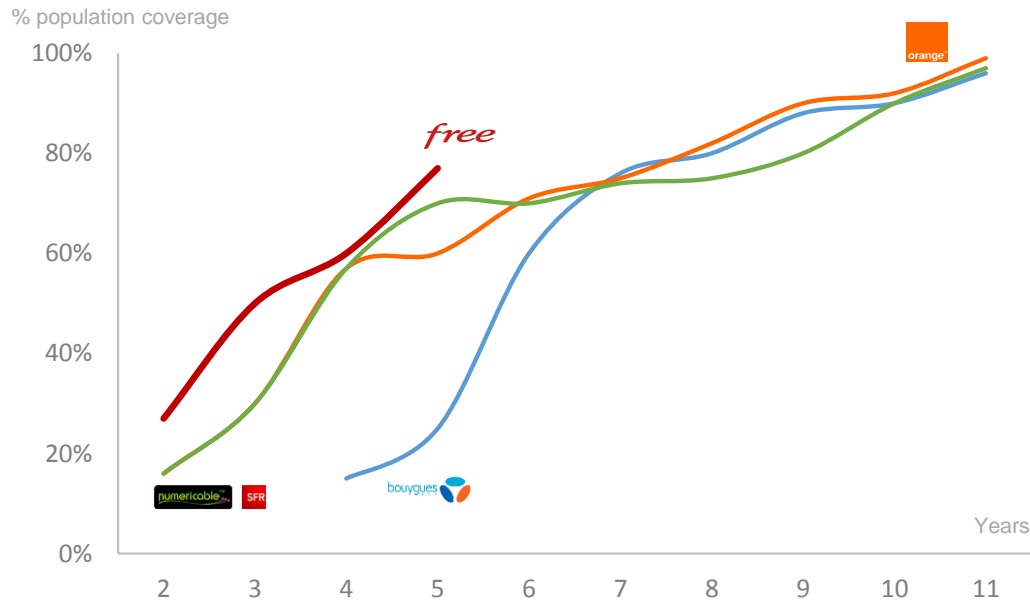
- Recruitment level for the €19.99 plan at a record high in 1H 2016
- Continued trend of subscribers moving up from the €2 plan to the €19.99 plan in 1H 2016

## Improved subscriber mix driving up margins and profitability

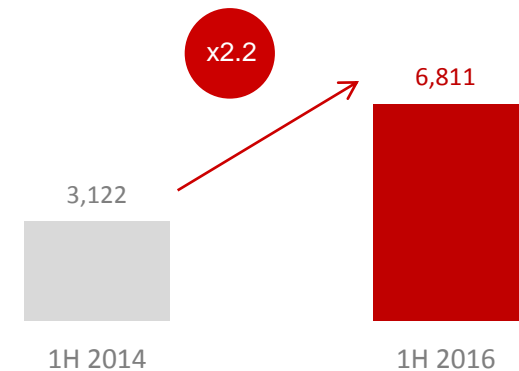
<sup>(1)</sup> Total subscribers excl. overseas and M2M  
Source: Operators & ARCEP

# Free Mobile's Population Coverage Path Faster than Competitors

French MNO's % population coverage timeframe



No. of 3G Free Mobile sites

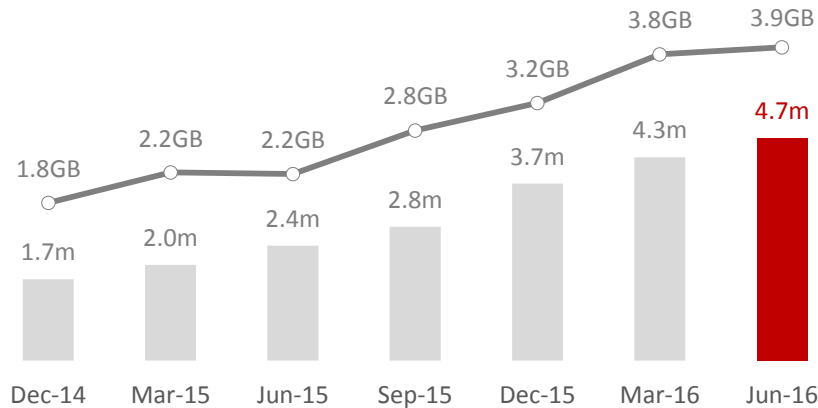


- According to ARCEP's data, Free Mobile's 3G population coverage path is faster than its competitors 10 years ago
- Free Mobile signed an agreement with Orange in June 2016 to extend their roaming agreement until the end of 2020 and providing for Free Mobile to gradually stop using the Orange network for national roaming
- Iliad is the only French MNO that has always met its coverage obligations
- With 3G population coverage of more than 85%, Free Mobile on track to reach its 90% population coverage obligation by January 2018

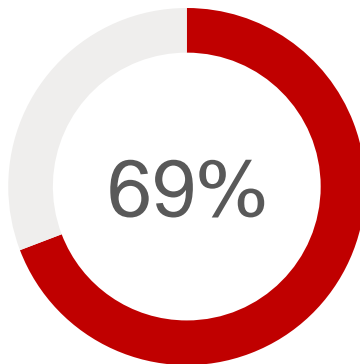
# Efficient 4G Deployment

No. of 4G subscribers (m)

Average monthly data usage (GB)



## 4G population coverage as of end-June 2016



6.6k  
4G sites

### Results of intensive 4G rollout drive over the past several quarters seen in 4G subscriber base

- 4.7m 4G subscribers as of end-June 2016 (x2 year-to-date), with average monthly data usage of 3.9GB (+77% YoY)
- Nearly 3,000 new 4G sites deployed over the last 12 months
- Sites upgraded to 1,800 MHz technology, boosting 4G speeds
- First 700 MHz-ready sites tested in Tarbes area

### Increase in 4G population coverage

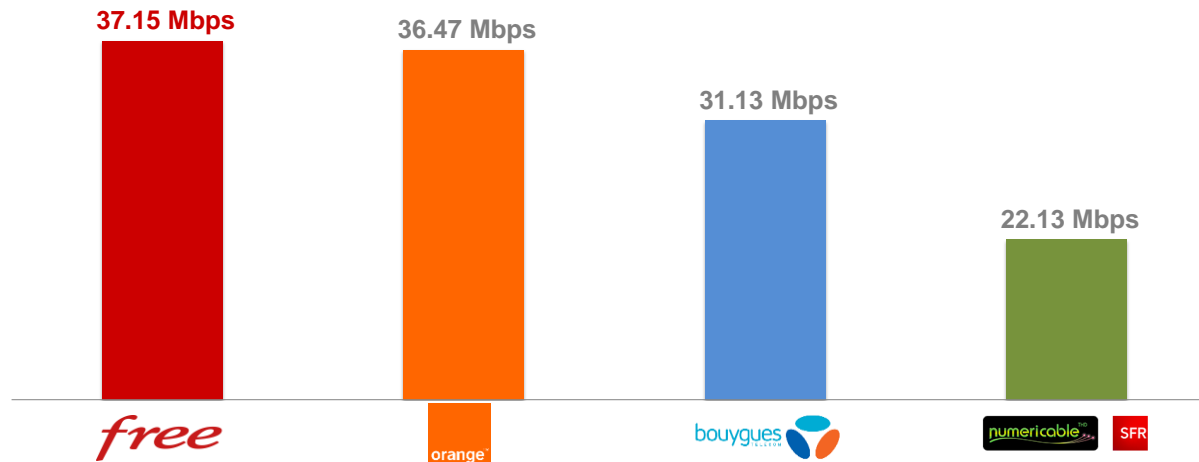
- 69% population coverage as of end-June 2016
- +18 pp compared to end-June 2015
- On track to overtake our 75% population coverage target at end-2016

**Strong 4G frequencies portfolio with 45 MHz (duplex) dedicated to 4G**

# Delivering Best-in-Class 4G Speeds

- Leading 4G speeds for 4 quarters in a row: Free no.1 for best 4G average download bitrates

2Q 2016 average **Download** bitrates <sup>(1)</sup>



- New 4G speed record on Free Mobile network: 304.11 Mbps (download bitrate) / 40.75 Mbps (upload bitrate), thanks to 700 MHz spectrum



<sup>(1)</sup> nPerf barometer of mobile internet connections in Metropolitan France – 2Q 2016



## Focus on the Italian Project

# Italy: A Full Set of Remedies to Create a 4<sup>th</sup> MNO

## Complete Structural Assets

### Balanced set of frequencies

- A total spectrum portfolio of 2x35 MHz
  - 2x5 MHz in 900 MHz
  - 2x10 MHz in 1,800 MHz
  - 2x10 MHz in 2,100 MHz
  - 2x10 MHz in 2,600 MHz
- Spectrum gradually released until the end of 2019

### Sites (for c.75% pop.)

- Several thousand sites offered by the merging entities
- Covering c.75% of the population
- Sites gradually released

### RAN Sharing (for c.25% pop.)

- RAN sharing proposed for the remaining c.25% of the population
- RAN sharing option available for several thousand sites to complete the coverage in rural areas



## Temporary MOCN<sup>(1)</sup> & Roaming Solution

### An MOCN technical solution

- MOCN: A smooth and optimum technical solution
- Nationwide 3G & 4G services provided allowing a quick commercial launch
- A door-to-door maturity of 10 years (5 + 5 years)

### 2G Roaming

- As Iliad will not hold any 2G spectrum it will have access to a nationwide 2G roaming service
- All of the transferred frequencies will therefore be dedicated to 3G & 4G services

**Iliad signed an agreement in July 2016 with Hutchison and VimpelCom to acquire the assets making up the remedy package submitted for the EC's review process of the merger between Tre and Wind**

<sup>(1)</sup> Multi-Operator Core Network

# Italy: A Unique Opportunity to Enter an Attractive Market

## A very attractive market

- World's 8<sup>th</sup>-largest economy with a total Telecom market representing c.€30bn in revenues
- Highly-penetrated market, with a penetration rate of more than 140%, mostly prepaid (79%)

## 4G pricing structure offering an opportunity

- Main Italian operators have good 4G coverage (more than 90%) but a very low proportion of 4G subscribers: 19% for TIM vs. 33% on average for Western European countries (as of end-2015)
- 20GB 4G data plan for smartphone is worth €40 per month on average, whereas in France Free offers 50GB for €19.99 per month

								Average
2015 mobile services revenues	€15.1bn	€17.8bn	€14.2bn	€12.8bn	€2.2bn <sup>(1)</sup>	€9.0bn <sup>(2)</sup>	€1.5bn	€72.6bn
Population	64.1m	80.9m	66.6m	61.9m	10.8m	48.1m	10.8m	343.1m
€/pop/month	€19.7	€18.3	€17.8	€17.2	€17.0	€15.6	€11.3	€17.6

## Italy in line with France when comparing the average monthly mobile expenditure per inhabitant

- Italy and France are far ahead of other Mediterranean countries, where mobile telecom operators are still profitable
- The average monthly expenditure per inhabitant in Italy is close to the European average

<sup>(1)</sup> 2014 data for Greece

<sup>(2)</sup> Yoigo financials for Spain converted into euros based on SEK/EUR exchange rate of 0.10743 as the average rate observed in 2015

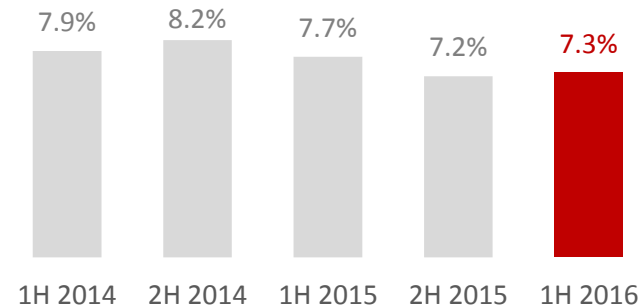
Sources: Arcep, Ofcom, EETT, Anacom, Companies, CIA World Factbook

# Financial Performance

# An Even Stronger Financial Performance



Growth in Group services revenues (1H 2014 – 1H 2016)

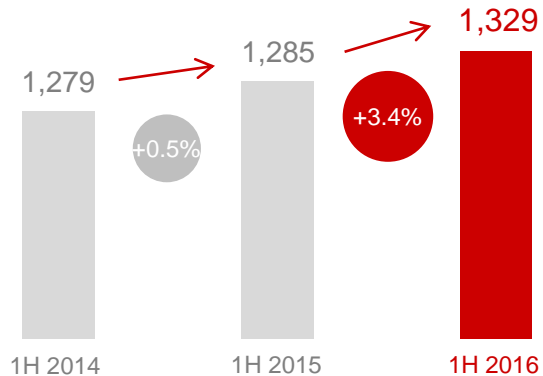


**Leading to growth in key indicators**

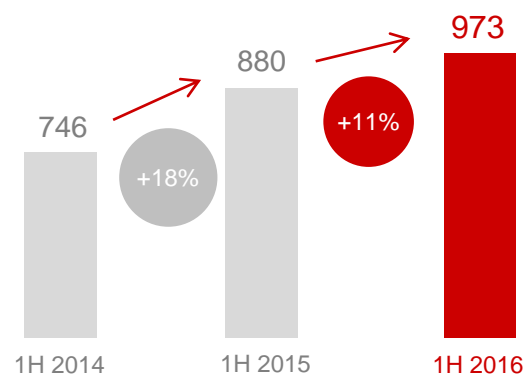
\*Excl. other operating income and expenses

# Solid Revenue Growth for the Period

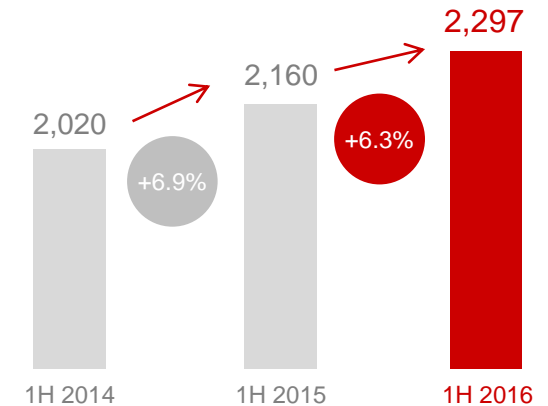
## Broadband revenues



## Mobile revenues **+13.6%** Service revenues



## Group revenues **+7.3%** Service revenues



### Re-acceleration of Broadband revenue growth in 1H 2016

- + 3.4% growth in Broadband revenues, up sharply on 1H 2015
- + Growing subscriber base with 123k net adds
- Mechanical effect of promotional offerings on ARPU

### Strong and sustainable growth in Mobile revenues, up by 11%

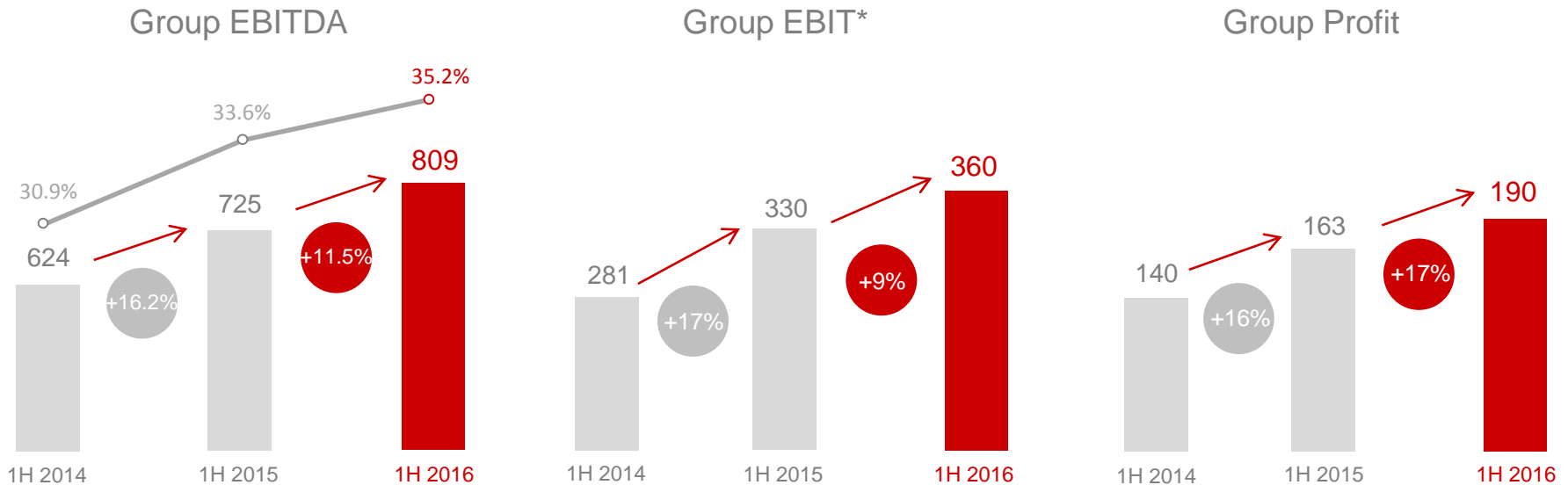
- + 395k new subscribers
- + Higher-value subscriber mix driving services revenue up by 14%
- + Success of 4G with 4.7m 4G subscribers
- Decrease in handset revenues

### 7.3% growth in service revenues in 1H 2016

- + Market share gains both in Broadband and Mobile

**Top line growth driven by market share gains both in Broadband and Mobile, pushing consolidated revenues up to €2.3bn**

# Continued High-Pace of Growth for Profitability



## EBITDA margin up by 1.6 pp and double-digit YoY growth

- + EBITDA margin tops 35% margin for the first time since the launch of the mobile business
- + More traffic on Free Mobile's own network
- Dilutive impact of opportunistic flash sales
- Negative impact of the IFER and Copé taxes

## A 9% year-on-year increase in Group EBIT

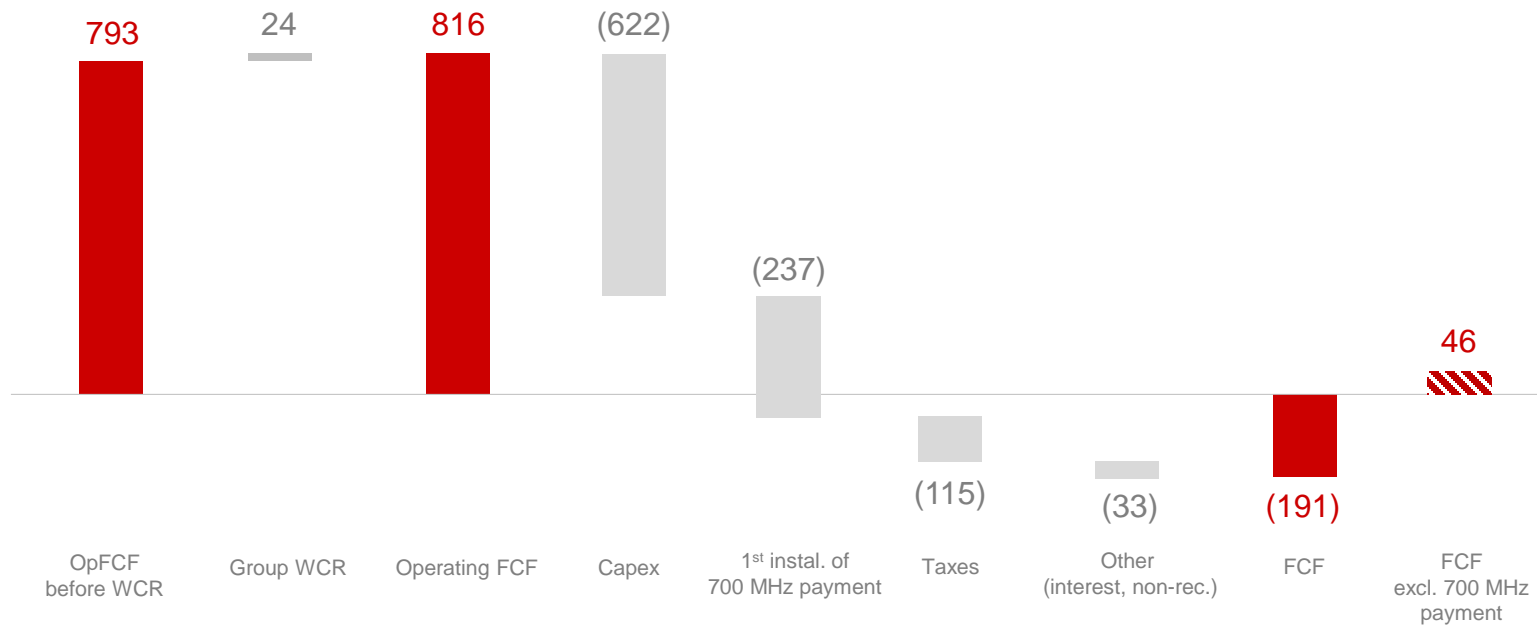
- Higher D&A due to new assets in both Broadband and Mobile – migration of sites to 1,800 MHz-ready technology

## A strong 17% increase in Group profit

- + Lower interest payments during the period
- + Positive impact of decrease in corporate tax rate

(€ millions)  
\*Excl. other operating income and expenses

# €46m in FCF excl. First Instalment of 700 MHz Payment

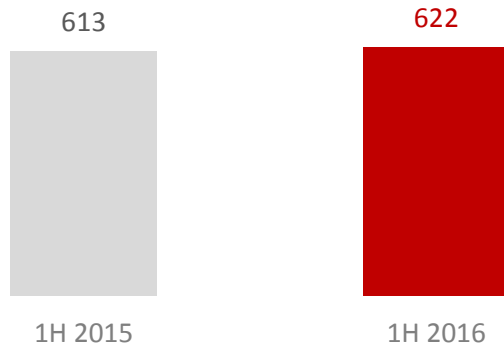


- Operating Free Cash Flow before WCR up by 10% vs 1H 2015, reaching €0.8bn
- Increase in WCR thanks to the end of the negative impact related to mobile phone rentals
- Payment of first instalment for acquisition of 700 MHz frequencies: €237m
- Capex uplift due to the accelerated deployment of next-generation networks



# Focus on Iliad Capex (excl. 700 MHz)

Group Capex excl. 700 MHz (1H 2015 vs 1H 2016) - €m



## Key KPIs

	1H 2015	1H 2016
<b>- Broadband</b>		
ADSL - Unbundled central offices	7,600	8,755
FTTH connectible sockets	<2.5m	3.1m
<b>- Mobile</b>		
Number of 3G sites	5,266	6,811
4G sites – 1,800 MHz	-	1,271
4G sites – 2,600 MHz	3,991	6,571

### DSL

- Higher DSL capex due to the launch of the Freebox mini 4K
- VDSL2 upgrades on all our subscriber connection nodes

### FTTH

- >600k new connectible sockets in 1H 2016
- 4m expected by end-December
- Reinforced co-investment in medium populated areas

### Mobile

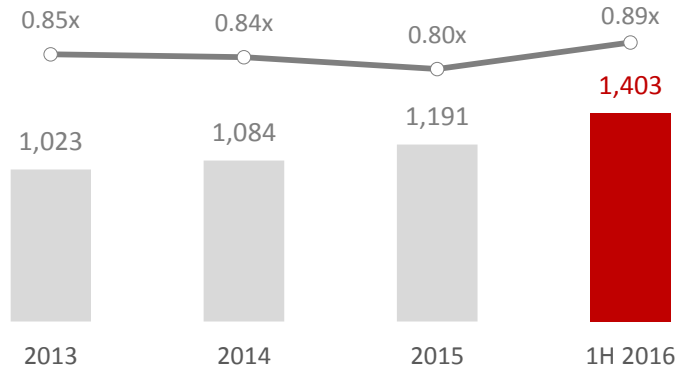
- Rapid 4G rollout with nearly 70% population coverage
- Continued 3G rollout with more than 85% population coverage

**Strong commitment to invest in next-generation networks**

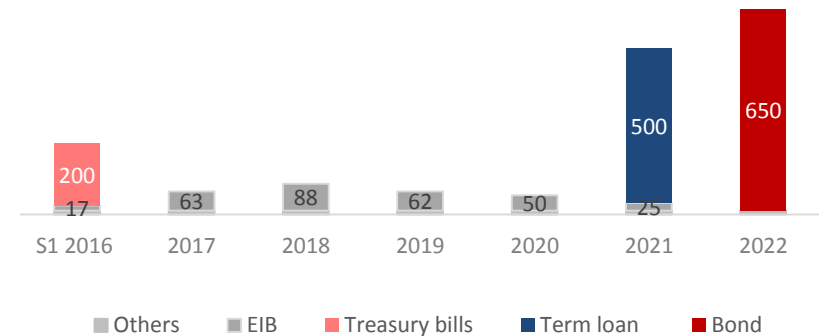
# Healthy Financial Structure

Net Debt (€m)

Leverage (Net Debt / EBITDA)



Debt Maturity Profile (€m)



## A very solid financial structure, backing the Group's strategy

- Total equity of €2.8bn
- Increase in net debt following the first instalment of the 700 MHz payment, amounting to €237m
- Leverage kept below 1x EBITDA
- Strong liquidity position (>€2bn)

## Optimizing the Group's financing profile

- Issuance of a €650m 7-year bond in Nov. 2015
- New €500m 5-year term loan signed in Jan. 2016
- Average debt maturity extended to c.6 years
- Significant improvement in the average cost of debt, which totaled 3.2% as of end-June 2016

**Iliad is still one of the lowest leveraged European telcos, with secured and diversified sources of financing**

## Focus on the Italian Project

# Italy: A Major Opportunity to Leverage our Skills

## Unique in-house culture that leads to higher efficiency

	TYPICAL WIRELESS CARRIERS <i>iliad</i>	
MEDIATION & PROVISIONING	Outsourced	In-house
BILLING (RETAIL AND WHOLESALE)	Outsourced	In-house
NETWORK INTEGRATION	Outsourced	In-house
CUSTOMER RELATIONSHIP	Outsourced	In-house
BUSINESS INTELLIGENCE	Outsourced	In-house
SYSTEM INTEGRATION	Outsourced	In-house

## A replicable and exportable know-how

- In-depth expertise in network rollouts and a state-of-the art network architecture
- High level of in-housing enabling significant savings: network management, IT billing etc. account for 5%-8% of revenues for a typical carrier vs less than 1% for Iliad
- Economies of scale with Iliad's existing suppliers
- Strong know-how in marketing, advertising, distribution, etc.

## A progressive investment and sound business plan

- €450m total consideration paid over 2017-2019 for the frequencies
- Investment spread over a 5 to 7-year period in line with commercial expansion
- A very agile cost base benefiting from no legacy and the latest technologies
- Ambition to achieve an EBITDA break-even with less than 10% market share

## Broadband

- Achieve a 25% market share of the landline broadband market share in the long term
- 4m connectible FTTH sockets by end-2016, 9m by end-2018 and 20m by end-2022

## Mobile

- Deploy more than 1,500 sites in 2016
- Reach a 4G coverage rate of around 75% of the French population by end-2016
- Achieve a 25% market share in the long term

## Group

- Slight increase in 2016 capex expected (excl. spectrum) vs 2015
- Achieve consolidated EBITDA margin of over 40% by the end of the decade