

iliad

Société anonyme. Share capital: €12,999,215

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

Registered in Paris under no. 342 376 332



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1. ANALYSIS OF THE GROUP'S BUSINESS AND RESULTS

KEY CONSOLIDATED FINANCIAL DATA

<i>In € millions</i>	Year ended Dec. 31, 2015	Year ended Dec. 31, 2014	Year ended Dec. 31, 2013
INCOME STATEMENT			
Revenues	4,414.4	4,167.6	3,747.9
EBITDA	1,489.9	1,283.6	1,204.2
Profit from ordinary activities	666.2	569.5	540.9
Other operating income and expense, net	(4.2)	(3.6)	(3.9)
Operating profit	662.0	565.9	537.0
Finance costs, net	(58.0)	(63.8)	(59.4)
Other financial income and expense, net	(24.5)	(21.7)	(24.3)
Corporate income tax	(244.5)	(202.0)	(187.9)
Profit for the period	335.0	278.4	265.4
BALANCE SHEET			
Non-current assets	5,755.3	4,266.4	3,956.3
Current assets	1,432.7	744.6	780.5
<i>Of which cash and cash equivalents</i>	<i>720.1</i>	<i>137.4</i>	<i>318.1</i>
Assets held for sale	26.0	34.4	39.5
Total assets	7,214.0	5,045.3	4,776.3
Total equity	2,637.2	2,315.2	2,013.6
Non-current liabilities	1,899.1	1,209.1	1,400.2
Current liabilities	2,677.7	1,521.0	1,362.5
Total equity and liabilities	7,214.0	5,045.3	4,776.3
CASH FLOWS			
Cash flows from operations	1,472.7	1,236.5	1,226.2
Net cash used in investing activities	(1,219.9)	(968.3)	(905.5)
Net change in cash and cash equivalents (excluding financing activities and dividends) ¹	(76.1)	(37.2)	84.2
Dividends	(23.0)	(21.7)	(21.5)
Net debt	1,191.4	1,084.1	1,023.0

¹ Including interest expense.

1.1 OVERVIEW

Fueled by the success of its Broadband and Ultra-Fast 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 the Broadband, Ultra-Fast Broadband and mobile segments. The Group's success in these two segments has been built on four fundamentals – straightforward offerings, attractive prices, excellent service quality and technological innovation.

By December 2015, just four years after it entered the mobile market, the Group had become one of the leading telecom operators in France, with around 18 million subscribers, of which almost 12 million mobile subscribers and over 6 million Broadband and Ultra-Fast Broadband subscribers. At that date it had market shares of 24%² for Broadband and 17%³ for mobile.

The Group has experienced very strong growth over the past decade and consolidated revenues were up again in 2015, coming in at over €4.4 billion and representing more than double the figure reported four years ago. In parallel, it has developed a highly efficient business model which has enabled it to maintain good profit levels (with EBITDA of just under €1.5 billion in 2015) and to have a solid financial structure while remaining one of the European telecom operators with the least amount of debt (leverage ratio of 0.80x at end-2015).

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 (Broadband and Ultra-Fast Broadband)

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 and Ultra-Fast 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 VDSL2**, which gives subscribers in unbundled areas and with short lines Internet access at speeds of up to 100 Mbps download and 40 Mbps upload.

² Company estimate.

³ Metropolitan France excluding M2M.

- **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, depending on the package they choose, 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), with over 110 high definition channels and a catch-up TV service covering more than 50 channels.
- **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 mini 4K**, which is the Group's new entry-level offering that replaces the Freebox Crystal. The Freebox mini 4K is the world's first triple-play box that has integrated AndroidTV™, the Google™ platform for TV, and is compatible with 4K technology (Ultra High Definition). It has Bluetooth technology and offers many other innovative services, such as a remote control with a voice search function and the possibility of using a mobile phone as the remote control. It is also the most compact box on the market, measuring 11 x 15 cm.
- **In addition, in 2015 the Group carried out specific promotional sales of the Freebox Crystal.** The Freebox Crystal has not featured within the Group's commercial offerings since it was replaced by the Freebox mini 4K as the Group's entry-level offering. However, in order to reuse already-existing Freebox Crystals, in 2015 the Group offered a number of promotional deals on these boxes.

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 has proposed two straightforward value-for-money mobile offerings since the commercial launch of its mobile business:

- **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 access 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 mainly 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)**, which includes unlimited voice calls and SMS and MMS messages as well as Internet access of up to 20 GB for 3G and 50 GB for 4G (with speeds slowed in excess of these thresholds). All subscribers to this no-commitment plan can also 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 have unlimited access to the FreeWifi network. In 2015, Free once again shook up the market by offering its subscribers the possibility of using their Free Mobile Plan, for 35 days per year and per destination, when they are in the United States, Canada, Israel, Guiana, the French West Indies or any European Union country.

In tandem, the Group offers a selection of the latest mobile phones on the market. 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 €99 and €199 and then pays a monthly rental fee of between €15 and €25 (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 for their existing phone.

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 set out in the incumbent operator's basic unbundling offer, were as follows at December 31, 2015:

Operating costs (partial unbundling)

- Rental of the copper pair and the ADSL splitter: €1.77

Operating costs (full unbundling)

- Rental of the copper pair: €8.78⁴

- **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 €4.79 and €12.53 (since April 1, 2015).

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 2015 were as follows:

- Usage fee per Mbps: €7.00
- Access fees: €5.40

Option 1 gross margin and EBITDA margin are therefore significantly higher than Option 5 margins. Consequently, the Group's objective is to maximize the proportion of Option 1 subscribers and, 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.

⁴ Fee applicable since August 1, 2015.

(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 0.78 euro cents in 2015 compared with 0.80 euro cents in 2014.

(c) Roaming charges

The Group has to pay roaming charges for the roaming services provided to it, which 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 – in order to take into account the increase in mobile subscriber numbers.

The roaming agreement allows the Group to:

- Offer a service to subscribers with a 2G phone.
- Provide mobile coverage in addition to that available under its own network, which is still in the expansion phase.

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 €19.99/month Free Mobile Plan (or €15.99/month for Freebox subscribers).

The Group's objective is therefore to maximize the proportion of traffic carried directly on its own network, by pursuing the rollout targets described in section 1.1.3.c below, and to increase the proportion of subscribers on the €19.99/month Free Mobile Plan (or €15.99/month for Freebox subscribers), notably by migrating subscribers on the €2/month 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.

In accordance with the new powers assigned on August 6, 2015 to the French electronic communications regulatory authority (*Autorité de régulation des communications électroniques et des postes* – ARCEP) under the “Macron Act” (France's economic reform law), during the year ARCEP began work on analyzing the mobile network sharing agreements in place in France (roaming and RAN-sharing agreements) with a view to drawing up guidelines on mobile network sharing.

On January 12, 2016 ARCEP issued a working document for public consultation which contains a set of draft guidelines. Telecom operators have been invited to give their observations on the principles used by ARCEP for analyzing the network sharing agreements in place, as well as on ARCEP's initial analysis of those agreements. The working document provides for (i) a gradual phase-out of 3G roaming by 2020 and 2G roaming for voice and SMS services between 2020 and 2022, and (ii) the termination by 2018 of the 4G roaming solution provided for SFR customers on a portion of the Bouygues Telecom network. ARCEP has stressed that the working document was drawn up taking into account the existing structure of the mobile network market in Metropolitan France – i.e. based on four operators – and that its initial analysis could be amended if this market structure changes.

1.1.3 Capital expenditure and depreciation

(a) Broadband

(i) Transmission network and unbundling the local loop

Having laid over 95,000 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 2015 the Group continued to extend its coverage by opening around 1,500 new subscriber connection nodes, which brought the total number of unbundled subscriber connection nodes to over 8,000 at the year-end and gave Free a network coverage rate of almost 90% of the French population.

The optical fiber used in the transmission network is depreciated over periods ranging from 10 to 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. In 2015, the cost of a Freebox ranged from a few dozen euros (for the Freebox Crystal) to €185 for the Freebox mini 4K and €290 for the Freebox Revolution. The depreciation of the euro against the US dollar during the period had a negative impact on the cost of Freeboxes, as their components are mainly purchased in US dollars.
- 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 under Option 5 correspond to access fees billed by the incumbent operator, which are 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 ultra-fast networks

(i) Migration of the landline network to VDSL2 technology

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 2015 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. At December 31, 2015, the Group had over 8,000 subscriber connection nodes equipped with VDSL2 technology, enabling nearly 25% of Freebox subscribers to increase their Internet speeds.

(ii) Rollout of an FTTH network

Optical fiber – which has long been used by telecom operators for long-distance links – has established itself as the fastest, most reliable and most powerful transmission technology available. It enables data to be transmitted at the speed of the light signal passing through the fiber and consequently offers speeds of several hundred Mbps and even much more. It is the use of this technology that has driven the surge in Internet usage worldwide.

An optical fiber network with high upstream and downstream speeds enables a variety of multimedia services to be used simultaneously.

The regulatory framework applicable to rolling out the optical fiber local loop differs depending on the geographic areas concerned and whether or not they are one of the 106 municipalities classified as “very densely populated areas” in ARCEP Decision no. 2013-1475 dated December 10, 2013.

In these areas, each operator is responsible for rolling out its own network up to shared access points which are generally located inside buildings. The in-building cabling is then shared by the operators.

To support the rollout of its FTTH (fiber-to-the-home) optical fiber network, the Group is making major investments in network infrastructure through its subsidiaries Free, Free Infrastructure, IRE and Immobilière Iliad.

It is rolling out its own infrastructure in “very densely populated areas”, which requires:

- Acquiring and fitting out premises to house optical nodes (ONs).
- Carrying out horizontal rollouts which consist of laying optical fiber cables between the ONs and the shared access points. The Group's horizontal rollout phase is being undertaken using (i) the accessible galleries of the underground wastewater network in Paris, and (ii) primarily the incumbent operator's access offer under which third parties can access its existing cable ducts in other areas of France.
- Connecting the horizontal network to the shared access points.
- Carrying out the final connection phase, which entails fitting an optical fiber socket in the subscriber's home and connecting it to the building's vertical fiber cables through the floor distribution box.

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 increasing margins and profitability.

Outside very densely populated areas, in order to streamline fiber rollouts and operators' capital expenditure, the applicable regulatory framework (as defined in ARCEP Decision 2010-1312 dated December 14, 2010), provides for more extensive infrastructure-sharing as it requires operators that roll out networks to create shared access points located outside private property boundaries which can each be used for around 1,000 lines.

If an operator creates a shared access point grouping fewer than 1,000 lines, it is required to offer a dark-fiber backhaul service between the shared access point and a concentration point with a larger number of lines.

Within this context, in August 2012, the Group was the first operator to (i) take up the incumbent operator's third-party operator access offer for its FTTH lines outside very densely populated areas and (ii) undertake to co-finance the FTTH network in certain urban areas proposed by the incumbent operator. The third-party operator access offer enables each operator to co-finance the rollout only to the extent of the local market share that the operator is seeking to achieve. This pooling of resources is aimed at creating a single network shared among the fiber optic providers and subscribers and therefore extending FTTH coverage to a wider population.

Since 2013, the Group has participated in co-financing the FTTH network outside very densely populated areas and at December 31, 2015 it had given network financing commitments covering some 60 urban areas and 20 municipalities, representing over 4.5 million sockets that will be provided with FTTH coverage by 2020.

The year 2015 saw a rise in capital expenditure for the optical fiber rollout in view of the acceleration in connections and fitting of sockets as part of the co-financing project with the incumbent operator. By the year-end the Group had some 2.5 million connectible FTTH sockets throughout France, and over 200,000 of its subscribers have a FTTH connection to date.

Consequently it plans to continue and intensify its rollout drive, both within and outside very densely populated areas, with the objective of having 20 million connectible homes by 2022.

This large-scale capital expenditure plan will enable the Group to more rapidly become technologically independent from the incumbent operator while increasing its profitability, and its aim is to achieve a landline market share of 24%⁵.

(c) Rollout of a network of mobile masts

Since it was awarded France's fourth 3G mobile license in January 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, and monitoring the operation and maintenance of radio equipment at sites where it has been installed).

Despite the more restrictive regulatory framework now applicable in France for the installation of mobile masts (following the introduction of the "Abeille Act" and the "ALUR Act"), the Group managed to step up the rollout of its mobile network in 2015, with over 1,600 new sites deployed during the year. At December 31, 2015 the Group had over 6,000 3G sites in service, giving it a direct 3G mobile coverage rate of 83% of the French population.

⁵ Company estimate.

In addition to its rollouts, in order to offer the best possible subscriber experience for users of mobile data, the Group has significantly increased the number of migrations of its sites to 4G technology. The Group's mobile network was designed from the outset to use the latest technologies (an all-IP NGN) and it was therefore able to open more than 3,500 new 4G sites in 2015 (compared with 1,275 in 2014). At the year-end, the Group had a total of over 5,600 4G sites in service (versus 2,099 one year earlier), bringing its 4G coverage rate to 63% of the French population. At December 31, 2015, over 90% of the Group's mobile sites were 4G-compatible and the majority of these sites were connected to the network via an optical fiber link.

In parallel with its large-scale rollout process, in 2015 the Group also continued to invest in extending its core network and information systems as well as in mobile site interconnection links.

In view of the progress achieved in its mobile rollout process and in order to keep up a sustained pace of deployment in the coming years, the Group is standing by its objectives, and therefore it intends to (i) focus its deployment efforts on densely populated areas, with more than 1,500 new sites planned for 2016, in order to maximize the volume of traffic carried directly on its own network, (ii) accelerate the conversion of existing sites to 4G in order to achieve a 4G coverage rate of nearly 75% of the French population by the year-end, and (iii) launch the gradual rollout of 700MHz and 1800MHz sites.

The Group highlights that it has met its 4G coverage obligation of 25% of the French population by October 2015 and is standing by the future 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: 60% of the French population covered by October 2019 and 75% by October 2023.

During 2015, the Group's frequency portfolio was significantly increased as it was allocated the following:

- 5MHz in the 1,800MHz frequency band as part of the refarming process defined by ARCEP in its December 16, 2014 decision. The frequencies concerned gradually became available during the first half of 2015 and have been fully available throughout Metropolitan France since July 1, 2015.
- An additional 10MHz in the 1,800MHz frequency band, after ARCEP authorized Orange and SFR to refarm their 1,800MHz frequencies. This 10MHz should be effectively freed up for Free's use on May 25, 2016.
- 10MHz assigned on November 17, 2015 following the national auction for spectrum in the 700MHz band. This spectrum will be made available over a period running from April 2016 for very densely populated areas to July 2019 for the rest of the country. It was acquired for a total of €933 million, payable in four installments between 2016 and 2018, with two installments due in the first year.

The depreciation/amortization periods applied for the main assets brought into service in 2015 are as follows:

- Licenses: 18 years.
- General equipment: 10 years.
- Mobile technical equipment: 6 and 18 years.
- Other equipment: 3 to 5 years.

- Other assets: 2 to 10 years.

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

During 2015 the Group strengthened its physical presence in France by:

- Opening six new stores, raising the total number of Free Centers to 49 at end-December 2015.
- Continuing to roll out 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, 2015, the Group had already set up around 1,700 such kiosks across France.

1.2 SIGNIFICANT EVENTS OF THE YEAR

<i>In € millions</i>	2015	2014	% change
Consolidated revenues	4,414.4	4,167.6	+5.9%
- <i>Landline</i>	2,597.1	2,564.2	+1.3%
- <i>Mobile</i>	1,828.7	1,614.3	+13.3%
<i>o/w mobile services</i>			+19.1%
- <i>Intra-group sales</i>	(11.4)	(10.9)	-4.6%
Service revenues			+7.4%
Consolidated EBITDA	1,489.9	1,283.6	+16.1%
Profit from ordinary activities	666.2	569.5	+17.0%
Profit for the period	335.0	278.4	+20.3%
Free Cash Flow from ADSL operations	665.8	736.7	-9.6%
Leverage ratio	0.80x	0.84x	-4.8%

2015 was another year of growth for the Group, with revenues coming in at a record high of more than €4.4 billion, well ahead of its initial target. Revenues from services rose by 7.4% during the year (6% including handsets), driven by an excellent showing from the Mobile business which reported a near-20% increase in its service revenues. At the same time, EBITDA advanced 16% compared with 2014. The number of new subscribers was also very high once again, with nearly 2 million additional subscribers signing up for the Group's landline and mobile offerings.

The most significant events of 2015 were as follows:

- **Landline business: 270,000 net adds** for landline Broadband and Ultra-Fast Broadband offerings, representing a net add market share of 29%⁶. Despite a persistently fierce competitive environment, with aggressive marketing and pricing strategies from competitors, the Group managed to keep its ARPU stable at €34.50. This helped drive a more than 1% rise in revenues for the Landline business to €2.6 billion.
- **Mobile business: 1.6 million net adds in 2015.** Free was once again the leading recruiter of mobile subscribers during the year – a position it has held since it launched its mobile business in 2012. The Group continued to enrich its commercial offering during 2015, with (i) the Free Mobile Plan now including roaming communications from all European Union Countries and the United States in addition to the many other roaming destinations already covered, (ii) an increase in mobile data volumes to 20 GB for 3G and 50 GB for 4G, (iii) up to four Free mobile plans now eligible for a price reduction for Freebox subscribers compared with one previously (€15.99 per month for the €19.99/month plan and €0 per month for the €2/month plan). By the year-end the total number of mobile subscribers had reached nearly 12 million and the Group had a market share of almost 17%⁷, outstripping its initial long-term target for the Mobile business just four years after its first offerings were launched. Revenues generated by the Mobile business advanced by nearly 20% year on year (excluding handsets) to more than €1.8 billion.
- **A step up in the pace of ultra-fast landline and mobile network rollouts.** In 2015 the Group pursued the rapid rollout of its mobile network, particularly 4G equipment, and by the year-end it had increased its 4G coverage rate from around 40% of the French population to 63%. The number of 4G subscribers rose by a sharp 2 million, reaching 3.7 million at end-2015, and average monthly data usage per 4G subscriber totaled 3.2 GB, up by nearly 80% year on year. During the year, the Group also stepped up its fiber rollout and accelerated its subscriber migrations to ultra-fast networks (VDSL2 and FTTH) in line with its pro-active strategy of investing in new generation networks.
- **A rise in the Group's profitability.** Consolidated EBITDA totaled €1,490 million in 2015 and the EBITDA margin widened by 3 percentage points to 33.8%, reflecting an increase in the volume of traffic carried directly on the Group's own network. Consolidated profit for the period came to €335 million, up by more than 20% on 2014 despite an increase in depreciation charges (notably due to the faster pace of network rollouts).
- **A rigorous financial strategy and a solid structure, enabling the Group to step up its investments in ultra-fast networks.** The Group's pro-active capital expenditure strategy for both its landline and mobile infrastructure will enable it to become more independent and to further increase its profitability for the coming years, while at the same time enhancing its subscriber service. Capital spending in 2015 totaled €1,220 million versus €968 million in 2014. The year-on-year rise was notably due to (i) the launch of the Freebox mini 4K and building up the requisite inventories, (ii) the pace of the rollout for Ultra-Fast Broadband in the Group's Landline business, and (iii) the

⁶ Company estimate.

⁷ Mobile market in Metropolitan France excluding M2M.

opening of more than 1,600 3G sites and over 3,500 4G sites during the year. In the coming years the Group will have a cash outflow for the purchase price of its frequencies in the 700MHz band, which will be paid for in four equal installments between 2016 and 2018, with two installments due in the first year. Despite this outlay, the Group's financial structure remained strong in 2015, with a leverage ratio of 0.80x at the year-end.

- **Reinforcing the Group's frequency portfolio.** During 2015 the Group strengthened its frequency portfolio with an additional 15MHz in the 1,800MHz band and 10MHz in the 700MHz band.

1.3 COMPARISON OF RESULTS FOR 2015 AND 2014

<i>In € millions</i>	2015	2014	% change
Revenues	4,414.4	4,167.6	+5.9%
Purchases used in production	(2,238.8)	(2,323.1)	-3.6%
Gross profit	2,175.6	1,844.6	+17.9%
as a % of revenues	49.3%	44.3%	+5.0 pts
Payroll costs	(222.5)	(208.5)	+6.7%
External charges	(288.5)	(244.1)	+18.2%
Taxes other than on income	(57.9)	(40.8)	+41.9%
Additions to provisions	(96.9)	(63.4)	+52.8%
Other income and expenses from operations, net	(19.9)	(4.1)	-
EBITDA	1,489.9	1,283.6	+16.1%
as a % of revenues	33.8%	30.8%	+3.0 pts
Share-based payment expense	(3.3)	(5.6)	-41.1%
Depreciation, amortization and provisions for impairment of non-current assets	(820.4)	(708.5)	+15.8%
Profit from ordinary activities	666.2	569.5	+17.0%
Other operating income and expense, net	(4.2)	(3.6)	+16.7%
OPERATING PROFIT	662.0	565.9	+17.0%
Finance costs, net	(58.0)	(63.8)	-9.1%
Other financial income and expense, net	(24.5)	(21.7)	+12.9%
Corporate income tax	(244.5)	(202.0)	+21.0%
PROFIT FOR THE PERIOD	335.0	278.4	+20.3%

1.3.1 Analysis of consolidated results

(a) Key indicators

	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
Total mobile subscribers	11,685,000	10,105,000	8,040,000
Total Broadband and Ultra-Fast Broadband subscribers	6,138,000	5,868,000	5,640,000
Total number of subscribers	17,823,000	15,973,000	13,680,000

ARPU at end-December (in €)	2015	2014	2013
Broadband and Ultra-Fast Broadband ARPU	34.50	35.10	36.00
<i>Freebox Revolution ARPU*</i>	<i>>38.00</i>	<i>>38.00</i>	<i>>38.00</i>

* Excluding promotions

(b) Revenues

In 2015 the Group once again reported year-on-year growth, with revenues up by almost €250 million to over €4.4 billion, driven by a 7.4% year-on-year rise in service revenues (6% including handsets). During the year the Group kept up its excellent performance in a persistently tough competitive environment, with revenues for the Landline business edging up 1.3% fueled by a 2.1% increase in the second half of the year, and the Mobile business posting a near-20% jump in revenues (excluding handsets).

The table below shows the breakdown of revenues by category for 2015 and 2014 as well as the percentage change between the two years:

In € millions	2015	2014	% change
Landline	2,597.1	2,564.2	+1.3%
Mobile	1,828.7	1,614.3	+13.3%
<i>o/w mobile services</i>			<i>+19.1%</i>
Intra-group sales	(11.4)	(10.9)	-4.6%
Total consolidated revenues	4,414.4	4,167.6	+5.9%
<i>Service revenues</i>			<i>+7.4%</i>

Landline revenues

Against a fiercely competitive backdrop, revenues for the Landline business edged up 1.3% for the year as a whole to €2,597 million, with growth picking up pace again in the second half. The significant events of 2015 for the Landline business were as follows:

- **270,000 new Broadband and Ultra-Fast Broadband subscribers**, representing a net add market share of 29%.⁸ In a highly competitive environment and despite numerous promotional offers by other operators, the Group managed to grow its market share during the year, thanks to (i) the launch of the Freebox mini 4K, (ii) the strong reputation of the Free brand, (iii) the major efforts undertaken in recent years to improve the quality of subscriber service, (iv) the Group's strong innovation capacity, and (v) one-off promotional offers. At December 31, 2015, the Group had a total of 6.1 million Broadband and Ultra-Fast Broadband subscribers.
- **Broadband and Ultra-Fast Broadband ARPU stabilized at €34.50** despite one-off promotional offers carried out during the year, which had an automatic adverse impact on ARPU. However, the Freebox Revolution offering continued to prove very popular and its ARPU once again came in at over €38⁹.

Mobile revenues

The success of the Group's mobile offerings is clearly reflected in its financial performance and 2015 was another year of strong growth for the Mobile business, with revenues totaling over €1.8 billion. This rise stemmed primarily from an excellent showing from services, whose revenues advanced by nearly 20%. Just four years after it was first launched the Mobile business now accounts for over 40% of the Group's total revenues. The number of net adds came to 1.6 million in 2015, bringing the total number of mobile subscribers to just under 12 million. The significant events of the year for the Mobile business were as follows:

- **A commercial strategy focused on innovation and constantly-enriched offers.** During 2015 the Group continued to enrich its offers by (i) increasing the number of roaming destinations included in the Free Mobile Plan, which now covers all European Union countries as well as the United States and Canada, and (ii) becoming the only operator to offer 50 GB of 4G mobile internet and 20 GB of 3G in a plan costing less than €20 per month. It also pursued the deployment of 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 by making the Free Mobile offering unique in the market.
- **17%¹⁰ market share.** With some 1.6 million net adds, in 2015 the Group was once again France's leading recruiter of mobile subscribers – a position it has held since it launched its Mobile business. By the year-end the total number of mobile subscribers had reached nearly 12 million, and in the space of just four years after its mobile launch the Group had outperformed its initial target of achieving 15% market share.
- **Commercial success of 4G offerings.** In 2015 the Group intensified its rollout of 4G sites which brought its 4G coverage rate to 63% of the French population by the end of the year. This 4G rollout drive translated into commercial success as the 4G mobile subscriber base doubled during the year, reaching nearly 3.7 million. In addition, the average data usage rate of 4G subscribers surged by almost 80% during 2015 to 3.2 GB per month and per subscriber.

⁸ Company estimate.

⁹ Excluding promotions.

¹⁰ Mobile market in Metropolitan France excluding M2M.

- **An improved subscriber mix within net adds and further migration of subscribers** from the €2/month plan (or €0 for Freebox subscribers) to the €19.99/€15.99 plan. In 2015, the Group recorded more new subscribers for its €19.99/month offering (€15.99/month for Freebox subscribers) than for its €2/month offering (€0/month for Freebox subscribers).
- **A near-20% rise in mobile services revenues and a decrease in handset revenues**, notably due to the successful sales of entry-level handsets. This negative impact weighed on overall revenue growth for the Mobile business which came to 13.3%.

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 €2,176 million, consolidated gross profit was €331 million higher than in 2014, representing a year-on-year increase of 18%.

As a percentage of revenues it was also up, climbing 5 percentage points to 49.3%, due to higher profitability levels for the Mobile business (although gross margin is still lower for the Mobile business than for the Landline business), reflecting an improved subscriber mix and an increase in direct traffic volumes on the Group's own network.

(d) Payroll costs

The Group created more than 450 direct jobs in France in 2015 (permanent contracts), raising its total headcount to 7,901 at December 31, 2015.

This increase mainly reflects the intensified rollout of the Group's landline and mobile networks as well as the expansion of its subscriber service teams.

In view of these developments, payroll costs (excluding employee benefits and capitalized costs) rose to €222 million during the year.

(e) External charges

The Group's external charges increased by €44 million to €288 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 higher number of mobile sites in service in 2015.

(f) Taxes other than on income

Taxes other than on income rose by 42% to €58 million, primarily due to the growth of the Mobile business (IFER tax and the UMTS tax).

(g) Additions to provisions

Additions to provisions – which include provisions for bad debts, impairment of inventories and contingencies and charges – totaled €97 million in 2015, up €34 million on 2014. This increase was mainly due to provisions for bad debts recognized by the Group in connection with its mobile phone rental offerings.

(h) Other income and expenses from operations, net

This item represented a net expense of €20 million in 2015 versus €4 million in 2014.

(i) EBITDA

Consolidated EBITDA rose by over 16% in 2015 to €1,490 million. EBITDA margin also increased considerably, coming in 3 percentage points higher at 33.8%, mainly due to the strong performance of the Mobile business.

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

- **Better mobile network coverage.** Thanks to the Group's extension of its mobile network coverage in 2015, it was able to increase the volume of traffic carried directly on its own network.
- **Higher EBITDA margin for the Mobile business** despite the extension of roaming services to cover the whole of Europe and the termination of airtime revenue from premium numbers as from October 1, 2015, as well as the increase in bad debts in connection with the Group's phone rental offerings.
- **Ongoing measures to optimize the Group's landline networks (unbundling, migration to VDSL2 technology and rollout of the FTTH network).** During 2015, the Group pursued its measures to (i) extend its ADSL network and increase its unbundling rate to 97.2%, by opening some 1,500 subscriber connection nodes, (ii) complete the migration of its network equipment to VDSL2 technology, and (iii) continue the rollout of its directly-owned FTTH network and the FTTH networks deployed in accordance with co-financing arrangements with the incumbent operator.
- **Critical mass reached, with 17%¹¹ market share for the Mobile business,** enabling the Group to optimize fixed costs due to its status as an integrated operator (landline/mobile) and to achieve economies of scale for other costs. The increase in the total number of subscribers during the period also resulted in further economies of scale in terms of the Group's fixed cost base (advertising costs, administrative costs, etc.).

(j) Profit from ordinary activities

Profit from ordinary activities amounted to €666 million, up 17% on the 2014 figure due to the above-described rise in EBITDA.

Depreciation/amortization expense increased to €820 million as a result of (i) the beginning of depreciation/amortization for landline and mobile network components brought into service during the year, particularly due to the migration of sites to 4G technology and (ii) the launch of the Freebox mini 4K.

(k) Profit for the period

Profit for the period climbed more than 20% to €335 million from €278 million in 2014.

¹¹ Mobile market in Metropolitan France excluding M2M.

1.3.2 Cash flows and capital expenditure

<i>In € millions</i>	2015	2014	% change
Consolidated cash flows from operations	1,472.7	1,236.5	+19.1%
Change in working capital requirement	(23.4)	(72.1)	-67.5%
Operating Free Cash Flow	1,449.3	1,164.4	+24.5%
Net cash used in investing activities	(1,219.9)	(968.3)	+26.0%
Income tax paid	(229.7)	(203.4)	+12.9%
Other ¹²	(76.0)	(29.9)	-
Consolidated Free Cash Flow (excluding financing activities and dividends)	(76.1)	(37.2)	-
Free Cash Flow from ADSL operations	665.8	736.7	-9.6%
Dividends	(23.0)	(21.7)	-6.0%
Cash and cash equivalents at year-end	718.5	132.3	-

Consolidated Free Cash Flow

The Group stepped up the pace of its rollout of landline and mobile networks during 2015, which pushed up its capital expenditure by 26% to €1.2 billion. The year-on-year change in consolidated Free Cash Flow mainly reflects the following:

- A 19% increase in consolidated cash flows from operations to €1,473 million.
- An improved change in working capital requirement compared to 2014 – although the figure was still negative at €23 million – due to the fact that the unfavorable working capital impact of the Group's new offers for mobile phones (rental and payment installments) has diminished significantly.
- An acceleration of the Group's capital expenditure drive, with net cash used in investing activities reaching €1,220 million. The year-on-year increase in this figure was attributable to both the Mobile and Landline businesses and reflected (i) the continued high pace of the mobile network rollout and the acceleration of the fiber network deployment, (ii) the launch of the Freebox mini 4K and building up the requisite inventories, and (iii) the negative impact of the euro/dollar exchange rate.

¹² Including interest expense.

- A year-on-year decrease in Free Cash Flow from ADSL operations to €666 million, as a logical result of the above-described factors, and particularly the Freebox mini 4K launch.
- €230 million in income tax paid.
- The acquisition of a 50% stake in TRM via the purchase of OMT's assets in La Réunion and Mayotte for €24 million.
- A negative €76 million in consolidated Free Cash Flow.

Net change in cash and cash equivalents

The Group ended 2015 with €719 million in available cash and cash equivalents. Cash and cash equivalents increased considerably in the fourth quarter of the year due to a successful €650 million bond placement carried out in November 2015.

1.3.3 Consolidated debt

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, 2015, the Group had gross debt of €1,911 million and net debt of €1,191 million. The Group maintained its solid financial structure during the year and its leverage ratio at December 31, 2015 was once again well below the 1x mark at 0.80x. At the same time, it also had a very strong liquidity position.

The Group's gross debt primarily comprised the following at December 31, 2015:

(a) Borrowings due within 1 year

- An €800 million short-term commercial paper program

As part of the annual renewal process for its commercial paper program, the Group increased the size of the program from €500 million to €800 million. At December 31, 2015, €350 million of this program had been used.

- 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.

(b) Borrowings due beyond 1 year

- 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. It had been drawn down in an amount of €135 million at December 31, 2015 and the first repayment installments were made during the second half of 2015.

- 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 is also repayable in installments and matures in July 2022. It had been fully drawn down at December 31, 2015.

- A €650 million bond issue

On November 26, 2015, the Group issued €650 million worth of bonds paying interest at 2.125% per year.

The bonds will be redeemed at face value at maturity on December 5, 2022.

- A €1,400 million syndicated credit facility

In view of the low market interest rates, in 2015 the Group decided to renegotiate the main terms and conditions of its €1,400 million syndicated credit facility set up with a pool of 12 international banks. Consequently, on October 2, 2015 the Group signed an amendment extending the facility's original maturity to 2020 with a further extension option to 2022.

The applicable interest rate on the facility was also adjusted and it is now based on Euribor plus a margin of between 0.35% and 1.10% per year depending on the Group's leverage ratio.

None of this facility had been drawn down at December 31, 2015.

The EIB loans and the €1,400 million credit facility are subject to financial covenants based on the Group's leverage and interest cover ratios. None of these covenants had been breached at December 31, 2015.

(c) 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, 2015, the Group's total obligations under finance leases amounted to €82 million.

1.3.4 Ownership structure at December 31, 2015

At December 31, 2015, Iliad's share capital was made up of 58,660,640 ordinary shares, held by the following shareholders:

- Executive Management: 33,945,812 shares, representing 57.9% of the share capital.
- Public: 24,714,828 shares, representing 42.1% of the share capital.

At December 31, 2015, there were seven Iliad stock option plans in place with a total of 769,909 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 Broadband and Ultra-Fast Broadband market in the long term.
 - 9 million connectible FTTH sockets by end-2018.
 - 20 million connectible FTTH sockets by end-2022.
- Mobile business:
 - Deploy more than 1,500 sites in 2016.
 - 4G coverage rate of nearly 75% of the French population by end-2016.
 - Achieve a 25% mobile market share in the long term.
- Group:
 - Slight increase in the level of capital expenditure (excluding frequency purchases) in 2016.
 - Achieve consolidated EBITDA margin of over 40% by the end of the decade.

1.4.2 Events after the reporting date

In view of the favorable conditions in the banking market and in order to extend the average maturity of its debt, on January 8, 2016 the Group set up a €500 million credit facility with a pool of 11 international banks. This facility takes the form of a five-year term loan and is subject to covenants based on the Group's leverage and interest cover ratios.

1.4.3 Glossary

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

Broadband and Ultra-Fast 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 and Ultra-Fast Broadband subscribers invoiced for the period.

Broadband and Ultra-Fast 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 requirement 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.

M2M: machine to machine communications.

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

Service revenues: total revenues excluding handset-related revenues.

Total Broadband and Ultra-Fast 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 or Ultra-Fast 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.