

iliad

Société anonyme. Share capital: €13,081,655

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, 2017	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015
INCOME STATEMENT			
Revenues	4,987.5	4,722.1	4,414.4
EBITDA	1,776.7	1,675.7	1,489.9
Profit from ordinary activities	862.0	744.1	666.2
Other operating income and expense, net	(0.9)	(4.5)	(4.2)
Finance costs, net	(28.0)	(43.8)	(58.0)
Other financial income and expense, net	(63.3)	(48.3)	(24.5)
Corporate income tax ¹	(366.0)	(245.6)	(244.5)
Share of profit of equity-accounted investees	0.9	0.7	-
Profit for the period	404.6	402.7	335.0
Profit for the period from recurring operations	480.3	402.7	335.0
BALANCE SHEET			
Non-current assets	7,424.0	7,262.3	5,755.3
Current assets	972.1	947.8	1,432.7
<i>Of which cash and cash equivalents</i>	<i>216.1</i>	<i>238.5</i>	<i>720.1</i>
Assets held for sale	19.6	21.4	26.0
Total assets	8,415.7	8,231.5	7,214.0
Total equity	3,374.1	3,001.8	2,637.2
Non-current liabilities	2,882.0	2,882.1	1,899.1
Current liabilities	2,159.6	2,347.6	2,677.7
Total equity and liabilities	8,415.7	8,231.5	7,214.0
CASH FLOWS			
Cash flows from operations	1,757.9	1,603.8	1,472.7
Capital expenditure – France ²	(1,738.5)	(1,757.8)	(1,219.9)
Capital expenditure – Italy ³	(313.9)	-	-
Net change in cash and cash equivalents – Group (excluding payments for frequencies, financing activities and dividends) ³	(226.4)	39.2	(76.1)
Net change in cash and cash equivalents – Group (excluding financing activities and dividends) ⁴	(754.0)	(432.3)	(76.1)
Dividends	(25.9)	(24.1)	(23.0)
Net debt	2,449.2	1,642.8	1,191.4

¹ Including the exceptional income tax contribution of €76 million

² Including payments for frequencies

³ Including €271 million related to (i) purchases of frequencies from Wind/Tre and (ii) the extension of 1,800 MHz licenses

⁴ Including interest paid

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 both the landline Broadband and 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 innovation.

Just six years after it entered the mobile market, the Group has become one of the leading electronic communications operators in France, with more than 20 million subscribers, of which 13.7 million mobile subscribers and more than 6.5 million Broadband and Ultra-Fast Broadband subscribers. At December 31, 2017, it had market shares of 24%⁵ for Broadband and Ultra-Fast Broadband and 19%⁶ for mobile. During 2017, the Group continued its profitable growth trajectory, generating close to €5 billion in revenues – up 5.6% on 2016.

As substantially all of its operations are in France, the Group only has one geographic segment. Following its signature of an agreement with the Hutchison and VimpelCom groups in connection with the plan to merge their respective H3G and Wind subsidiaries, Iliad acquired assets enabling it to become Italy's fourth mobile operator. As no commercial operations had yet been launched in Italy at December 31, 2017, the Group did not make any changes to its geographic segments for the year then ended. The material underlying assets recognized for Italy in the consolidated financial statements at December 31, 2017 primarily correspond to licenses and initial network assets. The Group will change the presentation of its geographic segments when it launches its commercial operations in Italy, and its segment reporting may be changed again in the future, depending on operating criteria and the development of the Group's businesses.

The following key performance indicators are used throughout this management report:

- *EBITDA*, which corresponds to profit from ordinary activities before share-based payment expense, depreciation, amortization and provisions for impairment of non-current assets.
- *Mobile services revenues*, which corresponds to mobile revenues excluding handset-related revenues (sales and rentals).

⁵ Company estimate

⁶ Metropolitan France excluding M2M

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 €39.99 per month), with a box provided.

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.
- **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 Freebox to landline numbers in Metropolitan France (apart from short numbers and special numbers), as well as to 60 or over 110 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 audiovisual offering in the market**, comprising some 600 channels (of which between 90 and over 280 – depending on the type of subscription – are included in the basic packages), with 240 high definition channels and a catch-up TV service covering more than 100 channels. Since September 2016, the Freebox Revolution offer has included the TV by CANAL Panorama package, which has added 50 channels to the offer, including 30 that are exclusive to Freebox TV.
- **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 packages and channels (Canal+, beIN Sports, etc.) and video games. The TV by CANAL offer gives subscribers access to over 100 live channels and more than 8,000 items of on-demand content on all types of screen (smartphone, tablet, Xbox 360, Xbox One and PC/Mac). Freebox Crystal and Freebox mini 4K subscribers can sign up to the Famille by CANAL offer and benefit from all of the above channels, minus the sports.

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 several terminals and offers optimal Internet access. The Freebox Revolution also includes many innovative 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 mobile numbers in Metropolitan France. It incorporates state-of-the-art technologies including PLC (Power Line Communication), a gyroscopic remote control, a gamepad and speakers.

- **The Freebox mini 4K**, which is the Group's entry-level offering and has replaced 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 2017 the Group carried out specific promotional sales of the Freebox Crystal** and – to a lesser extent – of the Freebox Revolution. The Freebox Crystal has not featured in the Group's commercial offerings since it was replaced by the Freebox mini 4K as the entry-level offering. However, in order to reuse already-existing Freebox Crystals, in 2017 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**, 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**, 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.
- **Collocation services**, which consist of providing physical space in a data center, as well as the associated electrical capacity, in order to house bays and servers that generally belong to end-customers.
- **Cloud computing**, which is a model enabling convenient, on-demand network access to a shared pool of configurable computing resources. The Scaleway offering provides such access, with small virtual servers that can be scaled up to dedicated physical servers.

(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 (i) to mobiles in the United States, Canada, China and the French overseas departments (*départements d'outre-mer* – DOM) as well as to 100 landline destinations outside Metropolitan France, and (ii) from Europe and the DOM to landlines and mobiles in Metropolitan France, Europe and the DOM.
 - Unlimited texts/MMS in Metropolitan France and from Europe and the DOM to Metropolitan France, Europe and the DOM.
 - 50 MB of 3G/4G mobile data plus an additional 50 MB usable in Europe and the DOM, as well as 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 Unlimited 4G Plan** (100 GB for non-Freebox subscribers) at **€19.99/month (€15.99/month for Freebox subscribers)**, which includes:
 - Unlimited voice calls (i) to mobiles and landlines in Metropolitan France, mobiles in the United States, Canada, China and the DOM and 100 landline destinations outside Metropolitan France, and (ii) from Europe and the DOM to landlines and mobiles in Metropolitan France, Europe and the DOM and from the United States, South Africa, Australia, Canada, Israel and New Zealand to landlines and mobiles in the same country as the originating call and in Metropolitan France.
 - Unlimited texts/MMS in Metropolitan France and (i) from Europe and the DOM to Metropolitan France, Europe and the DOM, and (ii) from the United States, South Africa, Australia, Canada, Israel and New Zealand to landlines and mobiles in the same country as the originating message and in Metropolitan France.
 - Unlimited 4G data for Freebox subscribers in Metropolitan France (100 GB/month for non-Freebox subscribers) and 25 GB/month of mobile Internet in Europe, the DOM, Switzerland, the United States, South Africa, Australia, Canada, Mexico, Israel and New Zealand.

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 offers 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 payments (four interest-free installments or 24 installments, depending on the model).
- Renting a phone: subscribers can rent high-end smartphones for a minimum of 24 months. Depending on the type of phone chosen, the subscriber makes an initial payment of between €69 and €199 and then pays a monthly rental fee of between €12 and €25 (again, depending on the phone) over a period of 24 months. At the end of this period, subscribers can either return their phone and get a latest-generation phone under a new rental agreement, or 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, 2017:

Operating costs (partial unbundling)

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

Operating costs (full unbundling)

- Rental of the copper pair:..... €9.45⁷

- **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

- For the “DSL Access” service the monthly fee has been €4.79 since April 1, 2015.
- For the "DSL Access Only" service, the monthly fee has been €12.93 since January 1, 2017 (compared with €12.53 for January and February 2016 and €12.63 from March 1, 2016 through December 31, 2016).

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 2017 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.

(b) Mobile call termination charges

These charges amounted to 0.74 euro cents in 2017 compared with 0.76 euro cents in 2016.

(c) Roaming charges

⁷ Fee applicable from January 1, 2017 through December 31, 2017 (compared with €8.78 for January and February 2016 and €9.10 from March 1, 2016 through December 31, 2016). Since January 1, 2018 the applicable fee has been €9.31.

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 in 2011. The agreement applies to 2G and 3G technologies and 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. It had an initial term of six years commencing from the commercial launch of the Group's mobile offerings, but was extended on June 15, 2016 and now expires at end-2020.

The roaming agreement allows the Group to:

- Offer a service to subscribers with a 2G phone.
- Provide 3G mobile coverage in addition to that available under its own network, which is still in the expansion phase.

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 Free Mobile Unlimited 4G Plan (100 GB for non-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.d below, and to increase the proportion of subscribers on the Free Mobile Unlimited 4G Plan (100 GB for non-Freebox subscribers), notably by migrating subscribers on the €2/month plan (or €0/month for Freebox subscribers) to the Unlimited 4G Plan (100 GB for non-Freebox subscribers). Achieving this objective is being 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 Electroniques et des Postes* – ARCEP) under the “Macron Act” (France's economic reform law), in 2015 ARCEP began work on analyzing the mobile network sharing agreements in place in France (roaming and RAN-sharing agreements).

Following this analysis, on January 12, 2016 ARCEP issued a working document for public consultation, which included draft guidelines on mobile network sharing. The final guidelines – which were published on May 25, 2016 – notably invited operators to set the dates for gradually phasing out their current roaming arrangements.

On June 15, 2016, Iliad and Orange announced that they had signed an addendum to their 2G/3G roaming agreement which runs until the end of 2020. The addendum provides for Free Mobile to gradually stop using the Orange network for national roaming services in France, notably by reducing the maximum Internet speeds provided to roaming subscribers as follows: theoretical maximum download speeds of up to 1 Mbps (448 kbps upload) for 2017 and 2018; 768 kbps (384 kbps upload) for 2019 and 384 kbps (384 kbps upload) for 2020.

On June 30, 2016, ARCEP decided that, based on the guidelines published on May 25, 2016, it was not necessary to launch a formal review of the roaming agreement between Free Mobile and Orange using the powers assigned to it under the Macron Act of August 6, 2015.

1.1.3 Capital expenditure and depreciation

(a) Broadband

(i) Transmission network and unbundling the local loop

Having laid over 120,000 km of fiber, 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 2017 the Group continued to extend its coverage by opening around 2,400 new subscriber connection nodes, which brought the total number of unbundled subscriber connection nodes to over 11,600 at the year-end and gave Free a network coverage rate of almost 90% of the French population. All of the network equipment (Freebox DSLAMs) installed in the subscriber connection nodes are compatible with VDSL2 technology, which therefore means eligible subscribers have access to the best possible speeds on the local copper loop.

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 five or six 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.
- Fees billed by the incumbent operator for access to unbundling services (also known as cabling costs or access fees), which amount to €50 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.

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 depreciated over a period of seven years as from when the related services are provided.

(b) Rollout of an FTTH network

Optical fiber – which has long been used by electronic communications 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 upload and download speeds enables a variety of multimedia services to be used simultaneously.

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.

The regulatory framework applicable to rolling out the optical fiber local loop differs depending on the geographic areas concerned.

(i) Very densely populated areas (approximately 7 million lines)

In Decision no. 2013-1475 dated December 10, 2013, ARCEP issued a list of 106 municipalities that it classified as “very densely populated areas” (representing around 6 million homes). 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.

The Group 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) 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.

Since 2016, in order to accelerate its rollouts in very densely populated areas, the Group has decided to use an EPON architecture in addition to its original point-to-point architecture.

(ii) Outside very densely populated areas

Outside very densely populated areas, in order to optimize 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.

Private co-financed areas (approximately 14 million lines)

The Group was the first operator, as of August 2012, 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. This offer

enables each operator to access all of the lines deployed and to co-finance the rollout only to the extent of the local market share that the operator is seeking to achieve, through purchases of 5% tranches. It enables the co-financing not only of the line between the shared access point and the building but also the backhaul fibers between the shared access point and the optical node.

The Group has subsequently extended its co-financing commitments in line with the progress of the incumbent operator's rollouts, so that it has FTTH coverage in all of the geographic areas in which the incumbent operator has deployed an FTTH network.

Public Initiative Networks – PINs (rest of France)

In 2017 the Group gave its first commitments to the Public Initiative Networks that are being deployed in non-densely populated areas in France, notably by signing (i) an agreement with Axione which will ultimately give Free access to more than 2 million additional FTTH sockets, and (ii) an agreement with France's incumbent operator concerning 110,000 sockets in the Mayenne *département*. These agreements mark a new stage in Free's investment strategy for optical fiber networks in non-densely populated areas.

(iii) FTTH progress report at December 31, 2017

As in 2016, during 2017 the Group continued to step up the pace of its FTTH rollouts and capital expenditure projects. Consequently, during the year:

- The number of connectible sockets increased by almost 2 million to 6.2 million at December 31, 2017 (versus 4.4 million at December 31, 2016) and the Group's fiber offerings are now available in over 420 municipalities.
- The Group recruited nearly 250,000 new FTTH subscribers, more than double the number for 2016 and exceeding its initial target of over 200,000 additional subscribers being connected up to FTTH during the year. At December 31, 2017, the Group had a total of 556,000 FTTH subscribers. The increase in 2017 was due to three main factors:
 - o French households' growing appetite for FTTH technology.
 - o The gradual start-up of marketing of Free's FTTH offerings outside very densely populated areas.
 - o The successful reorganization of internal procedures for connecting FTTH subscribers, which began in late 2016. In order to ensure that it can carry out FTTH connections in an effective and large-scale way, the Group has hired and trained more than 1,400 technicians over the past 18 months.

The year 2017 marked a major milestone in the Group's FTTH project, with some 250,000 new subscribers connected. This sharp increase in subscriber connections has enabled the Group to consolidate its position as France's leading alternative FTTH operator. Drawing on these encouraging results, the Group plans:

- to have installed a total of 9 million connectible sockets in 2018 and 20 million by 2022; and
- to connect up between 300,000 and 500,000 new FTTH subscribers a year as from 2018.

(c) A comprehensive and enriched frequency portfolio

Since it was awarded France's fourth 3G mobile license in January 2010, the Group has continuously enriched its frequency portfolio.

After being allocated 5 MHz duplex in the 900 MHz and 2,100 MHz frequency bands and 20 MHz duplex in the 2,600 MHz band when it launched its Mobile business in 2012, the Group rounded out its portfolio in Metropolitan France in 2015 and 2016 by acquiring the following frequencies:

- 5 MHz duplex in the 1,800 MHz frequency band freed up by Bouygues Telecom 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 10 MHz duplex in the 1,800 MHz frequency band, after ARCEP authorized Orange and SFR to refarm their 1,800 MHz frequencies. This 10 MHz was freed up for the Group's use throughout Metropolitan France on May 25, 2016.
- 10 MHz obtained on November 17, 2015 following the national auction for spectrum in the 700 MHz frequency band. This spectrum will be made available gradually on a region by region basis starting with the Ile de France region in April 2016 and followed by a further region each quarter from January 1, 2018 through July 1, 2019 (when the frequency in the final region will be freed up). It was acquired for a total of €933 million, payable in four installments between 2016 and 2018. The first two installments were paid in 2016, as scheduled.

Consequently, the Group now has a total portfolio of 55 MHz duplex with balanced coverage across Metropolitan France, enabling it to provide high-performing services in both 3G and 4G.

In addition, in early 2018 ARCEP will launch work on reassigning frequencies in the 900 MHz, 1,800 MHz and 2,100 MHz bands, whose licenses are due to expire in the coming years. This work consists of setting up a procedure that makes regional development targets a priority, within an overall context of creating stability of the related revenues. The Group will take part in this procedure with the aim of further enriching its frequency portfolio, especially in the 900 MHz and 2,100 MHz bands.

(d) Rollout of a network of mobile masts

Since it was awarded France's fourth 3G mobile license, the Group has implemented its mobile network rollout strategy by drawing on its extensive landline transmission network (see paragraph (a) above) and putting in place a specific organizational structure to effectively manage and oversee the network rollout process (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"), 2017 was a record year for the Group in terms of its mobile network rollout, with nearly 3,700 new sites deployed (including sites shared with other operators in non-densely populated areas). At December 31, 2017, the Group had 12,157 sites in service (exceeding its target of over 12,000 sites at end-2017), giving it a direct 3G mobile coverage rate of nearly 94% of the French population.

The significant events of 2017 in terms of the Group's mobile network rollout drive were as follows:

- **A record number of new 3G sites opened.** During the year the Group brought into service nearly 3,700 new 3G sites, giving it a total of over 12,000 at end-2017.
- **Ongoing large-scale deployment of 4G technology**, which has been a priority for the Group since it first launched its Mobile business. This priority was put into practice in 2017, with (i) new 1,800 MHz frequencies made available at over 4,300 additional sites and (ii) the deployment of 700 MHz frequencies at more than 700 extra sites, in accordance with

regulatory deadlines and availability. The continued deployment of these new 700 MHz and 1,800 MHz frequencies during the year enabled the Group to increase its 4G coverage level (exceeding its initial objective of 85% at end-December 2017) and to improve the indoor quality of its network. At December 31, 2017, the Group had a 4G coverage rate of 86% of the French population, with a total of 9,667 4G sites in service.

- **Continued investment in the fiber backhaul network for mobile sites.** In view of ever-faster Internet speeds and the growing number of 4G users, the interconnection capacity of mobile sites is of critical importance to operators. In order to be able to offer its subscribers the best possible speeds, the Group has decided to prioritize the use of fiber for connecting its sites. As a result, at December 31, 2017, over 90% of its sites in very densely populated areas were fiber-connected, enabling the Group to offer its subscribers the best 4G speeds.

In view of the progress achieved, Iliad confirms its intention to (i) continue its rollout of new sites, deploying around 2,000 new sites in 2018, (ii) finalize bringing into service 1,800 MHz frequencies at its directly-owned 4G sites and (iii) pursue the gradual deployment of 700 MHz frequencies in eligible areas in accordance with regulatory deadlines and availability. In view of these operational aspects, the Group's objective for end-2018 is to achieve a 3G coverage rate of 95% of the French population and a 4G coverage rate of close to 90%.

The depreciation/amortization periods applied for the main assets brought into service in 2017 are as follows:

- Licenses: between 15 and 19 years.
- General equipment: 10 years.
- Mobile technical equipment: 6 and 18 years.
- Other equipment: 3 to 5 years.
- Other assets: 2 to 10 years.

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

During 2017 the Group strengthened its physical presence in France by:

- Opening two new stores, raising the total number of Free Centers to 57.
- Continuing to roll out its network of 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, 2017, the Group had approximately 1,500 such kiosks across France.

(f) Launch of Italy's fourth mobile network operator

In July 2016, the Group signed an agreement with the Hutchison and VimpelCom groups in connection with the plan to merge their respective H3G and Wind subsidiaries, which provided for Iliad to acquire assets enabling it to become Italy's fourth mobile operator. This agreement – which was approved by the European Commission on September 1, 2016 – involves (i) the transfer of a set of 35 MHz frequencies, (ii) an undertaking to acquire macro sites of the merged network, (iii) a possibility either to bring into force a RAN-sharing agreement covering rural areas or to acquire macro sites in those areas, and (iv) an all-technologies roaming agreement on the merged network, effective for a period of five years and renewable by Iliad for a further five-year period.

(i) A balanced portfolio of 35 MHz (duplex) frequencies

In November 2016, the Italian authorities authorized the transfer of the various frequencies covered by the agreement. Consequently, the Group now has a balanced portfolio of 2 x 35 MHz (duplex) frequencies comprising:

- 2 x 5 MHz in the 900 MHz band.
- 2 x 10 MHz in the 1,800 MHz band.
- 2 x 10 MHz in the 2,100 MHz band.
- 2 x 10 MHz in the 2,600 MHz band.

The purchase price of this portfolio of frequencies was €450 million. The first payment – amounting to €50 million – was made to Wind/Tre in the first half of 2017 and the remaining €400 million will be paid during 2018 and 2019.

In addition, in the second half of 2017 the Group paid €220 million to the Italian government in connection with the process of refarming and extending 1,800 MHz frequencies up to 2029.

In its 2018 Finance Act published in late 2017, the Italian government issued its planned procedures for the future assignment of 700 MHz frequencies as well as the 3,600 MHz-3,800 MHz and 26 GHz-27 GHz frequencies that will be used for 5G. The Italian Ministry of Economic Development (*Ministero dello Sviluppo Economico* – “MISE”) has been tasked with organizing the auction for these frequencies in 2018, which the Iliad Group intends to bid for.

(ii) Rollout of a mobile network in Italy

Since late 2016 and the signature of the agreement with the Hutchison and VimpelCom groups, Iliad has begun to roll out its mobile network in Italy, which notably involves:

- Deploying a backbone of some 10,000 km in order to connect up Italy’s principal towns and cities to the Group’s main mobile network centers located in Milan and Rome.
- Rolling out the core network and interconnections with Wind/Tre to manage traffic under the selected MOCN (Multi-Operator Core Network) solutions. This technical solution for connecting up Wind/Tre’s radio equipment to the Group’s core network will create a more effective and optimal flow of traffic between the two networks compared with a more “conventional” roaming solution.
- Setting up a local structure for deploying the mobile sites using (i) sites that are scheduled to be decommissioned by Wind/Tre, mainly from 2018 through 2020 and (ii) sites made available by major infrastructure lessors and operators.
- Leveraging synergies by regularly consulting with the various French technical and operations teams concerning issues such as network management, information systems, network architecture, radioplanning and distribution.

1.2 SIGNIFICANT EVENTS OF THE YEAR

The most significant events of 2017 were as follows:

<i>In € millions</i>	Year ended Dec. 31, 2016	Year ended Dec. 31, 2016	% change
Consolidated revenues	4,987.5	4,722.1	+5.6%
- <i>Landline</i>	2,782.5	2,689.6	+3.5%
- <i>Mobile</i>	2,214.3	2,043.0	+8.4%
- <i>Intra-group sales</i>	(9.3)	(10.5)	-11.4%
Consolidated EBITDA	1,776.7	1,675.7	+6.0%
Profit from ordinary activities	862.0	744.1	+15.8%
Profit for the period from recurring operations	480.3	402.7	+19.3%
Leverage ratio	1.4x	1.0x	0.4x

Operational information

- **Landline business: Free confirmed its position as France's leading alternative Broadband and Ultra-Fast Broadband operator, with over 6.5 million subscribers at December 31, 2017.** The number of new subscribers during the year (net of cancellations) came to 135,000, representing a net add market share of 21%⁸. This was achieved despite a mature and highly competitive market, with numerous promotions launched by competitors, particularly in the second half of the year.
- **FTTH: a record year in terms of subscriber connections, with some 250,000 additional FTTH subscribers connected during the period, i.e. more than double the number in 2016.** The Group continued its FTTH rollout drive during 2017, with (i) nearly two million new connectible sockets installed, bringing the total to 6.2 million at December 31, 2017, and (ii) some 250,000 additional subscribers connected to fiber during the year. This means that the Group's FTTH subscriber base increased by 80% in the space of a year and at December 31, 2017 it stood at 556,000.
- **Mobile business: the Group has been France's leading recruiter of mobile subscribers for six consecutive years now, with nearly one million net adds in 2017.** This steady growth in the mobile subscriber base demonstrates the strength of the Free brand and the fact that the Group has got its strategy right by regularly enriching its mobile offerings. At December 31, 2017, the Group had 13.7 million mobile subscribers, giving it a market share of 19%⁹.
- **Mobile business: a further improvement in the subscriber mix, with the majority of subscribers now on the Free Mobile Unlimited 4G Plan** (100 GB for non-Freebox subscribers). In 2017, all of the Group's new subscribers signed up for the Free Mobile

⁸ Company estimate

⁹ Metropolitan France excluding M2M

Unlimited 4G Plan (100 GB for non-Freebox subscribers) and for the first time since the launch of the Mobile business, the plan had more subscribers than the €2/month plan (€0/month for Freebox subscribers).

- **A broad portfolio of 4G frequencies, enabling the Group to propose an excellent user experience.** At December 31, 2017, the Group had 8.2 million 4G subscribers, up by 2.3 million year on year and accounting for almost 60% of its total mobile subscriber base. As well as growth in the number of 4G subscribers, 2017 saw data usage surge more than 70% compared with 2016 and the Group now has one of the highest volumes of data usage in Europe with 8.4 GB in average monthly data usage per subscriber.
- **A record year for deployment of the mobile network.** During 2017, the Group opened some 3,700 new 3G sites, bringing its total to almost 12,200 at December 31, 2017 and exceeding its original target of having 12,000 by that date. Its 3G coverage rate at end-2017 was 94% of the French population.
- **Ongoing intense rollout of the 4G network in 2017.** The Group pursued its 4G rollout drive throughout 2017, which enabled it to (i) equip over 4,300 4G sites to use 1,800 MHz frequencies and (ii) open more than 700 sites using 700 MHz frequencies. These rollout efforts explain the Group's high score for 4G connections in France in the nPerf mobile connections performance survey. During the year the Group continued to extend and enhance the quality of its 4G network, which covered 86% of the French population at end-December 2017.
- **Italy's fourth mobile network operator: the Group made good progress in preparing for the launch of its mobile offerings.** Throughout the course of 2017 the Group set up the technical architecture necessary for launching its mobile services in Italy, as described in Section 1.1.3.f above. At the same time, it put in place the organizational structure for its Italian subsidiary by (i) hiring some 80 people and (ii) taking on an entire management team based in Italy in order to successfully carry through its project.

Financial information

- **Consolidated revenues up by 5.6% year on year.** Despite a highly competitive environment, the Group once again reported robust growth, with consolidated revenues rising 5.6% to almost €5 billion.
- **A 9% increase in Mobile services revenues. This would have been a double-digit rise excluding incoming revenues,** the growth of which has slowed as a result of fewer text messages being sent due to the use of new communication platforms. 2017 saw a significant improvement in the subscriber mix, with the Free Mobile Unlimited 4G Plan (100 GB for non-Freebox subscribers) now counting more subscribers than the €2/month plan (€0/month for Freebox subscribers).
- **A 6% overall increase in consolidated EBITDA, with a mixed picture for the two businesses: a sharp rise in profitability for Mobile and a contraction for Landline.** Consolidated EBITDA came to €1,777 million in 2017. The year-on-year rise was wholly attributable to the sharp increase in profitability for the Mobile business, thanks to a higher proportion of traffic carried directly on the Group's own network and an improved mobile subscriber mix. Conversely, EBITDA for the Landline business was negatively affected during the year by (i) regulatory decisions, notably a €0.35 rise in unbundling fees to €9.45 per month, (ii) higher payroll costs due to the acceleration of the FTTH network rollout, (iii) the measures taken to enrich the Group's offerings, notably the TV by CANAL Panorama package, and (iv) carrying out one-off promotions. Consolidated EBITDA was also adversely affected by initial losses incurred by the start-up of operations in Italy.

- **Double-digit growth in profit from ordinary activities (up 16% to €862 million) and profit for the period from recurring operations (up by nearly 20% year on year).** The increase in profit from ordinary activities was fueled by the higher EBITDA figure as well as slightly lower depreciation and amortization expense for the year. Profit for the period from recurring operations (i.e. excluding the exceptional income tax contribution for 2017) increased sharply once again, coming in at €480 million, despite the negative effect of the start-up losses in Italy. Between 2014 and 2017, profit for the period from recurring operations was up by almost 75%.

- **Major capex programs focused on rolling out the Group's landline and mobile Ultra-Fast networks, backed by a solid financial structure.** The Group invested €1,482 million in its landline and mobile infrastructure in France in 2017, enabling it to become more autonomous and increase its profitability while at the same time enhancing its subscriber service. It also invested €314 million in its Italian development plan during the year (including €50 million for the frequencies purchased from Wind/Tre and €220 million paid to the Italian government for renewing the 1,800 MHz frequencies until 2029). Despite this outlay, the Group's financial structure maintained its flexible financial structure and its leverage ratio was once again low, at 1.4x EBITDA at December 31, 2017.

- At the Annual General Meeting on May 16, 2018, the Group will propose the payment of a dividend of €0.68 per share for 2017¹⁰.

¹⁰ Which will be paid on June 22, 2018

1.3 COMPARISON OF RESULTS FOR 2017 AND 2016

<i>In € millions</i>	2017	2016	% change
Revenues	4,987.5	4,722.1	+5.6%
Purchases used in production	(2,357.0)	(2,323.0)	+1.5%
Gross profit	2,630.5	2,399.1	+9.6%
as a % of revenues	52.7%	50.8%	+1.9 pts
Payroll costs	(255.6)	(242.9)	+5.2%
External charges	(417.2)	(342.1)	+22.0%
Taxes other than on income	(107.7)	(82.1)	+31.2%
Additions to provisions	(53.5)	(49.6)	+7.9%
Other income and expenses from operations, net	(19.7)	(6.8)	+189.7%
EBITDA	1,776.7	1,675.7	+6.0%
as a % of revenues	35.6%	35.5%	+0.1 pt
Share-based payment expense	(4.1)	(2.0)	+105.0%
Depreciation, amortization and provisions for impairment of non-current assets	(910.7)	(929.6)	-2.0%
Profit from ordinary activities	862.0	744.1	+15.8%
Other operating income and expense, net	(0.9)	(4.5)	-80.0%
OPERATING PROFIT	861.1	739.6	+16.4%
Finance costs, net	(28.0)	(43.8)	-36.1%
Other financial income and expense, net	(63.3)	(48.3)	+31.1%
Corporate income tax	(366.0)	(245.6)	+49.0%
Share of profit of equity-accounted investees	0.9	0.7	+28.6%
PROFIT FOR THE PERIOD	404.6	402.7	+0.5%
PROFIT FOR THE PERIOD FROM RECURRING OPERATIONS	480.3	402.7	+19.3%

1.3.1 Analysis of consolidated results

(a) Key indicators

<i>Subscriber numbers (in thousands)</i>	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
Total mobile subscribers	13,695	12,700	11,685
- Of which 4G	8,200	5,900	3,700
Total Broadband and Ultra-Fast Broadband subscribers	6,520	6,385	6,138
- Of which FTTH	556	310	200
Total number of subscribers	20,215	19,085	17,823

<i>Other indicators</i>	2017	2016	2015
Broadband and Ultra-Fast Broadband ARPU (in €)	33.90	34.70	34.50
<i>Freebox Revolution ARPU* (in €)</i>	>38.00	>38.00	>38.00
Number of connectible FTTH sockets	6.2m	4.4m	2.5m
Average 4G data usage (in GB per month per subscriber)	8.4 GB	4.9 GB	3.2 GB

* Excluding promotions

(b) Revenues

Consolidated revenues for 2017 rose by 5.6%, or €265 million, reaching nearly €5 billion. Despite persistently fierce competition, the Group recorded a 3.5% increase in Landline revenues (to €2,783 million) and an 8.4% rise in Mobile revenues (to €2,214 million).

The table below shows the breakdown of consolidated revenues by category for 2017 and 2016 as well as the percentage change between the two years.

<i>In € millions</i>	2017	2016	% change
Landline	2,782.5	2,689.6	+3.5%
Mobile	2,214.3	2,043.0	+8.4%
Intra-group sales	(9.3)	(10.5)	-11.4%
Total consolidated revenues	4,987.5	4,722.1	+5.6%

Landline revenues

Against a backdrop of even fiercer competition, revenues for the Landline business climbed 3.5% to €2,783 million. The main factors that drove this performance were as follows:

- **Free confirmed its position as France's leading alternative Broadband and Ultra-Fast Broadband operator, with over 6.5 million subscribers at December 31, 2017.** The number of new subscribers during the year (net of cancellations) came to 135,000, representing a net add market share of 21%¹¹. This was achieved despite fierce competition, with numerous promotions launched by competitors, particularly in the second half of the year.
- **FTTH: a record year in terms of subscriber connections, with some 250,000 additional FTTH subscribers connected during the period, i.e. more than double the number for 2016.** The Group continued its FTTH rollout drive during 2017, with (i) nearly two million new connectible sockets installed, bringing the total to 6.2 million at December 31, 2017, and (ii) some 250,000 additional subscribers connected to fiber during the year. This means that the Group's FTTH subscriber base increased by 80% in the space of a year and at December 31, 2017 it stood at 556,000.
- **Broadband and Ultra-Fast Broadband ARPU came to €33.90 in the fourth quarter of 2017, down slightly on 2016 due to competitive pressures. However, ARPU for the Freebox Revolution offer once again exceeded €38¹².**

Mobile revenues

2017 was another year of robust growth for the Mobile business, with revenues advancing 8.4% to €2,214 million. The main factors that drove the Mobile business's performance in 2017 were as follows:

- **The Group was France's leading recruiter of mobile subscribers for the sixth year in a row, with nearly one million net adds in 2017.** This steady growth in the mobile subscriber base demonstrates the strength of the Free brand and the fact that the Group has got its strategy right by regularly enriching its mobile offerings. At December 31, 2017, the Group had 13.7 million mobile subscribers, giving it a market share of 19%¹³.
- **A further improvement in the subscriber mix, with the majority of subscribers now on the Free Mobile Unlimited 4G Plan (100 GB for non-Freebox subscribers).** In 2017, all of the Group's new subscribers signed up for the Free Mobile Unlimited 4G Plan (100 GB for non-Freebox subscribers) and for the first time since the launch of the Mobile business, the plan had more subscribers than the €2/month plan (€0/month for Freebox subscribers).
- **A broad portfolio of 4G frequencies, enabling the Group to propose an excellent user experience.** At December 31, 2017, the Group had 8.2 million 4G subscribers, up by 2.3 million year on year and accounting for almost 60% of its total mobile subscriber base. As well as growth in the number of 4G subscribers, 2017 saw data usage surge more than 70% compared with 2016 and the Group now has one of the highest volumes of data usage in Europe with 8.4 GB in average monthly data usage per subscriber. These figures reflect the quality of the 4G experience offered by the Group's network, which, in the fourth quarter of 2017, obtained the best score for 4G connections in France in the nPerf mobile connections performance survey for the 11th consecutive quarter.

¹¹ Company estimate

¹² Excluding promotions

¹³ Metropolitan France excluding M2M

- **A 9% increase in Mobile services revenues. This would have been a double-digit rise excluding incoming revenues**, the growth of which has slowed as a result of fewer text messages being sent due to the use of new communication platforms.

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 €2,630 million, consolidated gross profit was almost 10% higher than in 2016.

As a percentage of revenues, gross profit climbed nearly 2 percentage points to 52.7%, reflecting the combined impact of two contrasting trends: (i) a very sharp increase in profitability for the Mobile business, particularly thanks to the improvement in the subscriber mix and higher volumes carried directly on the Group's own network, and (ii) a contraction in gross profit margin for the Landline business due to the effects of promotions, higher unbundling fees, and the impact of the TV by CANAL Panorama package.

(d) Payroll costs

The Group created over 600 direct jobs in France in 2007 under permanent contracts. At December 31, 2017 it had a total headcount of more than 9,700 people, with the year-on-year increase mainly reflecting the Group's pro-active strategy of accelerating the rollouts of its FTTH and mobile networks as well as the creation of teams in Italy.

In view of these developments, payroll costs (excluding employee benefits and capitalized costs) rose to €256 million during the year, representing 5.1% of revenues (stable compared with 2016).

(e) External charges

The Group's external charges increased by €75 million to €417 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 much higher number of mobile sites in service (with some 3,700 new sites opened over the year) as well as the development of the FTTH network, which resulted in additional energy and maintenance costs.

(f) Taxes other than on income

Taxes other than on income rose by €26 million to €108 million, primarily due to mobile rollouts (IFER tax) and the growth in consolidated revenues (COPE tax, UMTS tax and COSIP tax).

(g) Additions to provisions

Additions to provisions for bad debts, impairment of inventories and contingencies and charges totaled €54 million in 2017, representing a slight €4 million increase compared with 2016. The main additions recognized during the year related to provisions for bad debts.

(h) Other income and expenses from operations, net

This item represented a net expense of €20 million in 2017 compared with a net expense of €7 million in 2016.

(i) EBITDA

Consolidated EBITDA advanced 6% year on year to €1,777 million and the EBITDA margin widened slightly to 35.6%.

The EBITDA margin posted by the Mobile business rose sharply whereas for the Landline business it was weighed down by various adverse effects. The main factors affecting EBITDA in 2017 were as follows:

- **Further economies of scale achieved for the Mobile business's fixed costs.** The continued significant growth of the Mobile business enabled the Group to achieve further economies of scale in terms of its fixed cost base (network, advertising and administrative costs, etc.) and to capitalize on its status as an integrated operator (landline/mobile), despite the extension of roaming services to additional countries and the end of roaming charges in Europe since June 2017.
- **Better mobile network coverage.** Thanks to the intense rollout of new mobile sites in 2017 the Group was able to considerably improve its mobile network coverage during the year (with the coverage rate up by 5 percentage points for the 3G network and 10 points for 4G). This enabled it to increase the volume of traffic carried directly on its own network.
- **The fact that more than one in two mobile subscribers are now signed up to the Free Mobile Unlimited 4G Plan (100 GB for non-Freebox subscribers).** All new subscriptions in 2017 were for the Free Mobile Plan and the subscriber base has begun to decrease for the €2/month plan (€0/month for Freebox subscribers).
- **Lower profitability for the Landline business,** stemming from the dilutive impact of (i) the €0.35 rise in unbundling fees per month and per subscriber during 2017 (from €9.10 to €9.45), (ii) the new TV by CANAL Panorama package, (iii) the increase in certain taxes (the COPE tax and IFER tax), (iv) the payroll rise due to the expansion of the FTTH business, and (v) promotions.
- **A slight negative impact caused by the losses incurred in 2017 on the start-up of operations in Italy,** corresponding to initial project launch costs.

(j) Profit from ordinary activities

Profit from ordinary activities amounted to €862 million, up 16% on the 2016 figure. The year-on-year increase reflects (i) the higher EBITDA figure and (ii) slightly lower depreciation/amortization expense. Depreciation/amortization expense decreased to €911 million in 2017, primarily due to the end of the Freebox Revolution's depreciation cycle (which began in 2010). As a percentage of revenues, profit from ordinary activities rose by 1.5 points to 17.3%.

(k) Profit for the period

Profit for the period from recurring operations also rose sharply, climbing almost 20% in 2017 to €480 million and representing a near-75% hike over the last three years. However, the bottom-line figure of profit for the period edged up just 0.5% to €405 million. This was attributable to the highly adverse effect of the exceptional income tax contribution introduced by the French government towards the end of the year, which amounted to €76 million.

1.3.2 Cash flows and capital expenditure

<i>In € millions</i>	2017	2016	% change
Consolidated cash flows from operations	1,757.9	1,603.8	+9.6%
Change in working capital requirement	(74.9)	25.6	-
Operating Free Cash Flow	1,683.0	1,629.4	+3.3%
Capital expenditure – France (excluding payments for frequencies)	(1,481.5)	(1,286.3)	+15.2%
Capital expenditure – Italy (excluding payments for frequencies)	(43.2)	-	-
Income tax paid	(333.7)	(239.4)	+39.4%
Other ¹⁴	(51.0)	(64.5)	-20.9%
Consolidated Free Cash Flow (excluding payments for frequencies and dividends)	(226.4)	39.2	-
Capital expenditure – payments for frequencies – France	(257.0)	(471.5)	-45.5%
Capital expenditure – payments for frequencies – Italy	(270.6)	-	-
Consolidated Free Cash Flow (excluding financing activities and dividends)	(754.0)	(432.3)	+74.4%
Dividends	(25.9)	(24.1)	+7.5%
Cash and cash equivalents at year-end	214.7	235.7	-8.9%

Consolidated Free Cash Flow

In 2017 the Group kept up its intense pace of landline and mobile network rollouts, which pushed up its capital expenditure in France (excluding payments for frequencies) by 15%, or almost €200 million, compared with 2016.

The year-on-year change in consolidated Free Cash Flow mainly reflects the following:

- A near-10% increase in consolidated cash flows from operations to €1,758 million.
- A €75 million negative change in working capital requirement, due to the advance payment in 2017 of an amount due in respect of 2018.

¹⁴ Including interest paid.

- Capital expenditure incurred in France in line with the objectives set at the beginning of 2017, representing €1,482 million. During 2017 the Group significantly stepped up its outlay on its Ultra-Fast networks both for Landline (with some 250,000 new subscribers connected up to FTTH) and Mobile (with the deployment of nearly 3,700 new sites).
- Payment of the third installment for the purchase of 700 MHz frequencies in France, amounting to €243 million.
- €314 million in initial capital expenditure in Italy, notably including the first payment for the purchase of frequencies from Wind/Tre (amounting to €50 million) and €220 million paid to the Italian government for the refarming of 1,800 MHz frequencies.
- €334 million in income tax paid, of which a large proportion (€76 million) corresponds to the exceptional income tax contribution paid in the second half of 2017.

Net change in cash and cash equivalents

The Group ended 2017 with €215 million in available cash and cash equivalents.

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, 2017, the Group had gross debt of €2,665 million and net debt of €2,449 million. The Group maintained its solid financial structure during the year and its leverage ratio at December 31, 2017 was 1.4x EBITDA. At the same time, it also had a very strong liquidity position.

The Group's gross debt primarily comprised the following at December 31, 2017:

(a) Borrowings due within one year

- A €1 billion 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 €800 million to €1 billion in early 2017. At December 31, 2017, €405 million of this program had been used.

(b) Borrowings due beyond one year

Bank borrowings

- Loans granted by the European Investment Bank (EIB)

The EIB has granted Iliad several loans in order to help finance the rollout of its ADSL and FTTH networks. These loans – which are repayable in installments and have long maturities – were as follows at December 31, 2017:

- A €150 million loan granted in 2010 with the final installment due in July 2020.
- A €200 million loan granted in 2012 with the final installment due in May 2022.
- A €200 million loan granted in 2016 with the final installment due in September 2030.

- A €90 million bilateral credit facility with KFW IPEX-Bank

On December 13, 2017, the Group set up a €90 million credit facility with KFW IPEX-Bank to help finance the Group's rollout of its FTTH network. This facility took the form of a loan repayable in installments with the final installment due in a maximum of 11 years.

The applicable interest rate is based on Euribor for the period plus a margin of between 0.90% and 1.10% per year depending on the Group's leverage ratio.

- A €500 million syndicated credit facility maturing in 2021

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 in the form of a five-year term loan.

- A €1,400 million syndicated credit facility maturing in 2022

The Group has a €1,400 million syndicated credit facility set up with a pool of 12 international banks, which matures in 2022.

The applicable interest rate is based on Euribor for the period plus a margin of between 0.35% and 1.10% per year depending on the Group's leverage ratio.

The Group's bank borrowings 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, 2017.

Bonds

- €650 million worth of bonds maturing in 2022

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

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

- €650 million worth of bonds maturing in 2024

On October 5, 2017, the Group issued €650 million worth of bonds which pay interest at 1.5% per year.

The bonds will be redeemed at face value at maturity on October 14, 2024.

Summary of the Group's borrowings due beyond one year:

<i>In € millions</i>	Maturity	Type of repayment/redemption	Total amount of financing	Amount used	Amount available
<u>Bank borrowings</u>					
EIB - 2010	July 2020	In installments	150	83	-
EIB - 2012	May 2022	In installments	200	167	-
EIB - 2016	September 2030	In installments	200	200	-
KFW - 2017	May 2029	In installments	90	-	90
Syndicated credit facility - 2016	January 2021	At maturity	500	500	-
Syndicated credit facility - 2015	October 2022	At maturity	1,400	-	1,400
<u>Bonds</u>					
Ordinary bonds - 2015	December 2022	At maturity	650	650	-
Ordinary bonds - 2017	October 2024	At maturity	650	650	-

(c) Finance lease commitments

The Group uses finance leases to finance (i) the purchase of real estate assets required for its FTTH network rollout and (ii) a portion of the technical equipment in its datacenters. At December 31, 2017, the Group's total obligations under finance leases amounted to €50 million.

1.3.4 Ownership structure at December 31, 2017

At December 31, 2017, Iliad's share capital was made up of 59,032,661 ordinary shares, held by the following shareholders:

- Executive Management: 32,783,528 shares, representing 55.5% of the share capital.
- Public: 26,249,133 shares, representing 44.5% of the share capital.

At December 31, 2017:

- there were three Iliad stock option plans in place with a total of 397,888 shares under option.
- there was one free share plan in place with a total of 293,360 vestable shares.

1.4 ADDITIONAL INFORMATION

1.4.1 Acquisition of a 31.6% stake in eir

On December 20, 2017 the Group announced its acquisition, for c. €320 million, of a 31.6% minority interest in eir – Ireland's incumbent telecom operator, alongside NJJ (Xavier Niel's private holding company). The existing shareholders of eir – Anchorage Capital Group, L.L.C. and Davidson Kempner Capital Management LP – have retained an interest in the company, through a 35.5% equity stake and a non-recourse loan instrument.

Iliad's minority stake in eir forms the basis of a strategic partnership with a leading operator, with a possibility of ultimately taking over control of the company thanks to a call option granted. This call option is exercisable in 2024 and would enable Iliad to acquire 80% of NJJ's stake in eir (i.e. 26.3% of eir's capital) at a 12.5% discount to fair market value, as determined by an independent valuation expert, and with a floor calculated based on an annual yield of 2%.

In the medium term through this investment, Iliad expects to benefit from a dividend stream and a double-digit return on equity. Over the medium/long-term, Iliad has a possibility of ultimately taking over control of the company thanks to a call option granted to Iliad by NJJ on 26.3% of eir's capital, exercisable in 2024.

Accounting treatment

The minority investment in eir will be accounted for under the equity method, in accordance with International Financial Reporting Standards (IFRS 10, IFRS 11 and IAS 28), and will therefore have a limited impact on the Group leverage (c.+0.2x EBITDA) because eir's debt will not be consolidated. Iliad will consequently retain the financial flexibility it needs to continue its expansion plan in Italy, to pursue its profitable capital expenditure plan in France for NGN landline and mobile networks and seize consolidation opportunities in markets where Iliad is present.

A transaction executed in accordance with best governance practices

The transaction constitutes a related-party transaction and as a result Iliad is applying the highest governance standards throughout the process:

- Review of the transaction by a specific committee composed exclusively of Iliad's independent Board members.
- Appointment of an independent financial expert to issue a fairness opinion.
- The transaction was approved, unanimously by the directors present and represented, at the Board of Directors' meeting held on December 18, 2017. The parties involved in the transaction (Xavier Niel and Olivier Rosenfeld) did not vote at Board level and will not vote in their capacity as shareholders.

The completion of the transaction, which is scheduled for the first half of 2018, is subject to clearance from the relevant authorities.

1.4.2 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.
 - Increase the FTTH subscriber base by 300,000 to 500,000 subscribers per year as from 2018.
 - Have 9 million connectible FTTH sockets by end-2018.
 - Have 20 million connectible FTTH sockets by end-2022.

- Mobile business:
 - Open around 2,000 new sites in 2018, with a 4G coverage of around 90% and a 3G coverage of 95%.
 - Achieve a 25% share of the mobile market in the long term.
 - Finalize the migration of 4G sites to 1,800 MHz in 2018.

- Group:
 - Achieve a further increase in EBITDA margin in France in 2018;
 - Generate consolidated EBITDA margin in France of over 40% by 2020.
 - Have capital expenditure in France (excluding purchases of frequencies and the launch of a new Freebox) of between €1.4 billion and €1.5 billion in 2018.
 - Generate more than €1 billion in EBITDA less CAPEX in France as from 2020 thanks to:
 - *Lower charges related to the roaming agreement.*
 - *An improved mobile subscriber mix.*
 - *A national mobile network in 2020.*
 - Achieve an EBITDA break-even in Italy with less than 10% market share.

1.4.3 Events after the reporting date

No significant events occurred after the balance sheet date that require disclosure in this report.

1.4.4 Glossary

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

Alternative operator: An operator that entered the market subsequent to the incumbent State operator losing its monopoly.

Broadband and Ultra-Fast Broadband ARPU (Average Revenue Per Broadband and Ultra-Fast Broadband 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.

Connectible FTTH socket: A socket for which the link between the shared access point and the optical splitter has been put in place by the building operator, which the Group can access in accordance with its co-financing commitments, and for which the connection to the Group's network has been completed or is in progress.

EBITDA: Profit from ordinary activities before share-based payment expense, depreciation, amortization and provisions for impairment of non-current assets.

FCF: Free Cash Flow

Freebox Revolution ARPU (Average Revenue Per Freebox Revolution Subscriber, excluding promotions): 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 Freebox Revolution subscribers invoiced for the period.

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.

Mobile services revenues: Mobile revenues excluding handset-related revenues (sales and rentals).

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

Net debt: difference between short- and long-term financial liabilities, and available cash as presented in the balance sheet.

Profit for the period from recurring operations: Profit for the period excluding the impact of the additional and exceptional income tax contribution.

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 a Free or Alice Broadband or Ultra-Fast Broadband offering, 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, VDS or FTTH offerings through a telephone exchange unbundled by Free.