



Société anonyme. Share capital: €13,062,510

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

Registered in Paris under no. 342 376 332

IFRS 15, Revenue from Contracts with Customers has been applicable since January 1, 2018. Iliad has therefore prepared its consolidated financial statements for the first half of 2018 in accordance with this new standard, which only impacts its revenue figures in the income statement.



Société anonyme. Share capital: €13,062,510
Registered office: 16, rue de la Ville l'Evêque – 75008 Paris, France
Registered in Paris under no. 342 376 332

ANALYSIS OF THE GROUP'S BUSINESS AND RESULTS

KEY CONSOLIDATED FINANCIAL DATA

<i>In € millions</i>	Six months to June 30, 2018	Six months to June 30, 2017	Year ended Dec. 31, 2017
INCOME STATEMENT			
Revenues	2,404	2,401	4,860
EBITDA	866	875	1,777
Profit/(loss) from ordinary activities	406	430	862
Other operating income and expense, net	1	(1)	(1)
Finance costs, net	(17)	(13)	(28)
Other financial income and expense, net	(21)	(33)	(63)
Corporate income tax	(140)	(151)	(366)
Share of profit/(loss) of equity-accounted investees	(23)	1	1
Profit for the period	206	233	405
Profit for the period from recurring operations¹	232	233	480
BALANCE SHEET			
Non-current assets	8,103	7,430	7,424
Current assets	1,920	839	972
<i>Of which cash and cash equivalents</i>	897	154	216
Assets held for sale	18	20	20
Total assets	10,041	8,289	8,416
Total equity	3,445	3,198	3,374
Non-current liabilities	3,996	2,733	2,882
Current liabilities	2,600	2,357	2,160
Total equity and liabilities	10,041	8,289	8,416
CASH FLOWS			
Cash flows from operations	852	855	1,737
Capital expenditure – France ²	(781)	(714)	(1,717)
Capital expenditure – Italy ³	(164)	(58)	(314)
Net change in cash and cash equivalents – Group (excluding financing activities and dividends) ⁴	(744)	(82)	(754)
Dividends	(40)	(26)	(26)
Net debt	3,257	1,769	2,449

In accordance with IFRS 15, €8.9 million and €21.4 million have been reclassified from “Capital expenditure – France” to “Cash flows from operations” for first-half and full-year 2017 respectively.

¹ Excluding non-recurring items such as the Group's share of restructuring and acquisition costs related to the purchase of the stake in eir and non-recurring income tax charges

² Including payments for frequencies

³ Including €73 million related to purchases of frequencies from Wind/Tre in first-half 2018

⁴ Including interest paid and the cash outflows for the eir transaction and the buyout of minority interests in Free Mobile

1 OVERVIEW

The Iliad Group (also referred to as the “**Group**”) is one of the leading players in the electronic communications sector in France and Italy, with more than 20 million subscribers.

Following the launch of its mobile business in Italy, the Group now has two geographic segments:

- **France**

Fueled by the success of its Broadband and Ultra-Fast Broadband offerings marketed under the Free brand, 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 over six years after entering the mobile market, the Group has become one of the leading electronic communications operators in France, with more than 20 million subscribers, of which 13.6 million mobile subscribers and some 6.5 million Broadband and Ultra-Fast Broadband subscribers. In a fiercely competitive environment, the Group generated almost €2.4 billion in revenues for the first half of 2018, stable compared with first-half 2017.

- **Italy**

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 – involved (i) the transfer of a set of 35 MHz (duplex) 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.

The Group launched its mobile telephony offering in Italy on May 29, 2018 and had 635,000 mobile subscribers at June 30, 2018 (with a total of 1.5 million subscribers achieved by early August). The Italian mobile business generated €9.1 million in revenues in one month of operations.

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.

Revenues invoiced to subscribers, which corresponds to revenues generated from the sale of services to subscribers.

1.1 Breakdown of revenues

France

(a) Landline offerings (Broadband and Ultra-Fast Broadband)

Presentation of the Group's landline offerings

In June 2018, the Group overhauled its landline offerings, which until then did not include any activation fees and had no lock-in contracts. Consequently, the price of its offerings has increased by €5 following a 12-month promotional deal period and it has introduced a 12-month lock-in period and a €49 activation fee. The Group now offers its subscribers three different Internet access solutions (at prices ranging from €9.99 to €19.99/month for the first 12 months, then €24.99 to €44.99/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 VDLS2**, which gives subscribers in unbundled areas and with short lines Internet access at speeds of up to 100 Mbps download and 40 Mbps upload.
- **Via optical fiber (FTTH)**, which is available in selected areas covered by Free and provides subscribers with Ultra-Fast Broadband (up to 1 Gbps download and up to 200 Mbps upload).

Through these offerings, 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 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**, enabling its subscribers to access a television service comprising over 620 channels in all. The number of channels included in the basic packages varies between 90 and over 270 (depending on the package), with 240 high definition channels and a catch-up TV service covering more than 100 channels. Since September 2016, the Freebox Révolution offer has included the TV by CANAL Panorama package, which has added more than 60 channels to the offer, including around 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 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 sports channels.

When a subscriber signs up to one of the Group's offerings they are provided with a box. Three boxes are currently available, depending on the offering chosen:

- **The Freebox Révolution**, which allows subscribers to connect several terminals and offers optimal Internet access. The Freebox Révolution 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 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.
- **The Freebox Crystal**, which was originally withdrawn from the Group's commercial offerings when it was replaced by the Freebox mini 4K. However, when the Group overhauled its landline offerings it decided to bring back the Freebox Crystal offering as an entry-level offering.

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:

- **Hosting services**, which correspond to (i) providing dedicated servers to private individuals and SMEs that wish to secure their data, and (ii) website hosting and the purchase/resale of domain names (services targeted mainly at private individuals and very small businesses that have relatively low data storage requirements). Hosting services are invoiced based on a monthly or annual subscription depending on the type of offer.
- **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

In the first half of 2018, the Group's offering comprised:

- **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 (50/100 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 (50/100 GB/month for non-Freebox subscribers) and 25 GB/month of data in Europe, the DOM, Switzerland, the United States, South Africa, Australia, Canada, Mexico, Turkey, Algeria, Thailand, Russia, Brazil, Israel, New Zealand, Ukraine, Jersey, Guernsey and the Isle of Man.

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 €399 and then pays a monthly rental fee of between €12 and €27 (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.

Italy

On May 29, 2018, the Group announced the launch of its mobile business in Italy, with a straightforward and innovative offering at an attractive price.

Iliad Italia originally launched a single plan costing €5.99 a month (unlimited calls and text messages, with 30 GB/month of data in Italy and 2 GB/month in Europe) plus a €9.99 SIM card activation fee. Since July 26, 2018, Iliad Italia has offered a plan costing €6.99/month which includes:

- Unlimited voice calls (i) to mobiles and landlines in Italy, mobiles in the United States and Canada and 62 international landline destinations and (ii) from Europe to landlines and mobiles in Italy and Europe.
- Unlimited text messages in Italy and from Europe to Italy and Europe.
- 40 GB/month of 3G/4G data in Italy and 3 GB/month of data in Europe.

The Group has put in place several different distribution channels for its mobile offering in Italy:

- Physical distribution:
 - A network of seven stores in major Italian cities.
 - A network of over 500 SIM card dispenser kiosks, with 133 located in busy catchment areas. These kiosks comply with the applicable Italian legislation, particularly “Pisanu’s law”, which requires physical identification of subscribers when they take out their subscription.
 - Access to a nationwide network of 60,000 resellers (Sisal, Lottomatica) enabling subscribers to top up their plan.
- Digital distribution:
 - Online distribution accessible via mobile phone, tablet or computer, enabling users to subscribe on line and receive their SIM card at home through the post.

1.2 The Group's main operating costs

France

(a) Main operating costs of the Group's landline offerings

(i) Costs related to DSL offerings

There are different types of operating costs related to the DSL offerings proposed by the Group, depending on whether or not subscribers are unbundled, i.e., whether their communications are carried on the Group’s own network (outside the local loop) or they are covered by a wholesale offering proposed by the incumbent operator.

Almost all of the Group’s DSL subscribers are fully unbundled, for which the Group pays for the rental of the copper pair from the incumbent operator (€9.31⁵/month and line) as well as maintenance costs.

(ii) Costs related to FTTH offerings

As it rolls out its network, the Group is offering its subscribers in eligible areas the possibility of migrating to an FTTH offering. The gross margin and EBITDA margin on FTTH offerings are

⁵ Fee applicable since January 1, 2018, versus €9.45 in 2017

higher than DSL margins as the Group no longer has to pay for the rental of 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) Main operating costs of the Group's mobile offerings

(i) Mobile call and text message termination charges

The applicable termination charges in first-half 2018 were €0.74 for mobile voice calls and €0.01 for text messages, both unchanged from 2017.

(ii) 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 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 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 (50/100 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 (50/100 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 (50/100 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.

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.

Italy

(a) MOCN (Multi-Operator Core Network) roaming agreement

The Group has to pay roaming charges for the roaming services provided to it, which are defined in a Multi-Operator Core Network (MOCN) agreement signed with Wind/Tre in 2016. This agreement enabled the Group to offer 2G, 3G and 4G services with nationwide coverage immediately as from the launch of its mobile operations in Italy. It has an initial five-year term renewable for a further five-year period at the Group's initiative. This technical solution for connecting up Wind/Tre's radio equipment to

the Group's core network creates a more effective and optimal flow of traffic between the two networks compared with a more "conventional" roaming solution.

Margin levels depend on the total number of subscribers, the volume of traffic carried on the Group's network, and subscriber usage patterns, particularly in relation to mobile data. The Group's objective is therefore to maximize the proportion of traffic carried directly on its own network, by deploying its own sites.

(b) Mobile call and text message termination charges

The Group also pays mobile voice call and text message termination charges in Italy. Termination charges for mobile voice calls are regulated and amounted to 0.98 euro cents per call in first-half 2018, whereas text message termination charges are not regulated.

1.3 Capital expenditure and depreciation

France

(a) Broadband (DSL offerings)

(i) Transmission network and unbundling the local loop

Having laid some 130,000 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 the first half of 2018 the Group continued to extend its coverage by opening around 900 new subscriber connection nodes, which brought the total number of unbundled subscriber connection nodes to over 12,500 throughout France at June 30, 2018. All of the network equipment (Freebox DSLAMs) installed in the subscriber connection nodes are compatible with VDSL2 technology, which means that 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

The main operating costs and capital expenditure by subscriber relate to the following:

- The boxes provided to subscribers (the cost of which varies depending on the model).
- 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.
- 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.

(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”. 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.

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) a co-financing 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*. In the first half of 2018, the Group extended its commitment to supporting the rollout of PINs by signing a national framework agreement with Altitude Infrastructure.

(iii) FTTH progress report at June 30, 2018

The first half of 2018 was a record six months in terms of FTTH rollouts and subscriber connections. During the period:

- The number of connectible sockets once again increased (by 1.7 million) and totaled 7.9 million at June 30, 2018 (versus 6.2 million at December 31, 2017). The Group's fiber offerings are now available in some 670 municipalities. In addition, the Group completed its horizontal coverage in very densely populated areas in the first half of 2018.
- The Group recruited 178,000 new FTTH subscribers, bringing the total to 734,000 at June 30, 2018, up 75% in the space of one year. This increase 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 900 technicians over the past 18 months.

The sharp rise 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 confirms that it intends:

- to have installed a total of 9 million connectible sockets by end-2018 and 20 million by 2022;
- to have 1 million FTTH subscribers by the beginning of 2019; and
- to connect up between 300,000 and 500,000 FTTH subscribers in 2018, and then around 500,000 per year as from 2019.

(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 its Decision 2018-0684 dated July 3, 2018, ARCEP put forward to the French government the terms and conditions applicable for allocating the licenses to use spectrum in the 900 MHz, 1,800 MHz and 2,100 MHz frequency bands in Metropolitan France.

These terms and conditions were approved by the government in an order dated July 26, 2018 which was published in the French official legal gazette on August 2, 2018. The corresponding invitation to tender for the allocation of the licenses was launched on August 2, 2018.

The Group will take part in this tender process with the aim of further enriching its frequency portfolio, especially in the 900 MHz and 2,100 MHz bands.

The frequencies allocated under the tender process will be delivered for a ten-year period as from the date on which they are made available. The allocation of the frequencies will be subject to the candidates accepting a number of obligations in line with the French government's digital objectives, notably related to regional digital development (a targeted coverage process involving the successful candidates' participation in rolling out sites in certain areas identified by the government). The allocation procedure will involve granting a limited number of frequencies to up to four operators per frequency band in order to avoid too great an imbalance between the operators.

The provisional timeline in the invitation to tender states that the frequencies will be allocated within a maximum of eight months following the deadline for the filing of bids (October 2, 2018).

(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).

The Group continued its mobile network rollout drive in first-half 2018, with:

- **The opening of 1,151 new 3G sites**, bringing the Group's total number of 3G sites to more than 13,300 at end-June 2018 and giving it a 3G coverage rate of almost 96% of the French population.
- **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 first-half 2018, with (i) new 1,800 MHz frequencies made available at over 1,500 additional sites and (ii) the deployment, in accordance with the applicable regulatory deadlines and availability, of 700 MHz frequencies at some 700 additional sites, i.e., almost as many as in the full twelve

months of 2017. The continued deployment of these new 700 MHz and 1,800 MHz frequencies during the first half of 2018 enabled the Group to increase its 4G coverage to around 90% at end-June 2018 and to improve the indoor quality of its network. At June 30, 2018, the Group had a total of 10,820 4G sites.

- **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 June 30, 2018, 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 these operational aspects, the Group has already reached its objective of achieving a 3G coverage rate of 95% of the French population and a 4G coverage rate of close to 90% by end-2018.

Thanks to the progress achieved, Iliad confirms its intention to (i) deploy over 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.

The depreciation/amortization periods applied for the main assets brought into service 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

At June 30, 2018 the Group had a full physical presence in France, thanks to:

- Its 57 Free Centers.
- Its network of self-service kiosks for mobile subscriptions that have an integrated SIM card dispenser, rolled out in partnership with the Maison de la Presse and Mag Presse store network. At June 30, 2018, the Group had approximately 1,500 such kiosks across France.

Italy

(a) 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 signed between Iliad and the Hutchison and VimpelCom groups. Consequently, the Group now has a balanced portfolio of 2 x 35 MHz (duplex) frequencies in Italy, 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 and their payments are being made in installments between 2017 and 2019. At June 30, 2018, the Group had paid a total of €123 million.

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 auction for these frequencies is scheduled to take place during the third quarter of 2018 and Iliad intends to take part. In its decision published in May 2018, AGCOM set out the breakdown of the auction's various lots and the reserve price for the different bands as well as the coverage and access obligations attached to the rights that will be allocated. In total, the following spectrum will be available (i) six lots of 5 MHz (duplex) in the 700 MHz FDD band, (ii) two lots of 80 MHz and two lots of 20 MHz in the 3,600 MHz-3,800 MHz band, (iii) five lots of 200 MHz in the 26 GHz-27 GHz band, and (iv) three lots of 5 MHz in the 700 MHz SDL band. AGCOM has stated that one lot of 10 MHz (duplex) in the 700 MHz band will be allocated to a new entrant.

(b) 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.
- Carrying out capital expenditure projects during 2017 and first-half 2018 in preparation for the commercial launch, notably for rolling out the core network and interconnections with Wind/Tre for managing traffic under the MOCN solution. 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. At June 30, 2018, the Group was fully dependent on its roaming agreement with Wind/Tre and had already secured over 1,100 sites (including 750 decommissioned sites) which had been transferred or were in the process of integration.
- Leveraging synergies by regularly consulting with the various French technical and operations teams concerning various issues such as network management, information systems, network architecture, radioplanning and distribution.

2 SIGNIFICANT EVENTS OF FIRST-HALF 2018

The key figures and significant events of first-half 2018 were as follows:

In € millions	After IFRS 15			Before IFRS 15		
	Six months to June 30, 2018	Six months to June 30, 2017	% change	Six months to June 30, 2018	Six months to June 30, 2017	% change
Revenues - France	2,395	2,401	-0.2%	2,450	2,464	-0.6%
- Landline	1,334	1,364	-2.2%	1,356	1,394	-2.7%
- Mobile	1,066	1,041	+2.4%	1,098	1,075	+2.1%
- Intra-group sales	(5)	(5)	-	(5)	(5)	-
Revenues - Italy	9	0	-	9	0	-
Consolidated revenues	2,404	2,401	+0.1%	2,459	2,464	-0.2%
EBITDA - France	894	875	+2.2%	894	875	+2.2%
EBITDA - Italy	(28)	-	-	(28)	-	-
Consolidated EBITDA	866	875	-1.0%	866	875	-1.0%
Profit from ordinary activities	406	430	-5.6%	406	430	-5.6%
Profit for the period from recurring operations	232	233	-0.4%	232	233	-0.4%
Leverage ratio	1.8x	1.0x	+0.8x	1.8x	1.0x	+0.8x

Operations review

- Landline business: a new sales and marketing approach deployed since June 2018.** As the landline market in France is now mature and competitive with many promotional offers, the Group has decided to focus on gradually building up the value of its subscriber base by (i) marketing new offerings through its website, (ii) introducing a subscriber loyalty policy and (iii) stepping up the pace of its FTTH migrations. Thanks to its new sales and marketing policy, the Group once again began to make net adds in the July/August period.
- FTTH: the Group has clearly positioned itself as France's leading alternative FTTH operator, achieving a record half-year period in terms of subscriber connections with 178,000 new subscribers in the first six months of 2018.** The Group continued its FTTH rollout drive during the period, with (i) 1.7 million new connectible sockets installed, bringing the total to 7.9 million at June 30, 2018, and (ii) 178,000 additional subscribers connected to fiber. This means that the Group's FTTH subscriber base increased by a third in the space of six months, and at June 30, 2018 it stood at 734,000.
- Mobile business: 500,000 new subscribers signed up to the Free Mobile Unlimited 4G Plan (50/100 GB for non-Freebox subscribers) in the first half of 2018,** despite a higher level of promotional deals launched by competitors in the second quarter. Conversely, the total subscriber base declined by 70,000 over the period, due to a decrease in the number of subscribers to the €2/month plan (€0/month for Freebox subscribers). The steady growth in the number of subscribers signing up to the Free

Mobile Unlimited 4G Plan (50/100 GB for non-Freebox subscribers) demonstrates the strength of the Free brand, the fact that the Group has got its strategy right by regularly enriching its mobile offerings, and the effectiveness of the migrations policy (twofold increase in the net volume of migrations in first-half 2018 compared with the same period of 2017). At June 30, 2018, the Group had a total of 13.6 million mobile subscribers, of which 7.6 million were on the Free Mobile Unlimited 4G Plan (50/100 GB for non-Freebox subscribers). The Mobile business once again began making net adds in the July/August period.

- **A sharp increase in monthly average data usage per 4G subscriber to 9.6 GB – one of the highest levels in Europe – demonstrating the quality of the Group’s network.** Thanks to the Group’s large portfolio of frequencies dedicated to 4G and its gradual deployment of 700 MHz frequencies in authorized areas, the quality of its 4G network has reached its best level ever. This network once again scored well in the nPerf mobile connections performance survey for the second quarter of 2018, with an average download speed of 41.2 Mbps – 40% faster than the speeds recorded for two of the market’s three other players. At June 30, 2018, the Group had 8.4 million 4G subscribers – 1.6 million more than one year previously and accounting for 62% of its total mobile subscriber base. The average monthly data usage per 4G subscriber was 9.6 GB representing a year-on-year increase of almost 50% and one of the highest volumes of data usage in Europe.
- **Ongoing capital spending drive for rolling out the Group’s mobile network.** In the first half of 2018, the Group deployed 1,151 new 3G sites bringing the total number of mobile sites to over 13,300 at end-June 2018 and giving it a 3G coverage rate of almost 96% of the French population. At the same time, it continued its drive to (i) densify its 4G network, which now covers nearly 90% of the French population and (ii) use fiber connections for almost all of its mobile sites (with over 90% of the Group’s mobile sites in densely populated areas in France now fiber-connected, a prerequisite for launching 5G offerings).

Financial review

- **Revenues in France stable year on year, coming in at €2.4 billion in first-half 2018:**
 - **Mobile: revenues invoiced to subscribers up by more than 5%.** Revenues invoiced to subscribers – which is the Mobile business’s main margin generator – came in at almost €740 million, up by more than 5% year on year. This increase was attributable to a better subscriber mix. However, the overall figure was adversely affected by the measures taken to enrich the Free Mobile Unlimited 4G Plan (50/100 GB for non-Freebox subscribers), notably the introduction of numerous new roaming destinations. Incoming revenues continued to decline as a result of fewer text messages being sent due to the increasing use of new communication platforms. Revenues from terminals also decreased during the period. Overall, revenues for the Mobile business rose 2.4% to €1,066 million in the first half of 2018.
 - **Landline: revenues down 2.2% year on year to €1,334 million for first-half 2018.** This decrease reflects (i) a competitive market, (ii) a higher VAT rate and (iii) the adverse effect of promotional deals introduced by the Group.
- **EBITDA – France up by almost €20 million to €894 million, representing 37.3% of revenues (up by nearly one point year on year).** This performance reflects the sharp increase in profitability for the Mobile business since it was first launched, although this positive effect was offset by a succession of negative impacts that have adversely affected the Landline business in recent quarters. The strong improvement in the Mobile business’s profitability is mainly due to the higher proportion of traffic carried directly on the Group’s own network and a better subscriber mix, and has been achieved despite the Group constantly enriching its offerings, with numerous new roaming destinations added

during the last 12 months. During first-half 2018, the Landline business continued to be weighed down by (i) the impact of promotional deals, (ii) a higher VAT rate and (iii) the signature of new audiovisual distribution contracts.

- **Major capex programs focused on rolling out the Group's landline and mobile Ultra-Fast Broadband networks, backed by a solid financial structure.** During the period, it invested €773 million (excluding frequency payments) in its landline and mobile infrastructure in France, enabling it to become more autonomous and increase its profitability while at the same time enhancing its subscriber service.

Italy

Operations review

- **Robust commercial success, with 635,000 subscribers signing up in the space of just one month and a total of 1.5 million subscribers achieved by early August.** Iliad's business model in Italy is based on a straightforward, transparent offering with no hidden costs. During the first half of 2018, the Group also (i) pursued its network capital expenditure, (ii) continued to hire new people for its local team, (iii) incurred advertising expenditure in order to anchor the brand in its new market, (iv) set up a physical distribution network of stores and kiosks with automatic SIM card dispensers, as well as the possibility for subscribers to sign up directly online via their mobile phone, tablet or computer, and (v) entered into partnerships with nationwide reseller networks (Sisal, Lottomatica) in order to create customer proximity and enable subscribers to easily top up their SIM cards.

Financial review

- **First-half 2018 revenues amounted to €9 million, generated in just one month** and mainly comprising (i) SIM card activations during the period (€9.99 per SIM card), and (ii) the subscription price (€5.99/month).
- **EBITDA came to a negative €28 million**, primarily reflecting (i) roaming costs paid to Wind/Tre, (ii) marketing and advertising expenses related to the commercial launch and developing the brand's image in Italy, and (iii) overhead expenses, particularly payroll costs.
- **The Group incurred €164 million in capital expenditure in first-half 2018 in order to develop its Italian operations** (including €73 million for frequencies purchased from Wind/Tre).

3 COMPARISON OF RESULTS FOR FIRST-HALF 2018 AND FIRST-HALF 2017

<i>In € millions</i>	Six months to June 30, 2018	Six months to June 30, 2017	% change
Revenues	2,404	2,401	0.1%
Purchases used in production	(1,031)	(1,094)	-5.8%
Gross profit	1,373	1,307	+5.0%
as a % of revenues	57.1%	54.4%	+2.7 pts
Payroll costs	(142)	(131)	+8.4%
External charges	(261)	(199)	+31.2%
Taxes other than on income	(62)	(65)	-4.6%
Additions to provisions	(30)	(29)	+3.4%
Other income and expenses from operations, net	(11)	(8)	+37.5%
EBITDA	866	875	-1.0%
as a % of revenues	36.0%	36.4%	-0.4 pts
Share-based payment expense	(6)	(0)	-
Depreciation, amortization and provisions for impairment of non-current assets	(454)	(444)	+2.3%
Profit/(loss) from ordinary activities	406	430	-5.6%
Other operating income and expense, net	1	(1)	-
OPERATING PROFIT	407	430	-5.3%
Finance costs, net	(17)	(13)	+30.8%
Other financial income and expense, net	(21)	(33)	-36.4%
Corporate income tax	(140)	(151)	-7.3%
Share of profit/(loss) of equity-accounted investees	(23)	1	-
PROFIT FOR THE PERIOD	206	233	-11.6%
PROFIT FOR THE PERIOD FROM RECURRING OPERATIONS⁶	232	233	-0.4%

⁶ Excluding the Group's share of restructuring and acquisition costs related to eir

3.1 Analysis of consolidated results

(a) Key indicators

(b) France	June 30, 2018	Dec. 31, 2017	June 30, 2017
Total mobile subscribers	13,625,000	13,695,000	13,140,000
- Of which on the Free Mobile Unlimited 4G Plan*	7,550,000	7,060,000	-
Total mobile subscribers with 4G access	8,400,000	8,200,000	6,800,000
Average 4G data usage (in GB per month per subscriber)	9.6 GB	8.4 GB	6.6 GB
Total Broadband and Ultra-Fast Broadband subscribers	6,473,000	6,520,000	6,468,000
- Of which FTTH	734,000	556,000	419,000
Total number of subscribers – France	20,098,000	20,215,000	19,608,000
Broadband and Ultra-Fast Broadband ARPU** (in €)	32.8	33.9	34.0
Freebox Révolution ARPU*** (in €)	>38.0	>38.0	>38.0
Number of connectible FTTH sockets	7.9m	6.2m	5.3m
<i>Italy</i>	June 30, 2018	Dec. 31, 2017	June 30, 2017
Total mobile subscribers	635,000	-	-

* 50/100 GB for non-Freebox subscribers

** €32.20 including the restatements related to IFRS 15

*** Excluding promotions

(c) Analysis of results for France

The following table presents income statement data for France (up to “Operating profit”) for the six-month periods ended June 30, 2018 and June 30, 2017, including the impact of IFRS 15:

<i>In € millions</i>	Six months to June 30, 2018	Six months to June 30, 2017	% change
Revenues	2,395	2,401	-0.2%
Purchases used in production	(1,023)	(1,094)	-6.5%
Gross profit	1,372	1,307	+5.0%
as a % of revenues	57.3%	54.4%	+2.9 pts
Payroll costs	(139)	(131)	+6.1%
External charges	(238)	(199)	+19.6%
Taxes other than on income	(61)	(65)	-6.2%
Additions to provisions	(30)	(29)	+3.4%
Other income and expenses from operations, net	(10)	(8)	+25.0%
EBITDA	894	875	+2.2%
as a % of revenues	37.3%	36.4%	+0.9 pts
Share-based payment expense	(6)	(0)	-
Depreciation, amortization and provisions for impairment of non-current assets	(451)	(444)	+1.6%
Profit from ordinary activities	437	430	+1.6%
Other operating income and expense, net	1	(1)	-
Operating profit	438	430	+1.9%

(i) Revenues

Revenues generated in France in first-half 2018 were more or less stable compared with the same period of 2017 at €2.4 billion (down 0.2%). In a fiercely competitive market, the Group recorded a 2.2% decrease in Landline revenues (to €1,334 million) and a 2.4% rise in Mobile revenues (to €1,066 million).

The table below shows the breakdown of revenues for France by category for first-half 2018 and first-half 2017 as well as the percentage change between the two periods.

In € millions	After IFRS 15			Before IFRS 15		
	Six months to June 30, 2018	Six months to June 30, 2017	% change	Six months to June 30, 2018	Six months to June 30, 2017	% change
Landline	1,334	1,364	-2.2%	1,356	1,394	-2.7%
Mobile	1,066	1,041	+2.4%	1,098	1,075	+2.1%
- Revenues invoiced to subscribers	738	700	+5.4%	770	734	+4.9%
- Terminals	105	112	-6.3%	105	112	-6.3%
- Other	224	229	-2.2%	224	229	-2.2%
Intra-group sales	(5)	(5)	-	(5)	(5)	-
Total revenues – France	2,395	2,401	-0.2%	2,450	2,464	-0.6%

Landline revenues

Against a backdrop of heightening competition, revenues for the Landline business retreated 2.2% to €1,334 million. The main factors underlying this business's performance in first-half 2018 were:

- **Landline business: a new sales and marketing approach deployed since June 2018.** As the landline market in France is now mature and competitive with many promotional offers, the Group has decided to focus on gradually building up the value of its subscriber base by (i) marketing new offerings through its website, (ii) introducing a subscriber loyalty policy and (iii) stepping up the pace of its FTTH migrations. Thanks to its new sales and marketing policy, the Group once again began to make net adds in the July/August period.
- **FTTH: the Group has clearly positioned itself as France's leading alternative FTTH operator, achieving a record half-year period in terms of subscriber connections with 178,000 new subscribers in the first six months of 2018.** The Group continued its FTTH rollout drive during the period, with (i) 1.7 million new connectible sockets installed, bringing the total to 7.9 million at June 30, 2018, and (ii) 178,000 additional subscribers connected to fiber. This means that the Group's FTTH subscriber base increased by a third in the space of six months, and at June 30, 2018 it stood at 734,000.
- **Revenues down 2.2% year on year to €1,334 million for first-half 2018.** This decrease reflects (i) a competitive market, (ii) a higher VAT rate and (iii) the adverse effect of promotional deals introduced by the Group.
- **Broadband and Ultra-Fast Broadband ARPU at €32.8 for the first half of 2018.** The decrease in overall ARPU slowed in the second quarter with the figure coming in just €0.10 lower than for the three months ended March 31, 2018 thanks to the initial effects

of the Group's new sales and marketing policy. ARPU for the Freebox Révolution offer once again exceeded €38⁷.

Mobile revenues

Revenues generated by the Mobile business rose 2.4% to €1,066 million in first-half 2018 (with revenues invoiced to subscribers up 5.4%). The main factors that drove the Mobile business's performance during the period were as follows:

- **500,000 new subscribers signed up to the Free Mobile Unlimited 4G Plan (50/100 GB for non-Freebox subscribers)** in the first half of 2018, despite a higher level of promotional deals launched by competitors in the second quarter. Conversely, the total subscriber base declined by 70,000 over the period, due to a decrease in the number of subscribers to the €2/month plan (€0/month for Freebox subscribers). The steady growth in the number of subscribers signing up to the Free Mobile Unlimited 4G Plan (50/100 GB for non-Freebox subscribers) demonstrates the strength of the Free brand, the fact that the Group has got its strategy right by regularly enriching its mobile offerings, and the effectiveness of the migrations policy (twofold increase in the net volume of migrations in first-half 2018 compared with the same period of 2017). At June 30, 2018, the Group had a total of 13.6 million mobile subscribers, of which 7.6 million were on the Free Mobile Unlimited 4G Plan (50/100 GB for non-Freebox subscribers). The Mobile business once again began making net adds in the July/August period.
- **A sharp increase in monthly average data usage per 4G subscriber to 9.6 GB – one of the highest levels in Europe – demonstrating the quality of the Group's network.** Thanks to the Group's large portfolio of frequencies dedicated to 4G and its gradual deployment of 700 MHz frequencies in authorized areas, the quality of its 4G network has reached its best level ever. This network once again scored well in the nPerf mobile connections performance survey for the second quarter of 2018, with an average download speed of 41.2 Mbps – 40% faster than the speeds recorded for two of the market's three other players. At June 30, 2018, the Group had 8.4 million 4G subscribers – 1.6 million more than one year previously and accounting for 62% of its total mobile subscriber base. The average monthly data usage per 4G subscriber was 9.6 GB representing a year-on-year increase of almost 50% and one of the highest volumes of data usage in Europe.
- **Revenues invoiced to subscribers up by more than 5%.** Revenues invoiced to subscribers – which is the Mobile business's main margin generator – came in at almost €740 million, up by more than 5% year on year. This increase was attributable to a better subscriber mix. However, the overall figure was adversely affected by the measures taken to enrich the Free Mobile Unlimited 4G Plan (100 GB for non-Freebox subscribers), notably the introduction of new roaming destinations. Incoming revenues continued to decline as a result of fewer text messages being sent due to the increasing use of new communication platforms. Revenues from terminals also decreased during the period. Overall, revenues for the Mobile business rose 2.4% to €1,066 million in the first half of 2018.

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.

(ii) Gross profit

Gross profit for France amounted to €1,372 million in first-half 2018, up 5% year on year.

⁷ Excluding promotions

As a percentage of revenues, gross profit climbed almost three points to 57.3%, driven by the sharp increase in profitability for the Mobile business which was achieved thanks to the improved subscriber mix and an increase in traffic volumes carried directly on the Group's own network.

(iii) Payroll costs

Excluding Italy, the Group's headcount was more than 9,800 at June 30, 2018, representing an increase of some 700 in the past 12 months.

This rise was mainly due to the Group's pro-active strategy of accelerating the rollouts of its FTTH and mobile networks as well as the recruitment of developers for its hosting activities.

In view of these factors, payroll costs (excluding employee benefits and capitalized costs) rose 6.1% year on year to €139 million.

(iv) External charges

The Group's external charges increased by 20% to €238 million in first-half 2018. This item mainly includes network costs (rental of mobile sites, maintenance, etc.) and the costs of equipment hosting, insurance, advertising and sub-contracting. The year-on-year rise chiefly reflects the 3,000 new mobile sites brought into service over the last 12 months, as well as the development of the FTTH network which has resulted in additional easement, energy and maintenance costs.

(v) Taxes other than on income

Taxes other than on income decreased by 6.2% to €61 million, primarily due to reductions in certain taxes.

(vi) Additions to provisions

Additions to provisions for bad debts, impairment of inventories and contingencies and charges edged up €1 million to €30 million in the first six months of 2018. The main amounts recognized during the year related to provisions for bad debts.

(vii) Other income and expenses from operations, net

This item represented a net expense of €10 million in first-half 2018.

(viii) EBITDA

EBITDA generated in France advanced some €20 million year on year to €894 million and the EBITDA margin widened by almost one point to 37.3%. The EBITDA figure for the first half of each year is negatively affected by IFRIC 21, which requires certain tax charges for the whole twelve-month period to be recognized in full at January 1.

The main factors affecting EBITDA generated in France in first-half 2018 were as follows:

- **Further economies of scale achieved for the Mobile business's fixed costs.** The continued significant growth in the Mobile business's margin-generating revenues 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 numerous new countries and the end of roaming charges in Europe since June 2017.
- **Better mobile network coverage for the population.** Thanks to the intense rollout of new mobile sites, the Group has considerably improved its mobile network coverage over the past 12 months (with the coverage rate up by 5 percentage points to almost 96% for the 3G network and by 8 points to almost 90% for 4G). This has enabled it to increase the volume of traffic carried directly on its own network.

- **7.6 million subscribers are now signed up to the Free Mobile Unlimited 4G Plan (50/100 GB for non-Freebox subscribers), representing over 55% of Free Mobile's total subscribers.** At June 30, 2018 the number of subscribers on the €2/month plan (€0/month for Freebox subscribers) was 6.1 million.
- **A further decrease in profitability for the Landline business**, due to (i) the impact of promotions, (ii) the higher VAT rate and (iii) the signature of new audiovisual distribution contracts.

(ix) Profit from ordinary activities

Profit from ordinary activities rose by €7 million to €437 million. This rise was fueled by the higher EBITDA figure although this positive effect was partly offset by a 1.6% increase in depreciation/amortization expense resulting from the continued rollout of the Group's FTTH and mobile networks.

(d) Analysis of results for Italy

Iliad's Italian operations made only a small contribution to the Group's consolidated financial results for the first half of 2018. The following table presents a simplified income statement for the Italy segment for the six-month periods ended June 30, 2018 and June 30, 2017.

<i>In € millions</i>	Six months to June 30, 2018	Six months to June 30, 2017	% change
Revenues - Italy	9	-	-
Gross profit	1	-	-
EBITDA	(28)	-	-
<i>as a % of revenues</i>	-	-	-
Profit/(loss) from ordinary activities	(31)	-	-
Operating profit	(31)	-	-

As the commercial launch of the Group's Italian mobile business took place on May 29, 2018, it only contributed one month of operations in the first half of 2018. Its main results are described below.

(i) Revenues

Iliad's operations in Italy reported robust commercial success, with 635,000 subscribers signing up in the space of just one month and a total of 1.5 million subscribers achieved by early August. Iliad's business model in Italy is based on a straightforward, transparent offering with no hidden costs. During the first half of 2018, the Group also (i) pursued its network capital expenditure, (ii) continued to hire new people for its local team, (iii) incurred advertising expenditure in order to anchor the brand in its new market, (iv) set up a physical distribution network of stores and kiosks with automatic SIM card dispensers, as well as the possibility for subscribers to sign up directly online via their mobile phone, tablet or computer, and (v) entered into partnerships with nationwide reseller networks (Sisal, Lottomatica) in order to create customer proximity and enable subscribers to easily top up their SIM cards.

In Italy, Iliad has put in place:

- An effective and inexpensive distribution network.
- A brand which already has a strong image.
- A very high-quality mobile service.

First-half 2018 revenues amounted to €9 million, generated in just one month and mainly comprising (i) SIM card activations during the period (€9.99 per SIM card), and (ii) the subscription price (€5.99/month).

(ii) EBITDA

EBITDA came to a negative €28 million, primarily reflecting (i) roaming costs paid to Wind/Tre, (ii) marketing and advertising expenses related to the commercial launch and developing the brand's image in Italy, and (iii) overhead expenses, particularly payroll costs.

(iii) Profit/(loss) from ordinary activities

The Group's Italian operations generated a €31 million loss from ordinary activities in the first half of 2018, including the depreciation/amortization expense for the network's initial components and frequencies.

3.2 Consolidated cash flows and capital expenditure

<i>In € millions</i>	Six months to June 30, 2018	Six months to June 30, 2017	% change
Consolidated cash flows from operations	852	855	-0.3%
Change in working capital requirement	(81)	(47)	+72.3%
Operating Free Cash Flow	771	808	-4.6%
Capital expenditure – France (excluding payments for frequencies)	(773)	(710)	+8.9%
Capital expenditure – Italy (excluding payments for frequencies)	(91)	(7)	-
Income tax paid	(154)	(103)	+49.5%
Other	(415)	(15)	-
Consolidated Free Cash Flow (excluding payments for frequencies, financing activities and dividends)	(662)	(27)	-
Capital expenditure – payments for frequencies – France	(8)	(4)	-
Capital expenditure – payments for frequencies – Italy	(73)	(51)	+43.1%
Consolidated Free Cash Flow (excluding financing activities and dividends)	(744)	(82)	-
Dividends	(40)	(26)	+53.8%
Cash and cash equivalents at period-end	871	84	-

Consolidated Free Cash Flow

In the first six months of 2018, the Group pursued its major capex programs focused on rolling out its landline and mobile Ultra-Fast Broadband networks, backed by a solid financial structure. During the period, it invested €773 million (excluding frequency payments) in its landline and mobile infrastructure in France, enabling it to become more autonomous and increase its profitability while at the same time enhancing its subscriber service.

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

- €852 million in consolidated cash flows from operations.
- An €81 million negative change in working capital requirement, due to negative contributions of €20 million for Italy and €61 million for France.
- €773 million in capital expenditure for France. During the first half of 2018 the Group pursued its capital expenditure drive for its Ultra-Fast Broadband networks both for Landline (with 178,000 new subscribers connected up to FTTH) and Mobile (with some 1,151 new sites deployed). The Group invested almost €300 million in its FTTH operations during the period.
- €164 million in capital expenditure for Italy, including €73 million relating to the purchase of frequencies from Wind/Tre.
- €154 million in income tax paid.
- Other: includes the outflow for the acquisition of the Group's interest in eir, the partial buyback of minority interests in Free Mobile and interest paid.

Net change in cash and cash equivalents

The Group ended the first half of 2018 with €871 million in available cash and cash equivalents.

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 June 30, 2018, the Group had gross debt of €4,154 million and net debt of €3,257 million. The Group maintained its solid financial structure during the period and its leverage ratio at June 30, 2018 was 1.8x EBITDA. At the same time, it also had a very strong liquidity position.

The Group's gross debt primarily comprised the following at June 30, 2018:

(a) Borrowings due within one year

- A €1 billion short-term commercial paper program.

The Group has set up a short-term commercial paper program for up to €1 billion. At June 30, 2018, €660 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 June 30, 2018:

- 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 2023

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 maturing in 2021.

This loan was renegotiated on July 16, 2018 and now matures in 2023.

- A €1,650 million syndicated credit facility maturing in 2025.

The Group had a €1,400 million syndicated credit facility set up with a pool of 12 international banks, for which the second extension option was exercised in 2017 to extend its maturity to 2022. This facility was renegotiated on July 16, 2018, with its amount increased to €1,650 million and its maturity further extended to 2025. None of the facility had been drawn down at June 30, 2018.

The applicable interest rate is based on Euribor for the period plus a margin. The margin was between 0.35% and 1.10% per year and was reduced to between 0.25% and 0.95% when the facility was renegotiated in July 2018.

The Group's bank borrowings are subject to financial covenants based on its leverage and interest cover ratios. None of these covenants had been breached at June 30, 2018.

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.

■ €1,150 million worth of bonds issued in two tranches

On April 18, 2018, the Group issued €1,150 million worth of bonds in two tranches:

- A first tranche of €500 million paying interest at 0.625% per year and redeemable at face value at maturity on November 25, 2021.
- A second tranche of €650 million paying interest at 1.875% per year and redeemable at face value at maturity on April 25, 2025.

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	July 2023	At maturity	500	500	-
Syndicated credit facility - 2015	July 2024	At maturity	1,650	-	1,650
<u>Bonds</u>					
Ordinary bonds - 2015	December 2022	At maturity	650	650	-
Ordinary bonds - 2017	October 2024	At maturity	650	650	-
Ordinary bonds - 2018	Nov. 2021 and April 2025	At maturity	500 & 650	1,150	-

(c) Finance lease commitments

The Group uses finance leases to finance (i) the purchase of real estate assets required for rolling out its networks and (ii) a portion of the technical equipment in its datacenters. At June 30, 2018, the Group's total obligations under finance leases amounted to €59 million.

3.4 Ownership structure at June 30, 2018

At June 30, 2018, Iliad's share capital was made up of 58,998,513 ordinary shares, held by the following shareholders:

- Executive Management: 32,768,758 shares, representing 55.5% of the share capital.
- Public: 26,229,755 shares, representing 44.5% of the share capital.

At June 30, 2018:

- There were three Iliad stock option plans in place with a total of 345,643 shares under option.
- There was one free share plan in place with a total of 293,360 vestable shares.

4 ADDITIONAL INFORMATION

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:

France

- Landline business:
 - Achieve a 25% share of the Broadband and Ultra-Fast Broadband market in the long term.
 - Increase the FTTH subscriber base by between 300,000 and 500,000 subscribers in 2018 and then by some 500,000 subscribers per year as from 2019.
 - Reach a total of 1 million FTTH subscribers by the beginning of 2019.
 - Have 9 million connectible FTTH sockets by end-2018 and 20 million by end-2022.
- Mobile business:
 - Open some 2,000 new sites in 2018.
 - Achieve a 25% share of the mobile market in the long term.
 - Finalize the migration of 4G sites to 1,800 MHz in 2018.
- Financial targets:
 - Achieve EBITDA margin growth in France in 2018.
 - Generate consolidated EBITDA margin in France of over 40% by 2020.
 - Have capital expenditure in France (excluding purchases of frequencies but including the launch of new boxes) of around €1.55 billion in 2018.
 - Due to fierce competition and the lower profitability levels for its Landline business, the Group has decided to revise to around €1 billion its target for EBITDA less CAPEX in France as from 2020.

Italy

- Achieve EBITDA break-even, with a market share of less than 10%.

4.2 Events after the balance sheet date

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

4.3 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 Révolution ARPU (Average Revenue Per Freebox Révolution 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 Révolution 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.

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 and cash equivalents as presented in the balance sheet.

Profit for the period from recurring operations: Profit for the period excluding the impact of non-recurring items such as the Group's share of restructuring and acquisition costs related to the eir transaction and non-recurring income tax charges.

Revenues invoiced to subscribers: Revenues generated from services invoiced directly to subscribers (services included in subscribers' mobile plans as well as additional services).

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.