# CONTENTS

CONSOLIDATED INCOME STATEMENT ............ 3
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME ............ 4
CONSOLIDATED BALANCE SHEET – ASSETS ............ 5
CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES ............ 6
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY ............ 7
CONSOLIDATED STATEMENT OF CASH FLOWS ............ 8
NOTE 1: ACCOUNTING PRINCIPLES AND POLICIES ............ 9
NOTE 2: SCOPE OF CONSOLIDATION ............ 30
NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS ............ 31
NOTE 4: REVENUES ............ 32
NOTE 5: SEGMENT INFORMATION ............ 33
NOTE 6: PURCHASES USED IN PRODUCTION AND EXTERNAL CHARGES ............ 34
NOTE 7: HUMAN RESOURCES DATA ............ 35
NOTE 8: DEVELOPMENT COSTS ............ 37
NOTE 9: OTHER INCOME AND EXPENSES FROM OPERATIONS ............ 38
NOTE 10: DEPRECIATION, AMORTIZATION AND PROVISIONS ............ 39
NOTE 11: OTHER OPERATING INCOME AND EXPENSE, NET ............ 40
NOTE 12: FINANCIAL INCOME AND EXPENSES ............ 41
NOTE 13: CORPORATE INCOME TAX ............ 42
NOTE 14: BASIC AND DILUTED EARNINGS PER SHARE ............ 44
NOTE 15: ANALYSIS OF THE CONSOLIDATED STATEMENT OF CASH FLOWS ............ 45
NOTE 16: GOODWILL ............ 48
NOTE 17: INTANGIBLE ASSETS ............ 49
NOTE 18: IMPAIRMENT TESTS ON GOODWILL AND INTANGIBLE ASSETS ............ 53
NOTE 19: PROPERTY, PLANT AND EQUIPMENT ............ 54
NOTE 20: EQUITY-ACCOUNTED INVESTEES ............ 56

**NOTE 21: OTHER FINANCIAL ASSETS** .... **59**
**NOTE 22: INVENTORIES** .... **61**
**NOTE 23: OTHER ASSETS** .... **62**
**NOTE 24: CASH AND CASH EQUIVALENTS** .... **63**
**NOTE 25: ASSETS HELD FOR SALE** .... **64**
**NOTE 26: EQUITY** .... **65**
**NOTE 27: STOCK OPTION AND SHARE GRANT PLANS** .... **66**
**NOTE 28: PROVISIONS** .... **70**
**NOTE 29: FINANCIAL LIABILITIES** .... **71**
**NOTE 30: TRADE AND OTHER PAYABLES** .... **77**
**NOTE 31: RELATED-PARTY TRANSACTIONS** .... **78**
**NOTE 32: FINANCIAL INSTRUMENTS** .... **81**
**NOTE 33: FINANCIAL RISK MANAGEMENT** .... **83**
**NOTE 34: OFF-BALANCE SHEET COMMITMENTS AND CONTINGENCIES** .... **87**
**NOTE 35: EVENTS AFTER THE REPORTING DATE** .... **92**
**NOTE 36: LIST OF CONSOLIDATED COMPANIES AT DECEMBER 31, 2018** .... **93**
**NOTE 37: AUDIT FEES** .... **96**

# CONSOLIDATED INCOME STATEMENT

| In € millions | Note | 2018 | 2017 |
|---|---|---|---|
| **Revenues** | 4 | **4,891** | **4,860** |
| Purchases used in production | 6 | (2,129) | (2,230) |
| Payroll costs | 7 | (285) | (255) |
| External charges | 6 | (579) | (417) |
| Taxes other than on income | | (97) | (108) |
| Additions to provisions | 10 | (26) | (54) |
| Other income from operations | 9 | 63 | 27 |
| Other expenses from operations | 9 | (83) | (46) |
| **EBITDA (1)** | 1 | ***1,755*** | ***1,777*** |
| Share-based payment expense | 27 | (14) | (4) |
| Depreciation, amortization and provisions for impairment of non-current assets | 10 | (1,051) | (911) |
| **Profit from ordinary activities** | | **690** | **862** |
| Other operating income and expense, net | 11 | (10) | (1) |
| **Operating profit** | | **680** | **861** |
| Income from cash and cash equivalents | 12 | 1 | 0 |
| Finance costs, gross | 12 | (47) | (28) |
| **Finance costs, net** | 12 | **(46)** | **(28)** |
| Other financial income | 12 | 2 | 0 |
| Other financial expenses | 12 | (44) | (63) |
| Corporate income tax | 13 | (239) | (366) |
| Share of profit of equity-accounted investees | 20 | (23) | 1 |
| **PROFIT FOR THE PERIOD** | | **330** | **405** |
| *Profit for the period attributable to:* | | | |
| ▪ *Owners of the Company* | | ***323*** | ***398*** |
| ▪ *Minority interests* | | ***7*** | ***7*** |
| *Earnings per share attributable to owners of the Company (in €):* | | | |
| ▪ *Basic earnings per share* | *14* | ***5.51*** | ***6.76*** |
| ▪ *Diluted earnings per share* | *14* | ***5.38*** | ***6.59*** |

(1) See definition on page 20.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| In € millions | Note | 2018 | 2017 |
|---|---|---|---|
| **PROFIT FOR THE PERIOD** | | **330** | **405** |
| ✓ Items that may be subsequently reclassified to profit: | | | |
| ▪ Fair value remeasurement of interest rate and currency hedging instruments | 32/33 | 6 | (1) |
| Tax effect | 32/33 | (2) | 0 |
| | | **4** | **(1)** |
| ➢ Items that will not be reclassified to profit: | | | |
| ▪ Post-employment benefit obligations (IAS 19 revised): impact of changes in actuarial assumptions | 7 | 4 | (0) |
| Tax effect | | (1) | **(0)** |
| ▪ Items of OCI (2) arising from equity-accounted investments that will not be reclassified to profit or loss | | 25 | **0** |
| Tax effect | | | |
| | | **28** | **0** |
| **Other comprehensive income/(expense) for the period, net of tax** | | **32** | **(1)** |
| Total comprehensive income for the period | | **362** | **404** |
| Total comprehensive income for the period attributable to: | | | |
| ▪ Owners of the Company | | 355 | 397 |
| ▪ Minority interests | | 7 | 7 |

(2) Other comprehensive income

# CONSOLIDATED BALANCE SHEET – ASSETS

| In € millions | Note | At December 31, 2018 | At December 31, 2017 |
|---|---|---|---|
| Goodwill | 16 | 215 | 215 |
| Intangible assets | 17 | 3,938 | 2,705 |
| Property, plant and equipment | 19 | 5,358 | 4,417 |
| Investments in equity-accounted investees | 20 | 318 | 16 |
| Other long-term financial assets | 21 | 50 | 37 |
| Deferred income tax assets | 13 | 65 | 21 |
| Other non-current assets | 23 | 16 | 13 |
| **TOTAL NON-CURRENT ASSETS** | | **9,960** | **7,424** |
| Inventories | 22 | 90 | 31 |
| Current income tax assets | | 28 | 0 |
| Trade and other receivables | 23 | 972 | 725 |
| Other short-term financial assets | 21 | 6 | 0 |
| Cash and cash equivalents | 24 | 181 | 216 |
| **TOTAL CURRENT ASSETS** | | **1,277** | **972** |
| **ASSETS HELD FOR SALE** | **25** | **15** | **20** |
| **TOTAL ASSETS** | | **11,252** | **8,416** |

# CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES

| In € millions | Note | At December 31, 2018 | At December 31, 2017 |
|---|---|---|---|
| Share capital | 26 | 13 | 13 |
| Additional paid-in capital | 26 | 439 | 433 |
| Retained earnings and other reserves | 26 | 3,154 | 2,928 |
| **TOTAL EQUITY** | | **3,606** | **3,374** |
| ***Attributable to:*** | | | |
| ***. Owners of the Company*** | | ***3,591*** | ***3,364*** |
| ***. Minority interests*** | | ***15*** | ***10*** |
| Long-term provisions | 28 | 2 | 0 |
| Long-term financial liabilities | 29 | 3,407 | 2,168 |
| Deferred income tax liabilities | 13 | 2 | 0 |
| Other non-current liabilities | 30 | 1,563 | 714 |
| **TOTAL NON-CURRENT LIABILITIES** | | **4,974** | **2,882** |
| Short-term provisions | 28 | 35 | 44 |
| Taxes payable | | 0 | 8 |
| Trade and other payables | 30 | 1,880 | 1,611 |
| Short-term financial liabilities | 29 | 757 | 497 |
| **TOTAL CURRENT LIABILITIES** | | **2,672** | **2,160** |
| **TOTAL EQUITY AND LIABILITIES** | | **11,252** | **8,416** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| In € millions | Share capital | Additional paid-in capital | Own shares held | Reserves | Retained earnings | Equity attributable to owners of the Company | Minority interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2017** | 13 | 419 | (18) | 55 | 2,530 | **2,999** | 3 | **3,002** |
| **<u>Movements in 2017</u>** | | | | | | | | |
| ▪ Profit for the period | | | | | 398 | **398** | 7 | 405 |
| ▪ Other comprehensive income for the period, net of tax: | | | | | | | | |
| ✓ Impact of interest rate and currency hedges | | | | (1) | | **(1)** | | (1) |
| ✓ Impact of post-employment benefit obligations | | | | | | | | |
| ***Total comprehensive income for the period*** | | | | ***(1)*** | ***398*** | ***397*** | *7* | ***404*** |
| ▪ Change in share capital of Iliad SA | | 14 | | | | **14** | | 14 |
| ▪ Dividends paid by Iliad SA | | | | | (26) | **(26)** | | (26) |
| ▪ Dividends paid by subsidiaries | | | | | | | | |
| ▪ Purchases/sales of own shares | | | (3) | | | **(3)** | | (3) |
| ▪ Impact of stock options | | | | 4 | | **4** | | 4 |
| ▪ Impact of changes in minority interests in subsidiaries | | | | (21) | | **(21)** | | (21) |
| **Balance at December 31, 2017** | 13 | 433 | (21) | 37 | 2,902 | **3,364** | 10 | **3,374** |
| **Balance at January 1, 2018** | 13 | 433 | (21) | 37 | 2,902 | **3,364** | 10 | **3,374** |
| **<u>Movements in 2018</u>** | | | | | | | | |
| ▪ Profit for the period | | | | | 323 | **323** | 7 | 330 |
| ▪ Other comprehensive income for the period, net of tax: | | | | | | | | |
| ✓ Impact of interest rate and currency hedges | | | | 4 | | **4** | | 4 |
| ✓ Impact of items of OCI arising from equity-accounted investees | | | | 25 | | **25** | | 25 |
| ✓ Impact of fair value adjustments | | | | 3 | | **3** | | 3 |
| ✓ Impact of post-employment benefit obligations | | | | 3 | | **3** | | 3 |
| ***Total comprehensive income for the period*** | | | | ***35*** | ***323*** | ***358*** | *7* | ***365*** |
| ▪ Change in share capital of Iliad SA | | 6 | | (15) | | **(9)** | | (9) |
| ▪ Dividends paid by Iliad SA | | | | | (40) | **(40)** | | (40) |
| ▪ Dividends paid by subsidiaries | | | | | | | | |
| ▪ Purchases/sales of own shares | | | (20) | | | **(20)** | | (20) |
| ▪ Impact of stock options and free shares | | | 12 | | | **12** | | 12 |
| ▪ Impact of changes in minority interests in subsidiaries | | | | (74) | | **(74)** | (2) | (76) |
| **Balance at December 31, 2018** | 13 | 439 | (29) | (17) | 3,185 | **3,591** | 15 | **3,606** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

| In € millions | Note | 2018 | 2017 |
|---|---|---|---|
| **Profit for the period** (including minority interests) | | **330** | **405** |
| +/- Depreciation, amortization and provisions against non-current assets and net additions to provisions for contingencies and charges | | 1,044 | 907 |
| -/+ Unrealized gains and losses on changes in fair value | | (2) | 3 |
| +/- Expenses and income related to stock options and other share-based payments | | 12 | 4 |
| -/+ Other income and expenses, net | | 2 | 28 |
| -/+ Gains and losses on disposals of assets | | (1) | (3) |
| -/+ Dilution gains and losses | | 0 | 0 |
| +/- Share of profit of equity-accounted investees | 20 | 23 | (1) |
| - Dividends (investments in non-consolidated undertakings) | | 0 | 0 |
| **Cash flows from operations after finance costs, net, and income tax** | | 1,408 | 1,343 |
| + Finance costs, net | 12 | 46 | 28 |
| +/- Income tax expense (including deferred taxes) | 13 | 239 | 366 |
| **Cash flows from operations before finance costs, net, and income tax (A)** | | **1,693** | **1,737** |
| - *Income tax paid* **(B)** | | (306) | (334) |
| +/- Change in operating working capital requirement (including employee benefit obligations) **(C)** | 15 | 31 | (75) |
| **= NET CASH GENERATED FROM OPERATING ACTIVITIES (D) = (A + B + C)** | | **1,418** | **1,328** |
| - Acquisitions of property, plant and equipment and intangible assets | 15 | (2,447) | (2,046) |
| + Disposals of property, plant and equipment and intangible assets | | 21 | 12 |
| - Acquisitions of investments in non-consolidated undertakings | | 0 | 0 |
| + Disposals of investments in non-consolidated undertakings | | 0 | 0 |
| +/- Effect of changes in scope of consolidation – acquisitions and price adjustments | | (392) | (21) |
| +/- Effect of changes in scope of consolidation – disposals | | 0 | 0 |
| +/- Change in outstanding loans and advances | | 10 | (18) |
| + Cash inflows from assets held for sale | | 5 | 3 |
| - Cash outflows for assets held for sale | | 0 | 0 |
| **= NET CASH USED IN INVESTING ACTIVITIES (E)** | | **(2,803)** | **(2,070)** |
| + Proceeds from capital increases: | | | |
| . Paid by owners of the Company | | 0 | 0 |
| . Paid by minority shareholders of consolidated companies | | 0 | 0 |
| + Proceeds received on exercise of stock options | | 6 | 17 |
| -/+ Own-share transactions | | (35) | (3) |
| - Dividends paid during the period: | | 0 | 0 |
| . Dividends paid to owners of the Company | | (40) | (26) |
| . Dividends paid to minority shareholders of consolidated companies | | 0 | 0 |
| + Proceeds from new borrowings | | 1,528 | 847 |
| - Repayment of borrowings (including finance leases) | 29 | (86) | (88) |
| - Net interest paid (including on finance leases) | | (30) | (26) |
| **= NET CASH GENERATED FROM FINANCING ACTIVITIES (F)** | | **1,343** | **721** |
| +/- Effect of exchange-rate movements on cash and cash equivalents **(G)** | | 0 | 0 |
| **= NET CHANGE IN CASH AND CASH EQUIVALENTS (D + E + F + G)** | | **(42)** | **(21)** |
| Cash and cash equivalents at beginning of year | 15 | 215 | 236 |
| Cash and cash equivalents at end of year | 15 | 173 | 215 |

# NOTE 1: ACCOUNTING PRINCIPLES AND POLICIES

## *1-1. GENERAL INFORMATION*

Iliad SA is a *société anonyme* registered in France and listed on Eurolist by Euronext Paris under the symbol "ILD".

The Iliad Group is a leading player in the telecommunications sector in France and Italy, with more than 20 million subscribers.

The Board of Directors approved the consolidated financial statements for the year ended December 31, 2018 on March 18, 2019 and their publication date was set for March 19, 2019. These financial statements will only be definitive after approval by the Company's shareholders at the Annual General Meeting scheduled to be held on May 21, 2019.

## *1-2. APPLICABLE ACCOUNTING STANDARDS AND POLICIES*

The principal accounting policies adopted for the preparation of these consolidated financial statements are set out below. Unless otherwise specified, the same policies have been consistently applied for all of the periods presented.

### 1-2.1. Basis of preparation

The consolidated financial statements of the Iliad Group have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The historical cost convention has been applied, except for financial assets and liabilities carried at fair value with changes in fair value recognized either directly in the income statement or in equity when hedge accounting is used.

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

**1-2.2. New standards, amendments and interpretations whose application was mandatory for the first time in the fiscal year beginning January 1, 2018:**

- **Annual Improvements to IFRSs (2014-2016 cycle), applicable from January 1, 2018,** which comprise narrow-scope amendments to three standards as follows:

  - ✓ IFRS 1, First-time Adoption of International Financial Reporting Standards: Deletion of short-term exemptions for first-time adopters.
  - ✓ IFRS 12, Disclosures of Interests in Other Entities: Clarification of the scope of the standard in relation to disclosure requirements.
  - ✓ IAS 28, Investments in Associates and Joint Ventures: Clarification that the election to measure at fair value through profit or loss is available on an investment-by-investment basis.

  The Group has applied these amendments.

- **Amendments to IAS 40, Investment Property – Transfers of Investment Property, applicable as from January 1, 2018.** These narrow-scope amendments are intended to clarify the application of paragraphs 57 and 58 of IAS 40. The amended standard states that an entity should transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property.

  These amendments are not relevant to the Group.

- **Amendments to IFRS 2, Share-based Payment – Classification and Measurement of Share-based Payment Transactions, applicable as from January 1, 2018.** These amendments set out requirements on the accounting for:

  - ✓ the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
  - ✓ share-based payment transactions with net settlement features for withholding tax obligations; and
  - ✓ a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

  The Group has applied these amendments.

- **IFRS 9, Financial Instruments (final version).** The final version of IFRS 9 brings together the three phases of the IASB's project to replace IAS 39: classification and measurement, impairment and hedge accounting. The improvements introduced by the standard include:

  - ✓ A single, logical model for the classification and measurement of financial assets that reflects the business model in which they are managed and their cash flow characteristics.
  - ✓ A single, forward-looking "expected loss" impairment model.
  - ✓ A substantially-reformed approach to hedge accounting.

  The final version of IFRS 9 also introduces enhanced disclosure requirements with the aim of improving the information provided to investors.

  The Group has applied this standard.

- **IFRS 15, Revenue from Contracts with Customers**. The core principle of IFRS 15 is for entities to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

  The Group has applied this standard.

- **Clarifications to IFRS 15, Revenue from Contracts with Customers.** These amendments to IFRS 15 clarify how the principles of IFRS 15 should be applied and mainly comprise illustrative examples as well as amendments to the Basis for Conclusions. They clarify how to:

  - ✓ identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract;
  - ✓ determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and
  - ✓ determine whether the revenue from granting a license should be recognized at a point in time or over time.

  The Group has applied these amendments.

- **IFRIC 22, Foreign Currency Transactions and Advance Consideration.** IFRIC 22 clarifies which exchange rate to use for recognizing transactions that involve advance consideration paid or received in a foreign currency.

  The Group has applied this interpretation.

**1-2.3. Standards, amendments and interpretations available for early adoption in 2018:**

- **Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures.** These amendments clarify that IFRS 9, including its impairment requirements, applies to long-term interests in associates and joint ventures that form part of an entity's net investment in these investees but to which the equity method is not applied. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the associate or joint venture or assessment of impairment in accordance with IAS 28).

- **Amendments to IFRS 9 – Prepayment Features with Negative Compensation, applicable as from January 1, 2019.** These amendments address the issue of how to account for the frequent case of debt instruments that have prepayment features with negative compensation (i.e. the borrower is permitted to prepay the instrument at an amount that could be less than the unpaid principal and interest).

- **IFRS 16, Leases, applicable as from January 1, 2019.** IFRS 16 replaces IAS 17 and its associated interpretative guidance. The main change the new standard introduces is that lessees will be required to recognize all leases on their balance sheets, which will increase the visibility of their assets and liabilities. IFRS 16 removes the classification of leases as either operating leases or finance leases, treating all leases as finance leases.

  For the purpose of assessing the impact of IFRS 16, the lease terms used by the Group for measuring its lease liabilities correspond to the contractual lease term, or, where applicable, a reasonable estimate of the lease term. The discount rates applied for lease accounting under IFRS 16 vary depending on the contractual term of each identified asset and in most cases correspond to the Group's incremental borrowing rate depending on the geographic region concerned.

  The most significant effects for the Group of no longer recognizing its operating leases off balance-sheet – as previously required under IAS 17 – and instead recognizing a right-of-use asset in accordance with IFRS 16, relate to (i) making a reasonable estimate of the lease terms for subscribers' copper pairs in connection with unbundling operations, and (ii) separating out certain hosting costs (particularly for Mobile sites) between the service and lease components.

  Short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements in IFRS 16. However, the Group does not expect to use these exemptions.

- **IFRIC 23, Uncertainty over Income Tax Treatments, applicable as from January 1, 2019.** IFRIC 23 clarifies how to apply the recognition and measurement provisions in IAS 12, Income Taxes, where there is uncertainty over income tax treatments. The interpretation states that entities should use judgment to decide whether each uncertain tax treatment should be considered independently or whether some tax treatments should be considered together, when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.

The Group has not early adopted the above standards, amendments or interpretation.

The Group will apply IFRS 16 as from January 1, 2019 using the simplified retrospective approach, without restating comparative prior periods.

As at the date of this Registration Document, the estimated impacts of this first-time application are as follows:

- ✓ Consolidated balance sheet: the recognition at January 1, 2019 of non-current assets and related lease liabilities amounting to between €1.9 billion and €2.3 billion.
- ✓ Consolidated EBITDA: an increase of between €0.7 billion and €0.8 billion.

The Group's main contracts that will be affected by this new standard are unbundling contracts, lease agreements relating to fiber lines, optical nodes, subscriber connection nodes, the mobile network, mobile sites, stores and head offices, as well as agreements granting access to cable ducts.

**1-2.4. New standards and amendments that were not applicable in 2018 (as not yet endorsed by the European Union):**

- **Annual Improvements to IFRSs (2015-2017 cycle), which comprise amendments to four standards as follows:**
  - ✓ IAS 12, Income Taxes: clarifying the recognition of the income tax consequences of dividends.
  - ✓ IAS 23, Borrowing Costs: clarifying how an entity determines the amount of borrowing costs eligible for capitalization when it borrows funds generally and uses them to obtain a qualifying asset.
  - ✓ IFRS 11, Joint Arrangements: clarifying that when an entity obtains joint control of a business that is a joint operation, it does not remeasure previously held interests in that business.
  - ✓ IFRS 3, Business Combinations: clarifying that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business.
- **Amendments to IAS 1 and IAS 8: Definition of Material.** These amendments clarify the definition of the term "material" and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards.
- **Narrow-scope amendments to IAS 19 – Plan Amendment, Curtailment or Settlement.** IAS 19, Employee Benefits, specifies how a company accounts for a defined benefit plan. When a change to a plan – an amendment, curtailment or settlement – takes place, IAS 19 requires a company to remeasure its net defined benefit liability or asset. The narrow-scope amendments specify that the company must use the updated assumptions from such remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.

- **Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.** These amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

  The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business as defined in IFRS 3 (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The gain or loss resulting from the sale or contribution of a subsidiary that does not constitute a business to an associate or joint venture should only be recognized to the extent of unrelated investors' interests in the associate or joint venture.

**Effective Date of Amendments to IFRS 10 and IAS 28, which postpones the effective date of these amendments.**

- **Amendments to IFRS 3 – Definition of a Business.** These amendments make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. The distinction is important because an acquirer recognizes goodwill only in acquiring a business, not in acquiring a group of assets.
- **IFRS 14, Regulatory Deferral Accounts.** The objective of this interim standard is to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities.
- **IFRS 17, Insurance Contracts.** IFRS 17 replaces IFRS 4, which was issued as an interim standard in 2004. The new standard solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner. Insurance obligations will be accounted for based on present values instead of historical cost and the information will be updated regularly.

The Group is currently analyzing the impacts of applying the above standards and amendments.

### 1-2.5. First-time application of IFRS 9, Financial Instruments

The Group has applied IFRS 9 since January 1, 2018.

As a result of applying this new standard, it has changed its method of classifying and measuring its financial assets. Consequently, it now measures shares held in non-consolidated companies at fair value through other comprehensive income, recognized in equity.

The Group applies the hedge accounting principles contained in IFRS 9.

Prior to IFRS 9, the Group already applied an expected credit loss impairment model for its trade receivables, based on historical loss rates.

## 1-2.6. First-time application of IFRS 15, Revenue from Contracts with Customers

The Group has applied IFRS 15 retrospectively from January 1, 2018 and has restated the reported comparative data for 2017. It has not used the simplified approach provided for in the standard.

The Group's application of IFRS 15 to its contracts in progress at January 1, 2017 (the first comparative period presented) had no impact on its consolidated reserves at that date.

The overall impact of applying this standard for the first time was not material in qualitative or quantitative terms in view of (i) the structure of the Group's commercial offerings, i.e., no-commitment service offerings at prices that do not change during the subscription period (no "subsidized" offerings), and (ii) the revenue recognition methods used prior to IFRS 15.
In addition, most subscribers sign up online or through the Group's directly-owned physical stores (i.e., not using third-party distribution). This unique positioning in the telecommunications sector means that IFRS 15 had very little impact on the Group's consolidated financial statements for 2018.
The balance-sheet impacts of applying this standard are not material, corresponding to the recognition of contract assets in the amounts of €13 million at December 31, 2017 and €16 million at December 31, 2018.

For the income statement, the impacts only correspond to reclassifications of certain purchases used in production as deductions from revenues (mainly for revenues from special numbers and mobile applications), following an analysis of supplier contracts carried out in order to determine whether the Group is the principal or an agent as required under IFRS 15. The main criterion used to make this distinction in accordance with IFRS 15 is the notion of whether a good or service is controlled by the Group before it is transferred to the customer.

The income-statement impacts of applying IFRS 15 are as follows:

| | **2017** | | |
|---|---|---|---|
| *In € millions* | **Reported data** | **Impacts of applying IFRS 15** | **Data restated for IFRS 15** |
| Revenues | 4,987 | (127) | 4,860 |
| Purchases used in production | (2,357) | 127 | (2,230) |
| Profit for the period | 405 | 0 | 405 |

The balance sheet impacts of this change in accounting policy are as follows:

| | **At December 31, 2017** | | |
|---|---|---|---|
| *In € millions* | **Reported data** | **Impacts of applying IFRS 15** | **Data restated for IFRS 15** |
| Intangible assets | 2,706 | (1) | 2,705 |
| Property, plant and equipment | 4,429 | (12) | 4,417 |
| Other non-current assets | 0 | 13 | 13 |

The impacts on the statement of cash flows – which solely correspond to reclassifications of expenses – are as follows:

| | 2017 | | |
|---|---|---|---|
| *In € millions* | **Reported data** | **Impacts of applying IFRS 15** | **Data restated for IFRS 15** |
| Cash flows from operations | 1,758 | (21) | 1,737 |
| Net cash generated from operating activities | 1,349 | (21) | 1,328 |
| Net cash used in investing activities | (2,091) | 21 | (2,070) |

### *1-3. CONSOLIDATION*

#### *Consolidation methods*

**Subsidiaries**

Subsidiaries are entities that are controlled by the Group.

Control is presumed to exist when the Group has the power to govern an entity's financial and operating policies, either directly or indirectly, so as to obtain benefits from its activities. The Group controls an entity, if and only if, it has all of the following elements of control:

- ✓ power over the entity;
- ✓ exposure, or rights, to variable returns from its involvement with the entity;
- ✓ the ability to use its power over the entity to affect the amount of the Group's returns.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and they are deconsolidated from the date that control ceases.

The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

**Associates**

Associates are all entities over which the Group has significant influence but not control or joint control (i.e., entities that are not subsidiaries or joint ventures). Interests in associates are accounted for using the equity method.

The existence of significant influence by the Group is usually evidenced in one or more of the following ways:

- ✓ representation on the Board of Directors or equivalent governing body of the investee;
- ✓ participation in policy-making processes, including participation in decisions about dividends or other distributions;
- ✓ material transactions between the Group and its investee;
- ✓ interchange of managerial personnel; or
- ✓ provision of essential technical information.

The financial statements of associates are accounted for by the equity method in the Group's consolidated financial statements from the date significant influence arises to the date significant influence ceases.

The Group does not have any investments in special-purpose entities or joint ventures.

## Eliminations on consolidation

All intragroup transactions and balances are eliminated on consolidation as well as gains and losses on transactions between subsidiaries.

## Business combinations

The Group applies the acquisition method to account for business combinations.

The cost of an acquisition is measured as the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the transaction date, plus all costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, including any minority interests.

Any excess of the cost of acquisition over the Group's share of the fair value of the identifiable net assets acquired is recognized as goodwill except for costs directly attributable to the acquisition, which are recorded in the income statement.

If the cost of acquisition is less than the Group's share of the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is carried out, the combination is accounted for using those provisional values and any adjustments made as a result of completing the initial accounting must be recognized within 12 months of the acquisition date.

### *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the Group's share of the fair value of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition.

Goodwill arising on acquisitions of subsidiaries is recognized as an intangible asset. Goodwill related to acquisitions of associates is included in "Investments in equity-accounted investees". Separately recognized goodwill is tested for impairment annually – or whenever events or circumstances indicate that it may be impaired – and is carried at cost less any accumulated impairment losses. Impairment losses on goodwill may not be reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Goodwill impairment losses are recorded within operating profit in the income statement, under "Other operating income and expense, net".

### *Functional and presentation currency*

In accordance with IAS 21, items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in euros, which is the Group's presentation currency.

Unless otherwise specified, all amounts are presented in millions of euros.

***Foreign currency translation***

Assets and liabilities of Group companies that are denominated in foreign currencies are translated into euros at the year-end rate. Income and expense items are translated at average exchange rates for the year.

All resulting exchange differences are recognized directly in equity.

***Fiscal year-end***

All Group companies have a December 31 fiscal year-end.

### *1-4. PRESENTATION OF THE FINANCIAL STATEMENTS*

As permitted under IAS 1, Presentation of Financial Statements, the Group's income statement is presented by nature.

Operating profit corresponds to profit for the period, before:

- financial income and expenses (as defined in Note 12);
- current and deferred taxes;
- profit from discontinued operations and assets held for sale; and
- share of profit of equity-accounted investees.

Profit from ordinary activities corresponds to operating profit as defined above, before "Other operating income and expense, net". These items include income and expenses that are rare, unusual and infrequent, which represent material amounts and whose presentation within other items relating to ordinary activities could be misleading for users of the financial statements in their understanding of the Group's performance.
Costs included in "Other operating income and expense, net" notably include expenses incurred for acquiring new entities or costs borne on the sale of a Group entity.
In 2018, they also included the costs of the one-off "purchasing power" bonus payable to employees in France as announced by the French government at the end of the year.

The Group has elected to present an additional indicator of earnings performance in its income statement:

- EBITDA

EBITDA is a key indicator of the Group's operating performance and corresponds to profit from ordinary activities (as defined above) before:

- depreciation, amortization and impairment of property, plant and equipment and intangible assets; and

- share-based payment expense.

## 1-5. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

The main accounting policies applied by the Group are as follows:

### *Revenues*

Revenues from the Group's operations are recognized and presented as follows in accordance with IFRS 15, Revenue from Contracts with Customers:

- Revenues from usage of connection time are recognized in the period in which the usage takes place.

- Revenues from subscriptions and flat-fee plans are recognized over the period covered by the subscriptions or plans.

- Revenues from the sale of mobile phones and boxes are recognized when they are delivered to the purchaser.

- Revenues from the sale or provision of content supplied by external parties are presented as a gross amount when the Group is deemed to be the party in the transaction with primary responsibility in relation to the end-customer. These revenues are presented net of the amounts due to the content supplier when it is the content supplier that is responsible for providing the content to the end-customer and setting the retail price.

- Revenues from the sale of advertising banners are spread over the period during which the banners are displayed.

- Revenues from website hosting activities are recognized during the period in which the service is rendered.

The Group applies IAS 17 when recognizing revenues generated by the rental of mobile phones. Based on an analysis of the classification criteria in IAS 17, the Group considers that the present value of the lease payments receivable is approximately equivalent to the fair value of the leased asset and that losses associated with any cancellation are borne by customers (i.e., the lessees). Consequently, revenues from these transactions are accounted for as sales revenue as provided for in IAS 17.
The application of IFRS 15 as from 2018 does not affect this accounting treatment.

The cost of sale recognized at the commencement of the lease term is the cost, or carrying amount if different, of the leased phone less the present value of the unguaranteed residual value. This accounting treatment does not affect the legal classification of these transactions under French law, which still corresponds to the rental of a movable asset.

### *Foreign currency transactions*

The recognition and measurement rules for foreign currency transactions are set out in IAS 21, The Effects of Changes in Foreign Exchange Rates. In accordance with that standard, transactions denominated in foreign currencies are recorded at their value in euros at the date of the transaction. At each reporting date, monetary assets and liabilities denominated in foreign currencies are

translated at the period-end rate and any exchange gains or losses are recognized in profit as follows:

- as operating income or expenses for commercial transactions;
- as financial income or expenses for financial transactions.

### *Earnings per share*

The Group presents basic and diluted earnings per share.

Basic earnings per share is calculated by dividing profit for the period attributable to owners of the Company (attributable profit) by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by adjusting the figures for attributable profit for the period and the weighted average number of shares outstanding for the impact of all potentially dilutive financial instruments.

### *Intangible assets*

Intangible assets primarily include the following:

- Development costs capitalized in accordance with IAS 38, which are amortized over the period during which the Group is expected to consume the related future economic benefits.

  These costs are recognized as intangible assets when they relate to distinctly separate projects for which (i) the costs can be clearly identified, (ii) the technical feasibility of successfully completing the project can be demonstrated, and (iii) it is probable that future economic benefits will be generated.

  These conditions are deemed to be met when the six general criteria defined in IAS 38 are fulfilled, i.e., when the Group can demonstrate:

  1) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
  2) its intention to complete the intangible asset and use or sell it;
  3) its ability to use or sell the asset;
  4) how the intangible asset will generate probable future economic benefits;
  5) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
  6) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

  Capitalized development costs are presented net of any related subsidies or research tax credits.

- Intangible assets acquired in connection with a business combination. These assets are recognized separately from goodwill when (i) their fair value can be measured reliably, (ii) they are controlled by the Group, and (iii) they are identifiable, i.e., are separable or arise from contractual or other legal rights. Where these assets have a finite useful life they are amortized

from the date they are made available for use in the same way as for intangible assets acquired separately, and an impairment loss is recorded if their carrying amount exceeds their recoverable amount.

Intangible assets with indefinite useful lives are not amortized but are tested for impairment on an annual basis at the year-end (December 31) or whenever there is an indication that they may be impaired.

Licenses are amortized over the residual license period from the date when the related network is technically ready for the service to be marketed. The Group's 3G and 4G licenses in France are being amortized on a straight-line basis over a period of 18 years on average.

Impairment losses recognized following impairment tests are recorded in the income statement under "Other operating income and expense, net" below profit from ordinary activities.

The national roaming agreement for Metropolitan France is being amortized over a period of four years as from the effective date of the last addendum signed in early 2017 with the incumbent operator. Amortization is spread over the period based on decreasing volumes between 2017 and 2020.
The Group's Multi-Operator Core Network (MOCN) agreement in Italy is being amortized as from June 2018, when it came into force following the launch of Iliad's Italian mobile business.

- Software, which is amortized on a straight-line basis over a period of one to three years.

- The Alice customer base, which is being amortized over a period of 12 years.

***Property, plant and equipment***

Property, plant and equipment are stated at acquisition cost, including transaction expenses, or at production cost. Cost includes any expenses directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by Group Management.

Depreciation is calculated by the straight-line method, based on the following estimated useful lives:

- buildings: 15 to 50 years;
- technical equipment: 3 to 14 years;
- general equipment: 10 years;
- specific investments for optical fiber network rollouts: 8 to 30 years;
- specific investments for mobile network rollouts: 4 to 18 years;
- computer equipment: 3 to 5 years;
- office furniture and equipment: 2 to 10 years;
- modems: 5 years;
- access fees for co-location facilities used to conduct unbundling operations are depreciated over a period of 15 years;
- access fees for services specific to broadband Internet operations are depreciated over 7 years;
- amounts paid as consideration for obtaining indefeasible rights of use (IRUs) on dark optical fibers are depreciated over the term of use of the fiber concerned.

At each reporting date, the Group assesses whether the depreciation schedules still reflect the useful lives of its assets, and makes amendments where necessary.

***Borrowing costs***

In accordance with IAS 23, borrowing costs directly attributable to the acquisition or production of a qualifying asset are included in the cost of that asset.

***Finance leases***

Material assets acquired under finance leases are capitalized in the consolidated financial statements.

In accordance with IAS 17, leases are considered to be finance leases when they have the effect of transferring to the lessee substantially all the risks and rewards inherent to ownership of the leased asset.

In such cases:

- At the commencement of the lease term, the assets acquired are recognized in the balance sheet based on the fair value of the leased property or, if lower, the present value of the minimum lease payments. They are subsequently depreciated over their useful lives.

- The related obligation is recorded as a financial liability and is repaid based on the lease terms.

- Lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

***Impairment of non-financial assets***

Non-financial assets with indefinite useful lives are not amortized, but are tested for impairment on an annual basis at the year-end (December 31) or whenever there is an indication that they may be impaired. In assessing whether there is any indication that an asset may be impaired, the Group considers events or circumstances that suggest that significant unfavorable changes have taken place which may have a prolonged, adverse effect on the Group's economic or technological environment, or on the assumptions used on acquisition of the asset concerned.

All other assets are also tested for impairment either on an annual basis or whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

***Financial assets***

Financial assets held under the “hold to collect” business model (held for the purpose of collecting contractual cash flows, notably for repayments of principal and collection of interest payments) are measured at amortized cost. This is the case for loans and paid deposits and guarantees.

Financial assets held under the “hold to collect and sell” business model (held for the purpose of collecting contractual cash flows – notably for repayments of principal and collection of interest

payments – as well as selling the financial assets) are measured at fair value through other comprehensive income.

Financial assets held under other business models are measured at fair value through profit or loss. This is the case for hedging instruments that are classified as financial assets.
However, in some cases, the Group has used the fair value option available in IFRS 9, and on initial recognition has irrevocably designated certain financial assets at fair value through other comprehensive income that would otherwise have been designated at fair value through profit or loss. This is notably the case for investment securities.

***Inventories***

Inventories are recognized at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method.

Inventories are written down if their carrying amount is higher than their estimated selling price less any related selling expenses.

***Receivables***

Receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. The fair value of short-term receivables with no stated interest rate corresponds to the original invoice amount.

The Group recognizes a provision for expected credit losses on receivables. The probability of default and the expected credit loss are measured based on historical data adjusted for forward-looking information such as specific factors or the general economic environment.
Expected credit losses are measured by reference to the probability of default occurring, the "loss given default" (i.e., the size of the loss in the event of default), and exposure at default.
The amount of expected credit losses is remeasured at each reporting date to reflect changes in credit risk since the initial recognition of the financial instruments concerned. In order to assess whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the credit default risk at the reporting date with the default risk on the financial instrument at the initial recognition date. This allows the Group to collate reasonable and documented quantitative and qualitative information about expected credit losses, including the existence of any unresolved claims and litigation, claims history and any significant financial difficulties experienced by its debtors.

***Deferred taxes***

Deferred taxes are recognized using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

However, deferred taxes are not accounted for if they arise from initial recognition of an asset or liability in a transaction other than a business combination and there is no difference in the applicable tax and accounting treatment. Deferred taxes are determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is recovered or the deferred tax liability is settled.

Deferred tax assets are recognized for tax loss carryforwards to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred taxes are recognized on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

***Cash and cash equivalents***

Cash and cash equivalents include cash in hand, deposits held at call with banks, short-term investments with original maturities of less than three months and highly liquid investments in money-market mutual funds. Short-term investments are marked to market at each balance sheet date.

Bank overdrafts are classified as current financial liabilities.

***Assets held for sale***

In accordance with IFRS 5, non-current assets that are immediately available for sale in their present condition, and whose sale is highly probable in the short/medium term are classified as "Assets held for sale".

These assets are presented in the balance sheet under "Assets held for sale" and are measured at the lower of carrying amount and fair value less costs to sell.

***Own shares***

Own shares held are recognized as a deduction from equity based on their acquisition cost. Gains and losses on the disposal of own shares held are also recorded in equity.

***Provisions***

In accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets, when the Group's obligations to third parties known at the balance sheet date are certain or likely to cause an outflow of resources for the benefit of a third party, without at least equivalent consideration, a provision is recorded when the amount concerned can be estimated with sufficient reliability.

***Borrowings***

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date, in which case they are classified as non-current liabilities.

Interest-bearing borrowings

Interest-bearing borrowings are initially recognized at fair value, net of directly attributable transaction costs incurred. They are subsequently measured at amortized cost.

Convertible bonds

The fair value of the liability component of convertible bonds is determined based on prevailing market interest rates for similar bonds with no conversion rights. This amount is recognized as a liability based on amortized cost. The balance of the bond issue proceeds is allocated to the conversion option and recognized in equity, net of tax.

***Employee benefits***

Other than share-based payments – which are described in a specific note – the only employee benefits within the Group correspond to post-employment benefits.
In accordance with IAS 19, Employee Benefits, independent actuarial valuations of post-employment benefit obligations under defined benefit plans are made using the projected unit credit method, with benefit entitlements recognized in line with vesting.

For each active participant, the benefit likely to be paid is estimated based on the rules defined in the applicable collective bargaining agreement and/or company-level agreement, using personal data projected to the standard age for payment of the benefit. The Group's total obligations toward each participant (total actuarial value of future benefits) are then calculated by multiplying the estimated benefit by an actuarial factor, which takes into account the following:

- assumptions concerning the employee's probability of either leaving the Group or dying before the age of payment of the benefit;
- the discounted value of the benefit at the measurement date.

These total benefits are then allocated over each of the past and future years for which rights are accrued under the plan. The portion of the Company's obligation allocated to years prior to the measurement date (projected benefit obligation) corresponds to obligations for services rendered. The projected benefit obligation represents the Group's obligation existing at the balance sheet date.

The individual results of the valuation are then aggregated to obtain Group-level results.

In accordance with IAS 19R, actuarial gains and losses are immediately recognized in equity. In addition, interest cost and expected return on plan assets have been replaced with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).

***Stock options and share grants***

In accordance with IFRS 2, Share-based Payment, stock options, employee share issues and grants of shares of Group companies to employees are measured at fair value at the grant or issue date.

Calculations of the fair value of stock options are performed based on criteria such as the exercise price and life of the options, the current price of the underlying shares, the anticipated volatility of the share price, expected dividends on the shares and the risk-free interest rate over the life of the options.

The fair value of stock options is recognized under “Share-based payment expense” on a straight-line basis over the vesting period (i.e., the service period that must be completed in order for the options to vest), with a corresponding adjustment to equity for equity-settled plans and to employee-related liabilities for cash-settled plans.

Performance shares are measured at fair value based on the Iliad share price at the grant date and, where appropriate, taking into account certain vesting conditions using a mathematical valuation model. Vesting conditions not taken into account for the fair value measurement at the vesting date are taken into account in estimating the number of shares that will vest at the end of the vesting period. This benefit is recognized in the income statement under “Share-based payment expense”, on a straight-line basis over the vesting period of the shares, with a corresponding adjustment to equity.

A certain number of Group employees have been granted shares in Iliad subsidiaries subject to conditions relating to their presence within the Group. The shares are measured based on the fair value of the benefit granted to the employee on the grant date, with the calculation incorporating assumptions concerning the staff turnover rate for beneficiaries, a discount in respect of the lock-up period, and the fair value of the shares at the grant date. This benefit is recognized in the income statement under “Share-based payment expense”, on a straight-line basis over the vesting period of the shares, with a corresponding adjustment to equity.

***Derivative financial instruments and hedging activities***

Derivatives are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value at each balance sheet date.

The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the hedged item.

The Group designates certain derivatives as hedges of a particular risk associated with a highly probable forecast transaction (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and hedging strategy. It also documents its assessment, both at the inception of the hedge and on an ongoing basis, of whether the derivatives used in hedging transactions are effective in offsetting changes in cash flows of hedged items.

The fair values of the various derivative instruments used for hedging purposes are disclosed in Notes 32 and 33. The full fair value of a hedging derivative is classified as a non-current asset or

liability when the remaining maturity of the hedged item exceeds 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

The effective portion of any gain or loss from remeasuring a derivative financial instrument designated as a cash flow hedge is recognized directly in equity and the ineffective portion is recognized in the income statement.

Changes in the fair value of other derivative instruments are recorded in the income statement.

If a derivative instrument no longer qualifies for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is transferred to the income statement under financial income or expense when:

- the hedging instrument is exercised, terminated or sold;
- the Group no longer expects the forecast transaction to occur; or
- the original hedged item affects profit.

# NOTE 2: SCOPE OF CONSOLIDATION

## List of consolidated companies and consolidation methods

The list of consolidated companies and the consolidation methods used is provided in Note 36.

## Changes in scope of consolidation in 2018

On December 20, 2017, the Group announced its acquisition 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.

The acquisition was completed on April 6, 2018 for c. €316 million.

Iliad's minority stake in eir forms the basis of a strategic partnership with a leading telecom operator, with a possibility of ultimately taking over control of the company thanks to a call option granted by NJJ.

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 valuer, and with a floor calculated based on an annual yield of 2%.

Iliad's minority investment in eir is accounted for by the equity method in the consolidated financial statements.

In October 2018, the Group sold its subsidiary Mobipel, which operated a call center in the Greater Paris area.

## NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group makes estimates and assumptions concerning the future.

It continually reviews these estimates and assumptions which are based both on past experience and on other factors deemed reasonable to be used for assessing the carrying amount of assets and liabilities. Actual amounts may differ significantly from these estimates should different assumptions or conditions apply.

The main accounting estimates and judgments used by the Group relate to:

- useful lives and impairment of non-current assets;
- assessment of the fair value of certain financial assets;
- assessment of the recoverable amount of deferred tax assets recognized for tax loss carryforwards;
- assessment of doubtful receivables and calculating the corresponding impairment losses;
- the length of mobile phone rental periods;
- assessment of the estimated net realizable value of inventories and calculating the corresponding impairment losses;
- assessment of risks related to disputes and litigation in process and calculating the corresponding provisions;
- estimation of future cash outflows for certain operating licenses granted to the Group for which the definitive prices have not yet been set;
- determining whether the Group is principal or agent in accordance with IFRS 15.

## NOTE 4: REVENUES

At €4.9 billion, consolidated revenues for 2018 were on a par with the previous year.

The presentation of the Group’s revenues by geographic segment is provided in Note 5 below.

This presentation may be changed in the future, depending on operating criteria and the development of the Group’s businesses.

# NOTE 5: SEGMENT INFORMATION

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

- France
- Italy

## 2018 revenues

| In € millions | France | Italy | Total |
|---|---|---|---|
| **Revenues** | | | |
| Landline | 2,638 | 0 | **2,638** |
| Mobile | 2,138 | 125 | **2,263** |
| Intra-group sales | (9) | (1) | **(10)** |
| Total | 4,767 | 124 | **4,891** |

## 2018 earnings

| In € millions | France | Italy | Total |
|---|---|---|---|
| **Earnings** | | | |
| EBITDA | 1,807 | (52) | **1,755** |
| Share-based payment expense | (14) | 0 | **(14)** |
| Depreciation, amortization and provisions for impairment of non-current assets | (964) | (87) | **(1,051)** |
| Profit from ordinary activities | 829 | (139) | **690** |
| Profit for the period | 451 | (121) | **330** |

## Assets, excluding investments in equity-accounted investees and related options

| In € millions | France | Italy | Total |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets (carrying amount) | 1,594 | 2,344 | 3,938 |
| Property, plant and equipment (carrying amount) | 5,151 | 207 | 5,358 |
| **Current assets (excluding cash and cash equivalents, financial assets and tax assets)** | 989 | 73 | 1,062 |
| **Cash and cash equivalents** | 181 | 0 | 181 |

## Liabilities, excluding financial liabilities and taxes payable

| In € millions | France | Italy | Total |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Other non-current liabilities | 170 | 1,393 | 1,563 |
| **Current liabilities** | | | |
| Trade and other payables | 1,388 | 492 | 1,880 |

## NOTE 6: PURCHASES USED IN PRODUCTION AND EXTERNAL CHARGES

Purchases used in production mainly include:

- interconnection costs invoiced by other operators (including roaming charges);
- costs relating to unbundling operations;
- costs and fees related to the FTTH business;
- acquisitions of goods and services for resale or for use in designing goods or services invoiced by the Group.

External charges primarily comprise:

- logistics and dispatch costs;
- leasing expenses (including leases entered into for network development purposes, such as "mobile" sites);
- marketing and advertising costs;
- external service provider fees;
- subcontracting costs.

## NOTE 7: HUMAN RESOURCES DATA

### Payroll costs

Payroll costs break down as follows:

| In € millions | 2018 | 2017 |
|---|---|---|
| ▪ Wages and salaries | (213) | (195) |
| ▪ Payroll taxes | (72) | (60) |
| **Total** | **(285)** | **(255)** |

### Number of employees at year-end

The Group's headcount can be analyzed as follows by category:

| Number of employees at year-end | At December 31, 2018 | At December 31, 2017 |
|---|---|---|
| ▪ Management | 1,573 | 1,216 |
| ▪ Other | 8,503 | 8,496 |
| **Total** | **10,076** | **9,712** |

### Post-employment benefits

The methods used for recognizing and measuring pension and other post-employment benefit obligations comply with IAS 19R, Employee Benefits (see Note 1).

The following main economic assumptions were used to measure the Group's post-employment benefit obligations at December 31, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| ▪ Discount rate | 1.90% | 1.75% |
| ▪ Long-term inflation rate | 2% | 2% |
| ▪ Mortality table | INSEE 2012-2014 | INSEE 2012-2014 |
| ▪ Type of retirement | Voluntary | Voluntary |
| ▪ Retirement age | | |
| - Management | Statutory retirement age | Statutory retirement age |
| - Other | Post 2014 French pension reform and the 2015 French Social Security Financing Act | Post 2014 French pension reform and the 2015 French Social Security Financing Act |

Movements in the Group's post-employment benefit obligations in 2018 and 2017 can be analyzed as follows:

| **In € millions** | **2018** | **2017** |
|---|---|---|
| Present value of obligation at beginning of year: | 19 | 16 |
| ▪ Current service cost | 3 | 3 |
| ▪ Loss/(gain) from changes in assumptions | (4) | 0 |
| ▪ Experience (gains)/losses | 1 | 0 |
| **Total** | **19** | **19** |

The impact on equity of the Group's post-employment benefit obligations was a positive €3,830 thousand (before tax) at December 31, 2018 and the amount recognized in the income statement for the year then ended corresponded to a €3,603 thousand expense (before tax).

## NOTE 8: DEVELOPMENT COSTS

Development costs include the following:

- The cost of designing new products, adapting existing products to the Internet, and researching or creating databases for new applications. These costs are primarily incurred by Freebox.
- Specific development costs for remote processing and/or storage of information by Online.
- The technological development costs incurred in the mobile telephony business, notably concerning the network's architecture and functionalities. These costs are primarily incurred by Free Mobile.

Development costs incurred in 2018 are presented net of any related research tax credits.

| In € millions | 2018 | 2017 |
|---|---|---|
| ▪ Capitalized development costs | (10) | (7) |
| ▪ Development costs recognized directly in the income statement | (1) | (1) |
| **Total** | **(11)** | **(8)** |

## NOTE 9: OTHER INCOME AND EXPENSES FROM OPERATIONS

“Other income from operations” breaks down as follows:

| In € millions | 2018 | 2017 |
|---|---|---|
| . Proceeds from sales of non-current assets | 36 | 13 |
| . Customer contract termination fees | 9 | 6 |
| . Other revenues | 18 | 8 |
| **Total other income from operations** | **63** | **27** |

“Other expenses from operations” can be analyzed as follows:

| In € millions | 2018 | 2017 |
|---|---|---|
| . Carrying amount of divested non-current assets | (32) | (6) |
| . Royalties and similar fees | (42) | (39) |
| . Bad debts | 0 | 0 |
| . Other | (9) | (1) |
| **Total other expenses from operations** | **(83)** | **(46)** |

| In € millions | 2018 | 2017 |
|---|---|---|
| Other income and expenses from operations, net | **(20)** | **(19)** |

# NOTE 10: DEPRECIATION, AMORTIZATION AND PROVISIONS

The following tables show the breakdown between the various components of depreciation, amortization and provisions:

## Depreciation, amortization and provisions for impairment of non-current assets

| In € millions | 2018 | 2017 |
|---|---|---|
| ▪ Depreciation and amortization expense: | | |
| . Intangible assets | (287) | (235) |
| . Property, plant and equipment | (765) | (678) |
| ▪ Additions to provisions for impairment of non-current assets: | | |
| . Property, plant and equipment | (1) | (0) |
| ▪ Depreciation/amortization of investment grants | | |
| . Intangible assets | 1 | 1 |
| . Property, plant and equipment | 1 | 1 |
| **Total** | **(1,051)** | **(911)** |

## Additions to provisions for contingencies and charges and impairment of current assets

| In € millions | 2018 | 2017 |
|---|---|---|
| ▪ Provisions for contingencies and charges | 6 | 3 |
| ▪ Provisions for impairment of inventories and trade receivables | (32) | (56) |
| **Total** | **(26)** | **(54)** |

## NOTE 11: OTHER OPERATING INCOME AND EXPENSE, NET

This item represented a net expense of €10 million in 2018, compared with a net expense of €1 million in 2017.

In December 2018, the Group announced to its French employees that they would be receiving a one-off "purchasing power" bonus. This bonus falls within the scope of the measures introduced by the French government to increase the population's purchasing power and is therefore eligible for exemptions from income and payroll taxes. The aggregate amount of the bonus is €7 million and it will be paid to the employees concerned in early 2019.

The costs incurred in 2018 in relation to the acquisition or sale of companies (notably the eir acquisition) amounted to €4 million.

## NOTE 12: FINANCIAL INCOME AND EXPENSES

Financial income and expenses can be analyzed as follows:

| In € millions | 2018 | 2017 |
|---|---|---|
| ▪ Income from cash and cash equivalents | 1 | 0 |
| ▪ Finance costs, gross | | |
| . Interest on borrowings | (46) | (26) |
| . Finance lease payments | (1) | (2) |
| Sub-total – Finance costs, gross | (47) | (28) |
| **Finance costs, net** | **(46)** | **(28)** |
| ▪ Other financial income | 2 | 0 |
| Sub-total – Other financial income | 2 | 0 |
| ▪ Other financial expenses | | |
| . Translation adjustments/Hedging expense | (4) | (0) |
| . Discounting expense | (40) | (63) |
| . Other | (0) | (0) |
| Sub-total – Other financial expenses | (44) | (63) |
| **Other financial expenses, net** | **(42)** | **(63)** |
| **Net financial expense** | **(88)** | **(91)** |

Net financial expense primarily concerns the costs of the Group's various sources of financing (see Note 29) as well as discounting expense.

Finance costs, gross, comprises interest on borrowings and finance lease payments.

Discounting expense mainly concerns trade payables with maturities of more than one year.

# NOTE 13: CORPORATE INCOME TAX

***Analysis of the corporate income tax charge***

The Group's corporate income tax charge breaks down as follows:

| In € millions | 2018 | 2017 |
|---|---|---|
| Current taxes | | |
| ▪ on income | (253) | (336) |
| ▪ on value added (CVAE) | (33) | (39) |
| **Current income tax charge** | **(286)** | **(375)** |
| Deferred taxes | | |
| ▪ on income | 47 | 9 |
| ▪ on value added (CVAE) | 0 | 0 |
| **Deferred income tax benefit/(charge)** | **47** | **9** |
| **Total tax charge** | **(239)** | **(366)** |

The total tax charge for 2017 included €76 million attributable to the exceptional income tax contribution introduced by France's Amended Finance Act for 2017 and only applicable to fiscal 2017.

## Tax group

Iliad has set up a tax group, which at end-2018 included all consolidated companies except for companies that were less than 95%-owned by the Group and companies whose registered office is outside France.

## Tax proof

The table below reconciles the Group's theoretical tax rate with the effective tax rate calculated on consolidated profit from continuing operations before tax.

| In € millions | 2018 | 2017 |
|---|---|---|
| **Profit for the period** | **330** | **405** |
| ▪ Corporate income tax | 239 | 366 |
| **Consolidated profit from continuing operations before tax** | **569** | **771** |
| ***Theoretical tax rate*** | ***34.43%*** | ***34.43%*** |
| ▪ Net impact of permanent differences | +2.96% | +3.37% |
| ▪ Impact of unrecognized tax loss carryforwards | -0.16% | 0% |
| ▪ Impact of different tax rates | +4.75% | +9.64% |
| ▪ Other impacts | +0.02% | +0.06% |
| ***Effective tax rate*** | ***42.00%*** | ***47.50%*** |

### Unrecognized deferred tax assets

Unrecognized deferred tax assets concern:

- Tax loss carryforwards of companies outside the Iliad tax group that have been in a loss-making position for several years and are not expected to return to profit in the near future.
- Tax loss carryforwards that are not expected to be utilized based on the projected future earnings of the companies concerned using information available at the balance sheet date, or when the companies concerned have been historically loss-making and their turnaround is in progress.

Unrecognized deferred tax assets totaled €899 thousand at December 31, 2018 versus €804 thousand at December 31, 2017.

# NOTE 14: BASIC AND DILUTED EARNINGS PER SHARE

## Basic earnings per share:

| Number of shares used for the calculation | 2018 | 2017 |
|---|---|---|
| ▪ Number of shares at the year-end | 59,045,555 | 59,032,661 |
| ▪ Weighted average number of shares | 58,602,699 | 58,849,298 |

## Diluted earnings per share

| | 2018 | 2017 |
|---|---|---|
| **Profit for the period attributable to owners of the Company** | 322,804 | 397,873 |
| Interest expense on OCEANE convertible bonds | 0 | 0 |
| **Diluted profit for the period attributable to owners of the Company** | 322,804 | 397,873 |
| **Weighted average number of shares outstanding (after dilution)** | | |
| ▪ Weighted average number of shares outstanding (see above) | 58,602,699 | 58,849,298 |
| ▪ Number of share equivalents: . Stock options and free share grants | 1,358,337 | 1,561,912 |
| **Maximum weighted average number of shares after dilution** | **59,961,036** | **60,411,210** |
| **Diluted earnings per share (in €)** | **5.38** | **6.59** |

## Dilutive instruments

As Iliad's average share price in 2018 was €146.60, all of the Group's stock option plans were considered to be dilutive during the year.

## NOTE 15: ANALYSIS OF THE CONSOLIDATED STATEMENT OF CASH FLOWS

### Cash flows from operating activities

Net cash generated from operating activities is determined by the indirect method, which consists of adding back to or deducting from profit for the period:

- all non-cash transactions;
- deferrals or adjustments concerning past or future cash inflows or outflows related to operations; and
- all cash flows relating to investing or financing activities.

### Changes in operating working capital requirement

Changes in operating working capital requirement during 2018 and 2017 can be analyzed as follows:

| 2018 | Note | Balance at Jan. 1, 2018 | Net debits | Net credits | Impact of changes in scope of consolidation | Other | Balance at Dec. 31, 2018 |
|---|---|---|---|---|---|---|---|
| ▪ Net inventories | 22 | 31 | 59 | | 0 | 0 | 90 |
| ▪ Net trade receivables | 23 | 492 | 149 | | 0 | 0 | 641 |
| ▪ Other net receivables | 23 | 233 | 87 | | 0 | 0 | 320 |
| ▪ Trade payables (suppliers of goods and services) | 30 | (490) | | (220) | 1 | (3) | (712) |
| ▪ Other payables | | (347) | | (106) | 4 | 0 | (449) |
| **TOTAL** | | **(81)** | **295** | **(326)** | **5** | **(3)** | **(110)** |
| **Change in operating working capital requirement in 2018** | | | | **(31)** | | | |

| 2017 | Note | Balance at Jan. 1, 2017 | Net debits | Net credits | Impact of changes in scope of consolidation | Other | Balance at Dec. 31, 2017 |
|---|---|---|---|---|---|---|---|
| ▪ Net inventories | 22 | 15 | 16 | | 0 | 0 | 31 |
| ▪ Net trade receivables | 23 | 454 | 38 | | 0 | 0 | 492 |
| ▪ Other net receivables | 23 | 221 | 16 | | 0 | (4) | 233 |
| ▪ Trade payables (suppliers of goods and services) | 30 | (507) | 17 | | 0 | 0 | (490) |
| ▪ Other payables | | (335) | | (12) | 0 | (0) | (347) |
| **TOTAL** | | **(152)** | **87** | **(12)** | **0** | **(4)** | **(81)** |
| **Change in operating working capital requirement in 2017** | | | | **75** | | | |

## Other receivables

| | Note | At December 31, 2018 | At December 31, 2017 |
|---|---|---|---|
| Trade and other receivables: | 23 | 972 | 725 |
| ▪ Net trade receivables (incl. VAT) | 23 | (641) | (492) |
| ▪ Receivables on sales of non-current assets (excl. VAT) | 23 | (11) | 0 |
| **Other receivables** | | **320** | **233** |

## Other payables

| | Note | At December 31, 2018 | At December 31, 2017 |
|---|---|---|---|
| Trade and other payables: | 30 | 3,443 | 2,324 |
| ▪ Suppliers of goods and services (incl. VAT) | 30 | (712) | (490) |
| ▪ Suppliers of non-current assets (excl. VAT) | | (2,282) | (1,487) |
| **Other payables** | | **449** | **347** |

## Acquisitions of property, plant and equipment and intangible assets

This item can be analyzed as follows:

| | Note | 2018 | 2017 |
|---|---|---|---|
| ▪ Acquisition of intangible assets | 17 | 1,513 | 214 |
| ▪ Remeasurement of intangible assets | 17 | 0 | (520) |
| ▪ Acquisition of property, plant and equipment | 19 | 1,702 | 1,316 |
| ▪ Suppliers of non-current assets (excl. VAT): | | | |
| . at January 1 | | 1,487 | 2,455 |
| . at December 31 | | (2,282) | (1,487) |
| ▪ Other | | 27 | 68 |
| **Total** | | **2,447** | **2,046** |

## Cash and cash equivalents

| | Note | Cash and cash equivalents at December 31, 2018 | Cash and cash equivalents at December 31, 2017 |
|---|---|---|---|
| Cash (including currency hedges) | 24 | 68 | 100 |
| Marketable securities | 24 | 113 | 116 |
| ***Sub-total*** | | ***181*** | ***216*** |
| Bank overdrafts | 29 | (8) | (1) |
| **Total** | | **173** | **215** |

## Non-monetary flows relating to investing and financing activities

The following table presents transactions carried out by the Group that did not have an impact on cash flows, and which are therefore not included in the statement of cash flows:

| In € thousands | 2018 | 2017 |
|---|---|---|
| ▪ Acquisitions of assets under finance leases | 39 | 20 |

## NOTE 16: GOODWILL

The carrying amount of the Group's goodwill was €215 million at both December 31, 2018 and 2017.

# NOTE 17: INTANGIBLE ASSETS

Intangible assets break down as follows:

| In € millions | At December 31, 2018 | | | At December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Gross | Amortization and impairment | Net | Gross | Amortization and impairment | Net |
| **Acquisitions:** | | | | | | |
| ▪ 3G licenses - France | 323 | 125 | 198 | 323 | 107 | 216 |
| ▪ 4G licenses - France | 1,284 | 163 | 1,121 | 1,266 | 127 | 1,139 |
| ▪ Wimax license | 0 | 0 | 0 | 54 | 53 | 1 |
| ▪ Licenses - French overseas *départements* and *collectivités* | 8 | 0 | 8 | 7 | 0 | 7 |
| ▪ Licenses - Italy | 2,050 | 75 | 1,975 | 921 | 0 | 921 |
| ▪ Alice customer base | 25 | 22 | 3 | 25 | 19 | 6 |
| ▪ Other intangible assets | 1,726 | 1,105 | 621 | 1,362 | 955 | 407 |
| **Internally-generated intangible assets:** | | | | | | |
| ▪ Development costs | 22 | 10 | 12 | 17 | 9 | 8 |
| **Total** | **5,438** | **1,500** | **3,938** | **3,975** | **1,270** | **2,705** |

## France:

In January 2010, the Group was issued France's fourth 3G mobile telecommunications license in return for consideration of €242.7 million. In accordance with IAS 23 the carrying amount of this asset in the balance sheet includes related borrowing costs.

In September 2011, the Group was allocated a license for 20 MHz (duplex) of spectrum in the new generation 4G (2,600 MHz) frequency band for a cost of €278.1 million. The carrying amount of this asset includes related borrowing costs in accordance with IAS 23. This spectrum has been used since December 2013.

In December 2014, the Group was granted a license to use 5 MHz (duplex) in the 1,800 MHz (4G) frequency band, which it has used since October 2015, and in September 2015 it was granted a license to use an additional 10 MHz in the 1,800 MHz (4G) frequency band, which has been used since May 2016.

Following a mobile frequency auction carried out in France, in November 2015 the Group was allocated 10 MHz (duplex) in the 700 MHz (4G) band for €933 million, payable in four installments. All of these installments had been paid by end-2018.

This frequency band will be gradually brought into service between 2016 and 2019 as it becomes available. An initial tranche was brought into service in 2016, representing 20.66% of the 700 MHz frequency band, and new tranches representing 34.03% of the band were brought into service throughout 2018.

In November 2016 the Group was allocated 3G and 4G spectrum in the following French overseas *départements* and *collectivités*: Guadeloupe, Martinique, French Guiana, Saint-Barthélemy and Saint Martin.

In 2018, ARCEP (the French telecommunications regulator) carried out a procedure to reallocate frequencies in the 900 MHz, 1,800 MHz and 2.1 GHz bands, whose licenses expire between 2021 and 2024. Following this procedure, the Group will have additional frequencies in the 900 MHz and 2.1 GHz bands. As mentioned above, Free Mobile already has a license to use frequencies in the 1,800 MHz band.

ARCEP's decision on the reallocation of the frequencies was made on November 15, 2018, and as a result the Group will have an additional 3.7 MHz in the 900 MHz frequency band and an additional 9.8 MHz in the 2.1 GHz band. This reallocation procedure will gradually lead to a more balanced split of frequencies between France's operators. The frequencies in the 900 MHz and 2.1 GHz bands allocated to Free Mobile will be available when their current licenses expire, i.e. in 2021 and 2024 respectively.

The Group currently has a total portfolio of 55 MHz duplex with balanced coverage across Metropolitan France, enabling it to deliver high-performing services in both 3G and 4G. This portfolio will be increased to 68.5 MHz following the frequency reallocation procedure described above.

Since 2012 the Group has accelerated the rollout of its mobile operations, which has resulted in the signature of agreements granting it certain long-term rights, some of which were extended in 2018.

**Italy:**

In July 2016, the Group signed an agreement with the Hutchison and VimpelCom groups as part of the plan to merge their H3G and Wind subsidiaries. This agreement provided for Iliad to acquire assets enabling it to enter the market in Italy as the fourth mobile operator.

The assets transferred to the Group pursuant to this agreement include licenses to use a portfolio of 2x35 MHz frequencies (2x5 MHz in the 900 MHz band, 2x10 MHz in the 1,800 MHz band, 2x10 MHz in the 2,100 MHz band and 2x10 MHz in the 2,600 MHz band) at a cost of €450 million (excluding extensions and transfer taxes), to be paid between 2017 and 2019. The estimated amount of the payment installment for 2019 is €210 million for these frequencies. At December 31, 2018, the Group had already paid a total of €243 million.

In addition, in 2017, the Group paid €220 million to the Italian government under its process to refarm and extend the licenses for 1,800 MHz frequencies until 2029.

Lastly, the Group became the legal owner of the licenses for the above portfolio of 2x35 MHz frequencies in Italy following a decision issued by the Italian Ministry of Economic Development (MiSE) on November 4, 2016. The estimated duration of these licenses includes the extension periods provided for by Italian law until the end of 2029. The Group recognized under intangible assets the estimated amount it has to pay to the MiSE by 2021 for the extension and 4G refarming of the 900 and 2,100 MHz spectrum for the period from December 2021 through December 2029.

During a transition period that will expire at the end of 2019 at the latest, a portion of this frequency portfolio will be used by Wind/H3G.

In accordance with IAS 38, the Group recognized an €895.9 million intangible asset in 2018, corresponding to the present value of the expected cash outflows for the Italian spectrum licenses. The discount rate used to calculate this intangible asset was 2.11%, corresponding to the average interest rate on the Group's gross borrowings for the second half of 2016.

In its 2018 Finance Act published in late 2017, the Italian government issued its procedures for the 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 results of the spectrum auction were announced in October 2018, and the Group was allocated the following (for a total of €1,193 million):

- 2 x 10 MHz in the 700 MHz band;
- 20 MHz in the 3.6-3.8 GHz band;
- 200 MHz in the 26.5-27.5 GHz band.

The Group made an initial payment of €143 million for these frequencies in 2018 and the balance will be paid by end-2022.

In accordance with IAS 38, the Group recognized a €1,128.8 million intangible asset in 2018, corresponding to the present value of the expected cash outflows for its Italian 5G license. The discount rate used to calculate this intangible asset was 1.56%, corresponding to the average interest rate on the Group's gross borrowings for 2018. The contra-entry to the recognition of this €1,128.8 million intangible asset was recorded in trade payables at December 31, 2018.

**Group:**

Borrowing costs capitalized in previous years relating to the Group's licenses represented a gross amount of €80 million at December 31, 2018. The amount capitalized during the year was €14 million.

There are no restrictions on the legal title of the Group's intangible assets and none of these assets have been pledged as security for borrowings.

Movements in net intangible assets can be analyzed as follows:

| In € millions | 2018 | 2017 |
|---|---|---|
| Net at January 1 | 2,705 | 3,243 |
| Additions: | | |
| . acquisitions | 1,513 | 214 |
| . asset remeasurement | 0 | (520) |
| . internally-generated intangible assets | 8 | 4 |
| Reclassifications | 0 | 0 |
| Other | (1) | (2) |
| Amortization and impairment | (287) | (234) |
| **Net at December 31** | **3,938** | **2,705** |

In accordance with IAS 38, the licenses for the spectrum in the 1,800 MHz band allocated to the Group in 2014 and 2015 in France were capitalized based on the discounted amount of the expected related cash outflows estimated by the Group because the final amount of these licenses was not known.

During 2017, ARCEP issued a decision setting the total amount payable for these licenses, which was less than the Group's initial estimate. Consequently, the Group remeasured the related asset based on the amount set in ARCEP's decision.

**Intangible assets in progress**

The carrying amount of intangible assets in progress is included in the carrying amounts of the various categories of intangible assets, as follows:

| In € millions | At December 31, 2018 | At December 31, 2017 |
|---|---|---|
| ▪ Licenses | 2,470 | 1,644 |
| ▪ Other | 1 | 2 |
| **Total** | **2,471** | **1,646** |

## NOTE 18: IMPAIRMENT TESTS ON GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets not yet available for use are tested for impairment on an annual basis at the year-end (December 31) or whenever there is an indication that they may be impaired.

Intangible assets with finite useful lives are tested for impairment whenever there is an indication that they may be impaired.

The Group does not have any intangible assets with indefinite useful lives.

**Impairment tests**

At December 31, 2018 the Group carried out its annual impairment test on its Italy Retail Telecom CGU, by measuring the CGU's recoverable amount – using the discounted cash flows method – and comparing that recoverable amount against the recoverable amount of the CGU.
Following this test, no impairment losses were recognized against any of the assets allocated to this CGU.

For the purpose of the impairment test performed on the France Retail Telecom CGU – which represents over 98% of the Group's business in France – the CGU's fair value less cost to sell was calculated based on the Group's market value. The Group believes that its market value represents at least the value of the France Retail Telecom CGU, and as that market value was higher than the aggregate carrying amount of the assets allocated to the CGU, no impairment losses were recognized against its goodwill or intangible assets in 2018.

There were no indications at December 31, 2018 that the values of the intangible assets in progress for either of these two CGUs were impaired.

## NOTE 19: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment can be analyzed as follows:

| In € millions | At December 31, 2018 | | | At December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Gross | Depreciation | Net | Gross | Depreciation | Net |
| ▪ Land and buildings(1) | 154 | 13 | 141 | 160 | 11 | 149 |
| ▪ Network usage rights | 189 | 105 | 84 | 189 | 96 | 93 |
| ▪ Service access fees | 763 | 396 | 367 | 721 | 344 | 377 |
| ▪ Network equipment(2) | 7,277 | 3,129 | 4,148 | 5,936 | 2,682 | 3,254 |
| ▪ Other | 753 | 135 | 618 | 649 | 105 | 544 |
| **Total** | **9,136** | **3,778** | **5,358** | **7,655** | **3,238** | **4,417** |
| (1) of which finance leases | 85 | 9 | 76 | 85 | 8 | 77 |
| (2) of which finance leases | 224 | 150 | 74 | 185 | 131 | 54 |

There are no restrictions on the legal title of the Group's property, plant and equipment and none of these assets have been pledged as security for borrowings.

Movements in net property, plant and equipment can be analyzed as follows:

| In € millions | 2018 | 2017 |
|---|---|---|
| Net at January 1 | 4,417 | 3,761 |
| Acquisitions(*) | 1,740 | 1,336 |
| Disposals | (32) | (7) |
| Reclassifications | 0 | (0) |
| Impact of changes in scope of consolidation | (1) | 0 |
| Other | (1) | (5) |
| Depreciation and impairment | (765) | (668) |
| **Net at December 31** | **5,358** | **4,417** |
| | | |
| (*) Acquisitions excluding assets acquired under finance leases | 1,702 | 1,316 |

During 2018 the Group kept up its capital spending drive for growth projects. This included the following:

- A step-up in the pace of investments for the FTTH network rollout, with a particular acceleration in rollouts in "averagely populated areas", and an increase in the number of subscribers being connected up to fiber.

- Mobile-related capital expenditure, reflecting the significant progress made in the mobile network rollout and technological upgrades, particularly for 4G/4G+.

- Capital expenditure related to the launch of the new Freeboxes at end-2018.

- Capital expenditure for landline operations (including network expenditure due to increased unbundling and subscriber-related expenditure for modems and other connection expenses).

- Investment in the hosting business, which is growing rapidly.

- Investments related to the Group's Italian mobile business (expenditure for structural work and initial capital outlay for the network).

**Impairment of property, plant and equipment**

Items of property, plant and equipment are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. In 2018, no such events or circumstances were identified that had a material effect on the carrying amount of these assets.

**Assets under construction**

The carrying amount of assets under construction is included in the carrying amounts of the various categories of property, plant and equipment, as follows:

| In € millions | At December 31, 2018 | At December 31, 2017 |
|---|---|---|
| ▪ Land and buildings | 29 | 42 |
| ▪ Network usage rights | 3 | 3 |
| ▪ Network equipment | 772 | 566 |
| **Total** | **803** | **611** |

## NOTE 20: EQUITY-ACCOUNTED INVESTEES

The Group has two main equity-accounted investees:

- Telecom Reunion Mayotte (TRM) – 50% interest, acquired on November 6, 2015 for €24 million.
- NJJ Boru – 49% interest, acquired on April 6, 2018 for c. €316 million as part of the eir transaction. At the same date, NJJ Boru acquired a 64.5% interest in eir.

On December 20, 2017 the Group announced its acquisition, for c. €316 million, of a 31.6% indirect interest in eir – Ireland's incumbent telecom operator – alongside NJJ (Xavier Niel's private holding company), which agreed to purchase a 32.9% indirect interest in eir.

This investment by Iliad and NJJ (via its subsidiary NJJ Tara) was carried out through a joint vehicle – NJJ Boru – which is 49% owned by the Group and 51% by NJJ Tara.

The €316 million acquisition price breaks down as (i) €300 million corresponding to the value of the Group's investment in eir, recognized by the equity method and (ii) €16 million representing the value of the call option granted to Iliad by NJJ Tara (see Note 21).

The analysis of the final fair values of eir's identifiable assets, liabilities and contingent liabilities was in the process of being completed at the reporting date.
The impact of this analysis has been taken into account in the profit and net asset value figures reported by the Group for 2018 in relation to equity-accounted investees.

| In € millions | 2018 | 2017 |
|---|---|---|
| Share of profit/(loss) of equity-accounted investees before tax | (19) | 2 |
| Share of tax of equity-accounted investees | (4) | (1) |
| **Share of profit/(loss) of equity-accounted investees after tax** | **(23)** | **1** |

The Group's share of profit of equity-accounted investees for 2018 was adversely affected by €26 million in non-recurring items (notably acquisition costs for the eir transaction and the impact of the restructuring plan implemented by eir after the transaction).

Movements in the Group's investments in equity-accounted investees were as follows in 2018 and 2017:

| In € millions | 2018 | 2017 |
|---|---|---|
| At January 1 | 16 | 15 |
| Share of net assets of equity-accounted investees | 0 | 0 |
| Goodwill | 0 | 0 |
| **Investments in equity-accounted investees at January 1** | **16** | **15** |
| **Movements** | | |
| Share of profit/(loss) of equity-accounted investees (1) | (23) | 1 |
| Share of OCI of equity-accounted investees | 25 | 0 |
| Dividends paid | 0 | 0 |
| Translation adjustments | 0 | 0 |
| Capital reductions | 0 | 0 |
| Acquisitions and changes in scope of consolidation | 300 | 0 |
| Other | 0 | 0 |
| **Investments in equity-accounted investees at December 31** | **318** | **16** |

(1) Including the share of 2018 profit/(loss) of NJJ Boru in a negative amount of €25 million

The main change in scope of consolidation concerns NJJ Boru's acquisition of eir.

The following table sets out the key financial information of the Telecom Reunion Mayotte sub-group, based on its most recently published consolidated financial statements prepared in accordance with IFRS:

| In € millions | 2018 | 2017 |
|---|---|---|
| | | |
| **Revenues** | **62** | **58** |
| Profit for the period | 5 | 2 |
| Other comprehensive income | 0 | 0 |
| **Total comprehensive income** | **5** | **2** |
| Non-current assets | 94 | 95 |
| Current assets | 24 | 20 |
| Non-current liabilities | (51) | (60) |
| Current liabilities | (32) | (24) |
| **Total net assets** | **35** | **31** |

The following table sets out the key financial information of the NJJ Boru sub-group, based on its most recently published consolidated financial statements prepared in accordance with IFRS:

| In € millions | 2018 |
|---|---|
| | |
| **Revenues (9 months of operations)** | **935** |
| Profit/(loss) for the period | (73) |
| Other comprehensive income | 77 |
| **Total comprehensive income/(expense)** | **4** |
| Non-current assets | 4,133 |
| Current assets | 483 |
| Non-current liabilities | (2,978) |
| Current liabilities | (639) |
| **Total net assets** | **999** |

Iliad's consolidated financial statements include transactions carried out by the Group with equity-accounted investees as part of its routine business. These transactions are conducted on arm's length terms.

The Group has no off-balance-sheet commitments relating to equity-accounted investees.

# NOTE 21: OTHER FINANCIAL ASSETS

Other financial assets break down as follows by nature:

| In € millions | At December 31, 2018<br>Net | At December 31, 2017<br>Net |
|---|---|---|
| **Other long-term financial assets** | | |
| ▪ Other investment securities | 25 | 19 |
| ▪ Loans, receivables and other | 18 | 11 |
| ▪ Guarantee deposits | 7 | 7 |
| **Total other long-term financial assets** | **50** | **37** |
| **Other short-term financial assets** | | |
| ▪ Loans and receivables | 6 | 0 |
| **Total other short-term financial assets** | **6** | **0** |
| | | |
| **Total other financial assets** | **56** | **37** |

Other financial assets are classified as short-term when they are due within one year and as long-term when they are due beyond one year.

Other financial assets break down as follows by function:

| In € millions | At December 31, 2018 Net | At December 31, 2017 Net |
|---|---|---|
| ▪ Financial assets carried at fair value through profit or loss | 22 | 11 |
| ▪ Financial assets carried at fair value through OCI | 25 | 18 |
| ▪ Financial assets carried at amortized cost | 9 | 8 |
| **Total other financial assets** | **56** | **37** |

NJJ Tara has granted the Group a call option exercisable in 2024 and 2025 which covers 80% of NJJ Tara's interest in NJJ Boru (i.e., 41% of NJJ Boru and, indirectly, 26.3% of eir's capital). The option will be exercisable at a price representing a 12.5% discount to fair market value, as determined by an independent valuer, but with a floor calculated based on an annual yield of 2%.

This call option has been recognized as a non-current financial asset in an amount of €16 million in the Group's consolidated financial statements at December 31, 2018 (see Note 20).
Movements in net other financial assets can be analyzed as follows:

| In € millions | 2018 | 2017 |
|---|---|---|
| Carrying amount at January 1 | 37 | 19 |
| Acquisitions | 13 | 18 |
| Fair value adjustments | 5 | 0 |
| Redemptions and repayments | 0 | 0 |
| Impact of changes in scope of consolidation: | 16 | 0 |
| Disposals | (15) | (2) |
| Additions to provisions | 0 | 2 |
| **Carrying amount at December 31** | **56** | **37** |

Acquisitions and redemptions and repayments in 2017 and 2018 primarily concerned movements in guarantee deposits paid and receivables due in more than one year.

## NOTE 22: INVENTORIES

Inventories break down as follows:

| In € millions | At December 31, 2018 | At December 31, 2017 |
|---|---|---|
| Raw materials | 57 | 1 |
| Work-in-progress | 0 | 0 |
| Finished products | 35 | 33 |
| **Inventories – gross** | **92** | **34** |
| Provisions: | | |
| . raw materials | 0 | (1) |
| . finished products | (2) | (2) |
| **Total provisions** | **(2)** | **(3)** |
| **Inventories – net** | **90** | **31** |

The provisions for impairment recognized against inventories of mobile phones notably take into account (i) inventories that are damaged and therefore not available for sale, and (ii) inventories of old models that are no longer marketed by the Group.

The year-on-year increase in inventories is mainly due to the launch of the Group's new box, the Freebox Delta, a part of which (the player) is sold to the subscriber.

# NOTE 23: OTHER ASSETS

Trade and other receivables (recorded under non-current and current assets) break down as follows:

| In € millions | At December 31, 2018 | At December 31, 2017 |
|---|---|---|
| **Other receivables recorded under other non-current assets:** | | |
| Other receivables | 32 | 23 |
| **Total – gross** | **32** | **23** |
| Amortization and provisions for other receivables | (16) | (10) |
| **Net other receivables (other non-current assets)** | **16** | **13** |

| In € millions | At December 31, 2018 | At December 31, 2017 |
|---|---|---|
| **Trade and other receivables recorded under current assets** | | |
| Trade receivables | 769 | 567 |
| Advances and prepayments | 7 | 12 |
| Tax receivables (VAT) | 191 | 131 |
| Sundry receivables | 54 | 17 |
| Prepaid expenses | 70 | 73 |
| **Total – gross** | **1,091** | **800** |
| Provisions for trade receivables | (117) | (75) |
| Provisions for other receivables | (2) | 0 |
| **Net trade and other receivables (current assets)** | **972** | **725** |

| | | |
|---|---|---|
| Net trade receivables | 652 | 492 |
| Net other receivables | 320 | 233 |

Other receivables recorded under other non-current assets solely relate to contract assets (customer acquisition costs) recognized in accordance with IFRS 15.

## NOTE 24: CASH AND CASH EQUIVALENTS

Cash and cash equivalents can be analyzed as follows:

| **In € millions** | **At December 31, 2018** | | **At December 31, 2017** | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| Mutual funds (UCITS)<br>**Net value** | 113 | 113 | 116 | 116 |
| **Cash**<br>(excluding bank overdrafts) | 68 | 68 | 100 | 100 |
| **Total – net** | **181** | **181** | **216** | **216** |

The Group's policy is to invest its cash in instruments that qualify as cash equivalents within the meaning of IAS 7. As a result, these investments:

- have a short maturity;
- are highly liquid;
- are readily convertible into a known amount of cash; and
- are subject to an insignificant risk of changes in value.

Consequently, the Group invests its surplus cash in UCITS that fall into the "euro monetary" classification of the French securities regulator (*Autorité des Marchés Financiers* – AMF).

## NOTE 25: ASSETS HELD FOR SALE

Assets held for sale break down as follows:

| In € millions | At December 31, 2018 | At December 31, 2017 |
|---|---|---|
| Buildings held for sale | 15 | 20 |
| **Total** | **15** | **20** |

In line with its strategy of acquiring premises where required for rolling out its FTTH network, the Group has purchased certain buildings of which it intends to only keep part for its future operations. The remaining portion of these buildings will therefore be sold.

The portions of these buildings that the Group intends to subsequently sell have been classified under “Assets held for sale”. A specialist subsidiary is responsible for managing the transactions.

Assets held for sale had no related material liabilities at either December 31, 2017 or 2018.

Gains and losses arising on sales of these buildings, including the impact of any related provisions, are presented in the consolidated income statement under “Other operating income and expense, net”.

## NOTE 26: EQUITY

### Share capital

***Capital increase following exercise of stock options***

The stock options granted by the Group on November 5, 2008 have been exercisable since November 5, 2013. The first tranche of the stock options granted on August 30, 2010 has been exercisable since August 29, 2014 and the second tranche since August 29, 2015. Lastly, the stock options granted on November 7, 2011 have been exercisable since November 6, 2016.

During 2018, 99,287 options were exercised for the same number of new shares. The Company's share capital therefore increased by €22 thousand.

***Other corporate actions***

In order to cover part of the dilution related to the exercise of stock options, in late 2016 the Company bought back 86,393 of its own shares at an average price of €178.48 per share.

These shares were canceled in early 2018, resulting in a €19 thousand reduction in the Company's capital from €13,082 thousand to €13,085 thousand at December 31, 2018.

At December 31, 2018 the Group held 237,602 Iliad shares.

At that date, Iliad's ownership structure was as follows:

| **Shareholder** | **Number of shares** | **%** |
|---|---|---|
| Executive Management | 33,516,724 | 56.76 |
| Public | 25,528,831 | 43.24 |
| **Total** | **59,045,555** | **100.00** |

### Dividend paid and dividend recommended to shareholders at the Annual General Meeting

The dividend paid in 2018 for 2017 totaled €40,136 thousand. No interim dividend was paid in 2018.

At the next Annual General Meeting, shareholders will be asked to approve a dividend payment of €0.90 per share.

# NOTE 27: STOCK OPTION AND SHARE GRANT PLANS

## Stock option plans

The following tables summarize the main features of the various stock option plans approved in 2018 and prior years, and outstanding at the year-end. No expense was recorded for these plans in either 2018 or 2017.

### At December 31, 2018

| Date of Shareholders' Meeting | Date of plan launch | Exercise price (in €) | Number of options outstanding at Jan. 1, 2018 | Number of options granted in 2018 | Number of options forfeited in 2018 | Number of options exercised in 2018 | Number of exercisable options outstanding at Dec. 31, 2018 | Number of non-exercisable options outstanding at Dec. 31, 2018 |
|---|---|---|---|---|---|---|---|---|
| **Iliad** | | | | | | | | |
| May 29, 2008 | Nov. 5, 2008 | 53.79 | 43,899 | 0 | 200 | 43,699 | 0 | 0 |
| May 29, 2008 | Aug. 30, 2010 | 67.67 | 130,615 | 0 | 0 | 18,487 | 112,128 | 0 |
| May 24, 2011 | Nov. 7, 2011 | 84.03 | 223,374 | 0 | 0 | 37,101 | 186,273 | 0 |

### At December 31, 2017

| Date of Shareholders' Meeting | Date of plan launch | Exercise price (in €) | Number of options outstanding at Jan. 1, 2017 | Number of options granted in 2017 | Number of options forfeited in 2017 | Number of options exercised in 2017 | Number of exercisable options outstanding at Dec. 31, 2017 | Number of non-exercisable options outstanding at Dec. 31, 2017 |
|---|---|---|---|---|---|---|---|---|
| **Iliad** | | | | | | | | |
| May 29, 2006 | June 14, 2007 | 74.62 | 125 | 0 | 0 | 125 | 0 | 0 |
| May 29, 2006 | Aug. 30, 2007 | 68.17 | 16,908 | 0 | 0 | 16,908 | 0 | 0 |
| May 29, 2008 | Nov. 5, 2008 | 53.79 | 59,541 | 0 | 0 | 15,642 | 43,899 | 0 |
| May 29, 2008 | Aug. 30, 2010 | 67.67 | 211,505 | 0 | 0 | 80,890 | 130,615 | 0 |
| May 24, 2011 | Nov. 7, 2011 | 84.03 | 305,132 | 0 | 0 | 81,758 | 223,374 | 0 |

### Exercise dates of options

The exercise dates for the outstanding stock options are as follows:

| Date of plan launch | Exercise dates |
|---|---|
| November 5, 2008 | Options exercisable since November 5, 2013 |
| August 30, 2010 | 30% of the options exercisable since August 29, 2014 and 70% since August 29, 2015 |

| | |
|---|---|
| November 7, 2011 | Options exercisable since November 6, 2016 |

**Share grant plans**

***Free Mobile***

Following an authorization given by its sole shareholder in May 2010, Free Mobile set up a share grant plan involving shares representing up to 5% of its share capital.

During 2010 and 2011, 23 employees and executive officers were granted shares representing 5% of Free Mobile's share capital. This plan includes an option for the beneficiaries to receive their entitlements in either cash or Iliad shares, with the price determined by an independent valuer. The option can be exercised from July 1, 2019.

The expense recorded in relation to these plans totaled €482 thousand in 2017 and €508 thousand in 2018.

***Online***

Following an authorization given at the Shareholders' Meeting of December 3, 2012, Online set up a share grant plan involving shares representing up to 1% of its share capital.

The first allocation under this plan took place in 2012 when an employee was granted shares representing 0.2% of Online's share capital.

The shares vested after a period of two years and this vesting period was followed by a two-year lock-up period during which the beneficiary was not entitled to sell the vested shares.

The expense recognized for this plan amounted to €12 thousand in both 2017 and 2018.

***Iliad***

Following an authorization given at the Shareholders' Meeting of May 19, 2016, Iliad set up a share grant plan involving shares representing up to 0.5% of its share capital.

During 2017, the Company granted shares representing 0.5% of its share capital to 61 employees and executive officers under this plan.

The vesting of these shares – which will take place in four unequal tranches between 2020 and 2023 – is subject to (i) the beneficiary still forming part of the Group at the vesting date and (ii) the following performance conditions for each tranche:

- ✓ October 30, 2020: 40% of the shares will vest if the EBITDA margin in France (excluding Freebox V7 sales) for 2019 is higher than the EBITDA margin in France for 2017.
- ✓ October 30, 2021: 10% of the shares will vest if the EBITDA margin in France (excluding Freebox V7 sales) for 2020 is higher than 40%.

- ✓ October 30, 2022: 10% of the shares will vest if the total number of fiber subscribers is higher than 1.7 million at October 1, 2022.
- ✓ October 30, 2023: 40% of the shares will vest if the total number of fiber subscribers is higher than 2.5 million at October 1, 2023.

The expense recognized for this plan amounted to €3,625 thousand in 2017 and €10,877 thousand in 2018.

Following an authorization given at the Shareholders' Meeting of May 16, 2018, Iliad set up a share grant plan involving shares representing up to 1% of its share capital.

During 2018, the Company granted shares representing 0.5% of its share capital to 122 employees and executive officers.

The vesting of these shares – which will take place in four equal tranches between 2021 and 2024 – is subject to (i) the beneficiary still forming part of the Group at the vesting date and (ii) the following performance conditions for each tranche:

- ✓ September 30, 2021 - end of the vesting period for Tranche 1:
    - o 50% of the shares will vest if EBITDA less CAPEX in France (excluding B2B operations) is higher than €1 billion at December 31, 2020; and
    - o 50% of the shares will vest if the EBITDA margin for France (excluding equipment sales) is higher than 40% for the year ended December 31, 2020.

- ✓ September 30, 2022 - end of the vesting period for Tranche 2: all of the Tranche 2 shares will vest if the EBITDA margin for France (excluding equipment sales) is higher for the year ended December 31, 2021 than for the year ended December 31, 2020.

- ✓ September 30, 2023 - end of the vesting period for Tranche 3:
    - o 50% of the shares will vest if the number of fiber subscribers in France is higher than 3 million at September 1, 2023; and
    - o 50% of the shares will vest if the number of mobile subscribers in Italy is higher than 6 million at September 1, 2023.

- ✓ September 30, 2024 - end of the vesting period for Tranche 4:
    - o 50% of the shares will vest if the number of fiber subscribers in France is higher than 3.5 million at September 1, 2024; and
    - o 50% of the shares will vest if the Group's revenues in Italy are higher than €500 million at June 30, 2024.

The expense recognized in 2018 for this plan amounted to €368 thousand.

***Iliad Italia***

Following an authorization given by its director on July 16, 2018, Iliad Holding S.p.A set up a share grant plan involving shares representing up to 2.7% of the share capital of its subsidiary, Iliad Italia, and drew up the list of beneficiaries.

Shares representing 2.5% of Iliad Italia's share capital were granted to 53 Italian and French employees (including one Italian executive).

The shares of each beneficiary will vest after a period of two years, provided that the beneficiary still forms part of the Group at the vesting date. The vested shares will then be subject to a five-year lock-up period, following which the beneficiaries will have the option to receive their entitlements in cash or Iliad shares, with the price of their Iliad Italia shares determined by an independent valuer.

The expense recognized in 2018 for this plan amounted to €683 thousand.

# NOTE 28: PROVISIONS

The provisions for contingencies and charges recognized at December 31, 2018 are intended to cover costs resulting from the Group's business risks, litigation risks, tax reassessment risks and employee-related risks.

These provisions break down as follows:

| In € millions | At December 31, 2018 | At December 31, 2017 |
|---|---|---|
| **Long-term provisions** | | |
| Provisions for charges | 2 | 0 |
| **Total long-term provisions** | **2** | **0** |
| **Short-term provisions** | | |
| Provisions for contingencies | 34 | 43 |
| Provisions for charges | 1 | 1 |
| **Total short-term provisions** | **35** | **44** |
| **Total provisions for contingencies and charges** | **37** | **44** |

Provisions are considered to be long-term when the Group does not expect to use them within 12 months of the balance sheet date. In all other cases they are deemed to be short-term.

Movements in provisions for contingencies and charges were as follows in 2018:

| In € millions | At Dec. 31, 2017 | Increases in 2018 | Decreases in 2018 (utilizations) | Decreases in 2018 (surplus provisions) | Impact of changes in scope of consolidation | Other movements | At Dec. 31, 2018 |
|---|---|---|---|---|---|---|---|
| Provisions for claims and litigation and general contingencies | 43 | 11 | (3) | (17) | 0 | 0 | 34 |
| Provisions for charges | 1 | 0 | 0 | 0 | 0 | 2 | 3 |
| **Total** | **44** | **11** | **(3)** | **(17)** | **0** | **2** | **37** |

Movements in provisions for contingencies and charges were as follows in 2017:

| In € millions | At Dec. 31, 2016 | Increases in 2017 | Decreases in 2017 (utilizations) | Decreases in 2017 (surplus provisions) | Impact of changes in scope of consolidation | Other movements | At Dec. 31, 2017 |
|---|---|---|---|---|---|---|---|
| Provisions for claims and litigation and general contingencies | 48 | 9 | (2) | (12) | 0 | 0 | 43 |
| Provisions for charges | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| **Total** | **49** | **9** | **(2)** | **(12)** | **0** | **0** | **44** |

## NOTE 29: FINANCIAL LIABILITIES

Financial liabilities can be analyzed as follows:

| In € millions | At December 31, 2018 | At December 31, 2017 |
|---|---|---|
| Bank borrowings | 934 | 854 |
| Bonds | 2,434 | 1,287 |
| Finance lease liabilities | 38 | 25 |
| Other | 1 | 2 |
| **Total long-term financial liabilities** | **3,407** | **2,168** |
| Bank borrowings and short-term marketable securities | 715 | 463 |
| Finance lease liabilities | 23 | 26 |
| Bank overdrafts | 7 | 1 |
| Cash flow hedges | 0 | 0 |
| Other | 12 | 7 |
| **Total short-term financial liabilities** | **757** | **497** |
| **Total** | **4,164** | **2,665** |

Financial liabilities are classified as short-term when they have a maturity of less than one year and as long-term when their maturity is beyond one year.

All Group borrowings are denominated in euros.

The table below summarizes movements in borrowings in 2018 and 2017:

| In € millions | 2018 | 2017 |
|---|---|---|
| Borrowings at January 1 | 2,665 | 1,881 |
| New borrowings(*) | 1,567 | 867 |
| Repayments of borrowings | (86) | (88) |
| Change in bank overdrafts | 6 | (1) |
| Impact of cash flow hedges | 0 | 0 |
| Other | 12 | 6 |
| **Total borrowings at December 31** | **4,164** | **2,665** |

| | | |
|---|---|---|
| (*) New borrowings excluding finance lease liabilities | 1,528 | 847 |

**Bonds**

On December 1, 2015 the Group issued €650 million worth of bonds paying interest at 2.125% per year. These bonds will be redeemed at face value at maturity on December 5, 2022.

On October 10, 2017 the Group issued €650 million worth of bonds paying interest at 1.500% per year. These bonds will be redeemed at face value at maturity on October 14, 2024.

On April 23, 2018 the Group issued a further €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.

**Guarantees given**

The Group has not given any specific guarantees in return for its existing borrowing facilities with banks.

**Description of the Group's main bank borrowing facilities outstanding at December 31, 2018**

***A €1,650 million syndicated revolving credit facility***

The Group has a €1,650 million syndicated revolving credit facility set up with a pool of French and international banks, whose maturity can now be extended until 2025 following the facility's renegotiation on July 16, 2018. The related loan agreement was further amended on February 12, 2019.

Following this amendment the applicable interest rate on the facility is based on Euribor for the period plus a margin of between 0.250% and 1.200% per year depending on the Group's leverage ratio.

None of this facility had been drawn down at December 31, 2018.

The financial covenants applicable to this credit facility are described in Note 33.

***A €500 million term-loan***

The Group has a €500 million term-loan set up with a pool of French and international banks, which following its renegotiation on July 16, 2018 now matures in 2023. The related loan agreement was further amended on February 12, 2019.

Following this amendment, the applicable interest rate on the loan is based on Euribor for the period plus a margin of between 0.700% and 1.500% per year depending on the Group's leverage ratio.

This loan had been drawn down in full at December 31, 2018.

The financial covenants applicable to this term-loan are described in Note 33.

***Loans granted by the European Investment Bank (EIB)***

In 2010, the EIB granted Iliad a €150 million loan in order to help finance the rollout of the Group's ADSL and FTTH networks. This loan is repayable in installments with a final maturity in 2020.

In late August 2012, the EIB granted Iliad another loan (€200 million) to help finance its rollout of next-generation landline networks. This loan is repayable in installments with a final maturity in 2022.

Both loans had been fully drawn down at December 31, 2018 and the outstanding amount owed by the Group totaled €167 million at that date.

On December 8, 2016, the EIB granted Iliad another €200 million loan to help finance its rollout of optical fiber networks. This loan – which matures in 2030 and is repayable in installments as from 2020 – had been fully drawn down at December 31, 2018.

On December 17, 2018, the EIB granted Iliad a further €300 million loan to help finance its rollout of optical fiber networks. None of this loan had been drawn down at December 31, 2018.

All of the related loan agreements were amended on February 22, 2019.

The financial covenants applicable to these loans are described in Note 33.

***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 is repayable in installments and has an 11-year maturity. The related loan agreement was amended on February 15, 2019.

Following this amendment the applicable interest rate on the facility is based on Euribor for the period plus a margin of between 0.90% and 1.20% per year depending on the Group's leverage ratio.

This facility had been drawn down in full at December 31, 2018.

The financial covenants applicable to this facility are described in Note 33.

***A €50 million bilateral credit facility with a bank***

On November 29, 2018, the Group set up a €50 million bilateral credit facility with a bank for the purpose of its general financing needs. This facility took the form of a bullet loan with a five-year maturity. The related loan agreement was amended on March 4, 2019.

Following this amendment the applicable interest rate on the facility is based on Euribor for the period plus a margin of between 0.70% and 1.50% per year depending on the Group's leverage ratio. This facility had been fully drawn down at December 31, 2018.

The financial covenants applicable to this facility are described in Note 33.

***Short- and medium-term marketable securities program***

**€1 billion short-term NEU CP program**

During the first half of 2012, the Group set up a €500 million commercial paper program in order to diversify the sources and maturities of its financing. In 2015, the Group increased the amount of this program from €500 million to €800 million.

As part of the annual renewal process for this program, the Group further increased its amount from €800 million to €1 billion in early 2017. Since June 1, 2016, the securities issued under this program have been known as Negotiable European Commercial Paper (NEU CP).

At December 31, 2018, €655 million of this program (which corresponds to variable-rate financing) had been used.

**€300 million medium-term NEU MTN program**

During the second half of 2018, the Iliad group set up a Negotiable European Medium-Term Note (NEU MTN) program in order to diversify the sources and maturities of its financing.

None of this variable-rate financing had been used at December 31, 2018.

**Breakdown of borrowings by type of rate**

Borrowings after hedging at the year-end can be analyzed as follows by type of rate:

| In € millions | At December 31, 2018 | At December 31, 2017 |
|---|---|---|
| Fixed-rate borrowings | 2,874 | 1,760 |
| Variable-rate borrowings | 1,290 | 905 |
| Total borrowings | 4,164 | 2,665 |

**Breakdown of committed financing facilities by maturity**

The following table presents a breakdown of the Group's total committed financing facilities by nature and maturity at December 31, 2018.

| In € millions | Due within 1 year | Due in 1 to 5 years | Due beyond 5 years | Total |
|---|---|---|---|---|
| Bank borrowings | 60 | 744 | 190 | 994 |
| Bonds | 0 | 1,137 | 1,297 | 2,434 |
| Short- and medium-term marketable securities | 655 | 0 | 0 | 655 |
| Finance lease liabilities | 23 | 38 | 0 | 61 |
| Bank overdrafts | 7 | 0 | 0 | 7 |
| Other | 12 | 0 | 1 | 13 |
| **Total borrowings** | **757** | **1,919** | **1,488** | **4,164** |
| Trade payables | 1,490 | 64 | 1,480 | 3,034 |
| **Total committed financing facilities** | **2,247** | **1,983** | **2,968** | **7,198** |

**Description of the Group's main finance leases outstanding at December 31, 2018**

At December 31, 2018, the Group's total finance lease liabilities amounted to €61 million versus €51 million one year earlier.

***Real estate finance leases***

The Group purchases premises to house the technical equipment required for rolling out its FTTH network.

As part of this process, in January 2007 Iliad entered into a master agreement to finance the purchase of such premises through a real estate finance lease with a 12-year term, following which the related assets may be acquired for a token amount of €1.

The agreement does not contain any contingent lease payments or renewal options and does not impose any specific restrictions, for example concerning dividends, additional debt or further leasing.

***Equipment finance leases***

As part of its operations, the Group holds some equipment (mainly switching equipment and IT servers) under finance leases with terms of between three and seven years.

None of these finance leases contain any contingent lease payments or impose any specific restrictions, for example concerning dividends, additional debt or further leasing.

All of the contracts include bargain purchase options at the end of the lease term.

**Present value of future minimum lease payments due under finance leases**

The following table presents a reconciliation between total future minimum lease payments due under finance leases at December 31, 2018 and their present value.

| In € millions | Due within 1 year | Due in 1 to 5 years | Due beyond 5 years | Total |
|---|---|---|---|---|
| Future minimum lease payments | 24 | 38 | 0 | **62** |
| Present value | 23 | 37 | 0 | **60** |

Present value is determined by applying a 1.56% discount rate, which corresponds to the average interest rate on the Group's gross borrowings for 2018.

## NOTE 30: TRADE AND OTHER PAYABLES

This item breaks down as follows:

| In € millions | At December 31, 2018 | At December 31, 2017 |
|---|---|---|
| **Trade and other payables recorded under other non-current liabilities:** | | |
| Trade payables | 1,544 | 694 |
| Accrued taxes and employee-related payables | 19 | 19 |
| Other | 0 | 1 |
| **Sub-total** | **1,563** | **714** |
| **Trade and other payables recorded under current liabilities:** | | |
| Trade payables | 1,474 | 1,302 |
| Advances and prepayments | 6 | 0 |
| Accrued taxes and employee-related payables | 290 | 262 |
| Other | 22 | 5 |
| Deferred income | 88 | 42 |
| **Sub-total** | **1,880** | **1,611** |
| **Total** | **3,443** | **2,325** |

Total trade payables can be analyzed as follows:

| In € millions | At December 31, 2018 | At December 31, 2017 |
|---|---|---|
| Suppliers of goods and services | 712 | 490 |
| Suppliers of non-current assets | 2,306 | 1,505 |
| **Total** | **3,018** | **1,995** |

## NOTE 31: RELATED-PARTY TRANSACTIONS

Related-party transactions solely correspond to transactions with key management personnel.

### Transactions with key management personnel

- Persons concerned:

Under IAS 24, key management personnel are those persons who have authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly. For the Iliad Group, these persons correspond to members of the Board of Directors of Iliad SA and members of the Management Committee.

- Compensation paid to the 11 members of the Group's key management personnel in 2018 and 2017 breaks down as follows:

| In € millions | 2018 | 2017 |
|---|---|---|
| ▪ Total compensation | 3 | 2 |
| ▪ Share-based payments | 6 | 2 |
| **Total** | **9** | **4** |

No liabilities have been recognized in the balance sheet in relation to compensation payable to key management personnel.

### Impact of Free Mobile share grants

Following an authorization given by its sole shareholder in May 2010, Free Mobile set up a share grant plan involving shares representing up to 5% of its share capital.

During 2010 and 2011, 23 employees and executive officers were granted shares representing 5% of Free Mobile's share capital. This plan includes an option for the beneficiaries to receive their entitlements in either cash or Iliad shares, with the price determined by an independent valuer. An initial cash settlement for part of the entitlements was authorized in 2015.

On March 9, 2016, Iliad SA's Board of Directors authorized a second cash settlement for part of the entitlements of the Free Mobile employees and executive officers who were beneficiaries under the share grant plans. This cash settlement represented a maximum of 10% of the beneficiaries' Free Mobile shares initially granted and the per-share price was determined by an independent valuer.

On March 6, 2017, Iliad SA's Board of Directors authorized another cash settlement for part of the entitlements of the Free Mobile employees and executive officers who were beneficiaries under the share grant plans. This cash settlement represented a maximum of 12.5% of the beneficiaries' Free Mobile shares initially granted and the per-share price was determined by an independent valuer.

On March 12 and May 14, 2018, Iliad SA's Board of Directors authorized further cash settlements for part of the entitlements of the Free Mobile employees and executive officers who were

beneficiaries under the share grant plans. These cash settlements together represented up to 30% of the beneficiaries' Free Mobile shares initially granted and the per-share price was set by an independent valuer in both cases.

Following these transactions, Iliad held 97.3% of Free Mobile's capital.

**Impact of Iliad share grants**

Following an authorization given at the Shareholders' Meeting of May 19, 2016, Iliad set up a share grant plan involving shares representing up to 0.5% of its share capital.

During 2017, the Company granted shares representing 0.5% of its share capital.to 61 employees and executive officers under this plan.

The vesting of these shares – which will take place in four unequal tranches between 2020 and 2023 – is subject to (i) the beneficiary still forming part of the Group at the vesting date, and (ii) performance conditions as described in Note 27.

Following an authorization given at the Shareholders' Meeting of May 16, 2018, Iliad set up a share grant plan involving shares representing up to 1% of its share capital.

During 2018, the Company granted shares representing 0.5% of its share capital to 122 employees and executive officers under this plan.

The vesting of these shares – which will take place in four equal tranches between 2021 and 2024 – is subject to (i) the beneficiary still forming part of the Group at the vesting date, and (ii) performance conditions as described in Note 27.

**Impact of Iliad Italia share grants**

Following an authorization given by its director on July 16, 2018, Iliad Holding S.p.A set up a share grant plan involving shares representing up to 2.7% of the share capital of its subsidiary, Iliad Italia, and drew up the list of beneficiaries.

The beneficiaries were informed in September 2018 and shares representing 2.5% of Iliad Italia's share capital were granted to 53 Italian and French employees and executive officers of the Group.

The shares of each beneficiary will vest after a period of two years, provided that the beneficiary still forms part of the Group at the vesting date. The vested shares will then be subject to a five-year lock-up period, following which the beneficiaries will have the option to receive their entitlements in cash or Iliad shares, with the price of their Iliad Italia shares determined by an independent valuer.

**Transaction with Monaco Telecom**

Iliad has signed an agreement with Monaco Telecom, a Monaco-based company controlled by a party related to the Group, to lease sites containing the Group's equipment. The amount invoiced by Monaco Telecom for making these sites available totaled €1,500 thousand in 2018.

**Transaction with Salt Mobile**

Free Mobile performs technical services on behalf of Salt, a Swiss company that is controlled by a party related to the Group. In 2018, the Group recognized €3,233 thousand in revenues for these services.

# NOTE 32: FINANCIAL INSTRUMENTS

## Reconciliation by class of instrument and accounting category

| In € millions | Assets carried at fair value through profit or loss | Assets carried at fair value through OCI | Assets carried at amortized cost | Liabilities carried at amortized cost | Carrying amount | Fair value |
|---|---|---|---|---|---|---|
| **At December 31, 2018** | | | | | | |
| Cash | 68 | | | | 68 | 68 |
| Marketable securities | 113 | | | | 113 | 113 |
| Trade receivables | | | 652 | | 652 | 652 |
| Other receivables | | | 320 | | 320 | 320 |
| Other short-term financial assets | | | 0 | | 0 | 0 |
| Other long-term financial assets | 22 | 25 | 9 | | 56 | 56 |
| Long-term financial liabilities | | | | (3,407) | (3,407) | (3,407) |
| Short-term financial liabilities | | | | (757) | (757) | (757) |
| Other non-current liabilities | | | | (1,563) | (1,563) | (1,563) |
| Other current liabilities | | | | (1,880) | (1,880) | (1,880) |
| **Total** | **203** | **25** | **981** | **(7,607)** | **(6,398)** | **(6,398)** |

| In € millions | Assets carried at fair value through profit or loss | Assets carried at fair value through OCI | Assets carried at amortized cost | Liabilities carried at amortized cost | Carrying amount | Fair value |
|---|---|---|---|---|---|---|
| **At December 31, 2017** | | | | | | |
| Cash | 100 | | | | 100 | 100 |
| Marketable securities | 116 | | | | 116 | 116 |
| Trade receivables | | | 492 | | 492 | 492 |
| Other receivables | | | 233 | | 233 | 233 |
| Other short-term financial assets | | | 0 | | 0 | 0 |
| Other long-term financial assets | 11 | 18 | 8 | | 37 | 37 |
| Long-term financial liabilities | | | | (2,168) | (2,168) | (2,168) |
| Short-term financial liabilities | | | | (497) | (497) | (497) |
| Other non-current liabilities | | | | (714) | (714) | (714) |
| Other current liabilities | | | | (1,610) | (1,610) | (1,610) |
| **Total** | **227** | **18** | **733** | **(4,989)** | **(4,011)** | **(4,011)** |

Derivative instruments are measured at fair value, with the fair value measurements categorized in Level 2 of the fair value hierarchy defined in IFRS 13.

Cash and marketable securities are measured at fair value, with the fair value measurements categorized in Level 1 of the fair value hierarchy defined in IFRS 13.

The main components of each financial instrument category and the applicable measurement methods are as follows:

- Assets carried at fair value through profit or loss primarily comprise cash and cash equivalents, which are measured by reference to a quoted market price in an active market where such a market exists.
- Assets carried at fair value through OCI mainly comprise investment securities.
- Receivables carried at amortized cost chiefly concern loans, deposits and guarantees, trade receivables and a number of other short-term receivables.
- Liabilities carried at amortized cost – calculated using the effective interest method – essentially correspond to borrowings, trade payables and other short- and long-term payables.
- Derivative instruments are carried at fair value with changes in fair value recognized either directly in the income statement or in equity when hedge accounting is applied.

The fair value of financial assets and liabilities is primarily determined as follows:

- The fair value of (i) trade receivables and payables; and (ii) other short-term receivables and payables, corresponds to their carrying amount in view of their very short maturities.
- The fair value of bonds is estimated at each balance sheet date.
- The fair value of liabilities related to finance leases corresponds to their carrying amount in view of their differing forms and maturities.

# NOTE 33: FINANCIAL RISK MANAGEMENT

## Market risks

### Foreign exchange risk

The Group’s functional currency is the euro. However, it purchases certain goods and services outside the eurozone and is therefore exposed to foreign exchange risk, mainly in relation to the US dollar.

Detailed forecasts of the Group’s future purchases denominated in US dollars are drawn up as part of the budget process. These transactions are regularly hedged over a maximum period of one and a half years.

The Group has chosen to hedge its exposure to foreign exchange risk through purchases of currency futures and options in order to obtain a guaranteed floor rate.

The Group’s residual exposure after hedging foreign exchange risk on US dollar-denominated transactions was not material in 2018.

At December 31, 2018 all of these currency hedges qualified as cash flow hedges under IFRS 9.

Currency hedges had a negative impact of €1,684 thousand on the Group's income statement in 2018 and a positive €3,999 thousand impact on equity.

### Interest rate risk

As a significant portion of the Group’s borrowings is at fixed rates (bonds and EIB loans), it did not consider it necessary to set up any interest rate hedges at December 31, 2018.

The Group does not have any exposure to interest rate risk on its finance leases as the contracts concerned are primarily at fixed rates.

In view of the high proportion of fixed-rate borrowings, the Group now has very little exposure to fluctuations in interest rates on its medium- and long-term debt.

The Group has no significant financial assets (such as bonds, treasury bills, other money market securities, loans or advances) and no off-balance sheet commitments (such as repos or forward rate agreements) that expose it to interest rate risk.

The table below shows the Group's net interest rate exposure at December 31, 2018:

| **In € millions** | **Due within 1 year** | **Due in 1 to 5 years** | **Due beyond 5 years** | **Total** |
|---|---|---|---|---|
| Financial liabilities | 757 | 1,919 | 1,488 | 4,164 |
| Financial assets | 6 | 22 | 28 | 56 |
| Net position before hedging | **751** | **1,897** | **1,460** | **4,108** |
| Off-balance sheet position | 0 | 0 | 0 | 0 |
| Net position after hedging | **751** | **1,897** | **1,460** | **4,108** |

A sensitivity analysis of the Group's overall net debt after hedging shows that a 1% increase or decrease in euro interest rates at the reporting date would have resulted in a €7,822 thousand increase or decrease in profit for the period.

**Equity risk**

The Group does not hold any equities in its investment portfolio apart from non-material stakes in two companies.

It does, however, hold a number of its own shares, but in view of the very low number concerned any change in the Iliad share price would have a negligible impact on the Group's profit and equity (see Note 26).

**Liquidity risk**

The Group draws on its solid profitability, available cash, available credit facilities, bond issues, and access to various sources of financing (banks, bond markets and money markets) to ensure that it has the requisite funds to finance its business development.

At December 31, 2018 the Group's borrowings as described above were not subject to any liquidity risk and it had not breached any of the covenants applicable to its various bank credit facilities (including the EIB loans, the KFW IPEX Bank credit facilities and the syndicated facilities).

At December 31, 2018 the applicable covenants (which take the form of financial ratios), as agreed on following the various amendments to the loan agreements described in Note 29 were as follows:

| | **Applicable financial ratios** | **Consequence of breach** | **Actual ratios at December 31, 2018** |
|---|---|---|---|
| • €1,650 million credit facility (Borrower – Iliad)<br>• €500 million term-loan (Borrower – Iliad)<br>• €150 million EIB loan granted in 2010 (Borrower – Iliad)<br>• €200 million EIB loan granted in 2012 (Borrower – Iliad)<br>• €200 million EIB loan granted in 2016 (Borrower – Iliad)<br>• €300 million EIB loan granted in 2018 (Borrower – Iliad)<br>• €90 million KFW credit facility granted in 2017 (Borrower – Iliad)<br>• €50 million bilateral credit facility granted in 2018 (Borrower – Iliad) | Leverage ratio < 3.5 | Early repayment | Leverage ratio: 2.25 |

The Group's leverage ratio corresponds to the ratio of consolidated net debt to EBITDA (excluding provisions) for the period.

At December 31, 2018 the Group was not exposed to any liquidity risk in view of the profitability of its operations, the maturity schedule of its debt (see Note 29) and its low leverage.

## Credit and counterparty risk

The Group's financial assets primarily comprise cash and cash equivalents – particularly short-term investments – as well as trade and other receivables (see Note 32, "Financial instruments").

The financial assets that could expose the Group to credit or counterparty risk chiefly correspond to the following:

- Trade receivables: at December 31, 2018, trade receivables represented a gross amount of €769 million and a net amount of €652 million (see Note 23, "Trade and other receivables"). The Group's exposure to customer credit risk is monitored daily through cash collection and debt recovery processes. The Group uses the services of specific debt collection agencies to recover any receivables that remain unpaid after the reminder process.

- Short-term investments: the Group's policy is to invest in (i) money-market securities (commercial paper with maturities of less than three months), or (ii) certificates of deposit with maturities of less than three months, or (iii) other monetary instruments with short-term maturities, generally not exceeding one month. It also takes care to ensure good diversification amongst high quality counterparties.

At December 31, 2018 the Group's short-term investments amounted to €113 million (see Note 24, "Cash and cash equivalents"). As a result of the policy described above, these investments do not expose the Group to a significant level of counterparty risk.

### *Analysis of trade receivables*

At December 31, 2018 trade receivables totaled €769 million and provisions for doubtful receivables amounted to €117 million.

At the same date, substantially all past-due receivables were classified as doubtful and provisions had been recorded based on statistical recovery rates. The amount of past-due trade receivables that had not been written down at the year-end was not material.

## Concentration risk

The Group is not exposed to any concentration risk in view of its high number of customers (subscribers).

# NOTE 34: OFF-BALANCE SHEET COMMITMENTS AND CONTINGENCIES

## 1 - Lease commitments

Lease expenses recognized in the income statement break down as follows:

| In € millions | 2018 | 2017 |
|---|---|---|
| ▪ Minimum lease payments | 236 | 173 |
| ▪ Contingent lease payments | 0 | 0 |
| ▪ Sub-leases | 0 | 0 |
| **Total** | **236** | **173** |

The table below analyzes the Group's lease commitments at December 31, 2018 by type of leased asset and maturity.

| (In € millions)<br>**Type of leased asset** | **Due within 1 year** | **Due in 1 to 5 years** | **Due beyond 5 years** | **Total** |
|---|---|---|---|---|
| Real estate | 28 | 96 | 95 | **219** |
| Vehicles | 9 | 11 | 1 | **21** |
| Other | 180 | 633 | 342 | **1,155** |
| **Total** | **217** | **740** | **438** | **1,395** |

None of the Group's lease arrangements contain material contingent lease payments or renewal options, nor do they impose any specific restrictions, for example concerning dividends, additional debt or further leasing.

## 2 - Network-related commitments

### Network investments

At December 31, 2018 the Group had €118.8 million worth of commitments related to future network investments.

### Capacity purchases

| (In € millions)<br>**Type of commitment** | **Due within 1 year** | **Due in 1 to 5 years** | **Due beyond 5 years** | **Total** |
|---|---|---|---|---|
| Capacity purchases | 59 | 74 | 0 | **133** |
| **Total** | **59** | **74** | **0** | **133** |

## 3 – Other commitments

### *3-1 – Commitments related to telecom licenses*

**France**

On January 14, 2018, the Group (through its subsidiary, Free Mobile), along with France's other mobile operators, signed an agreement with the French government aimed at improving the national coverage of ultra-fast mobile networks through increased use of active and passive RAN sharing. By way of this agreement, the Group has undertaken to (i) deploy 2,000 four-operator RAN-sharing sites in "white spots" within five years, (ii) deploy 3,000 sites in "gray spots" (located in priority rollout areas) within five years, and (iii) increase its coverage level by end-2029 if it obtains frequencies in the 900 MHz band following the 900 MHz refarming procedure. In return for these commitments, the government has undertaken not to increase the annual license fees for the 900, 1,800 and 2,100 MHz licenses and to grant the sites deployed in white and gray spots an exemption from the "IFER" network tax until 2022.

**3G license – 900/2,100 MHz**

ARCEP decision 2010-0043 dated January 12, 2010 authorizing Free Mobile to set up and operate a 3G network included a certain number of obligations, notably concerning the network's commercial launch date, the rollout timeline and population coverage, as well as Free Mobile's future service offering. Under these obligations, the Free Mobile network was required to cover 27% of the French population by the beginning of 2013, 75% by the beginning of 2015 and 90% by the beginning of 2018 (this milestone has been met).

**4G license – 2,600 MHz**

By way of decision 2011-1169 dated October 11, 2011, ARCEP authorized Free Mobile to use a block of frequencies in the 2.6 GHz band in Metropolitan France in order to set up and operate a mobile communications network for public use. The obligations imposed on Free Mobile under this authorization – which has been given for a renewable 20-year period – require the Free Mobile network to cover 25% of the French population by 2015, 60% by 2019, 75% by 2023, 98% by 2027 and 99.6% by 2030. The first three milestones have now been met.

**1,800 MHz license**

By way of decision 2014-1542 dated December 16, 2014, ARCEP authorized Free Mobile to use a block of frequencies in the 1800 MHz band in Metropolitan France in order to set up and operate a mobile communications network for public use between January 2015 and October 2031. The obligations imposed on Free Mobile under this decision require the Free Mobile network to cover 25% of the French population by October 2015, 60% by October 2019 and 75% by October 2023. Free Mobile will, however, be able to meet these coverage obligations using other frequencies that it is authorized to utilize.

**700 MHz license**

By way of decision 2015-1567 dated December 8, 2015, ARCEP authorized Free Mobile to use 10 MHz in the 700 MHz band in Metropolitan France in order to set up and operate a mobile communications network for public use. The obligations imposed on Free Mobile under this decision require the Free Mobile network to cover 98% of the French population by January 2027 and 99.6% by the end of 2030.

**<u>Licenses for French overseas *départements* and *collectivités*</u>**

By way of decision 2016-1520, ARCEP authorized Free Mobile to use the following frequencies:

Guadeloupe and Martinique:

- Frequencies in the 800 MHz, 1,800 MHz, 2.1 GHz and 2.6 GHz bands.

French Guiana:

- Frequencies in the 900 MHz, 1,800 MHz, 2.1 GHz and 2.6 GHz bands.

Saint-Barthélemy and Saint Martin:

- Frequencies in the 800 MHz, 900 MHz, 1,800 MHz, 2.1 GHz and 2.6 GHz bands.

This decision contained a number of obligations for the Group concerning (i) network rollouts and coverage, (ii) compliance with the terms of the cross-border coordination agreements entered into with France's neighboring countries, and (iii) regional economic development, employment and investment.

By way of decision 2017-1037 dated September 5, 2017, ARCEP revoked spectrum license number 2016-1520, for which Free Mobile had requested a transfer, and granted to Free Caraibe the license for the spectrum initially allocated to Free Mobile.

**Italy**

The decision issued on November 4, 2016 by the Italian Ministry of Economic Development (MiSE) approving the transfer of the licenses to use a portfolio of 35 MHz (duplex) frequencies (see Note 17, "Intangible Assets") to Iliad Italia (an Iliad Group subsidiary) contained a number of coverage obligations, whereby Iliad Italia must:

- Be ready to market mobile services in the 1,800 MHz band by January 2020.
- Provide 2,100 MHz (or 900 MHz) coverage to the main towns and cities of Italy's regions by July 1, 2022 and those of the provinces by January 1, 2025.
- Provide 2,600 MHz coverage to 20% of the Italian population 24 months after the 2,600 MHz frequencies become available (i.e. by end-June 2019) and to 40% of the population 48 months after these frequencies become available (i.e. by end-June 2021).

By way of decision no. 231/18/CONS, the Italian telecoms regulator AGCOM set out the coverage obligations applicable to the country's 5G operators. Pursuant to the decision, Iliad Italy is required to:

- Roll out its network and use the 3,600 MHz frequencies allocated to it within two years of it becoming available.
- Provide 3,600 MHz coverage to 5% of the population in each of Italy's regions within 48 months of the frequencies being allocated.
- Provide 700 MHz coverage to 80% of the Italian population 36 months after the frequencies become available (i.e. by June 2022) and to 99.4% of the population 54 months after the frequencies become available. The second milestone may be achieved through roaming or frequency sharing agreements, for example.

- Provide 700 MHz coverage across the main transport hubs, including ports, within 42 months, and across the main tourist areas within 66 months of them being identified.

### *3-2 – Other commitments*

At December 31, 2018 the Group had access to:

- A €1,650 million credit facility, none of which had been drawn down.
- A €1 billion NEU CP program,
  of which €655 million had been used.
- A €300 million NEU MTN program, which had not been used.
- Four EIB loans, of which €450 million had been drawn down at December 31, 2018 and €300 million was still available.

At the same date:

- Other commitments given by the Group amounted to €1,073.5 million.
- Other commitments received by the Group totaled €3 million.

**Collateralized debt**

None of the assets belonging to the Group have been used as collateral for any debt.

**Accrued discounted trade notes**

The Group does not use this type of financing.

## 4 - Claims and litigation

The main legal proceedings currently affecting the Group are as follows:

Disputes with SFR

On May 27, 2014, SFR filed an application with the Paris Commercial Court seeking €493.2 million in damages from Free Mobile, Free and Iliad (on a joint and several basis) for pecuniary and non-pecuniary losses (including damage to brand image) that the plaintiff had allegedly suffered as a result of defamatory actions constituting unfair competition. Free Mobile, Free and Iliad contested SFR's position in this case and filed a counterclaim for defamatory actions constituting unfair competition, seeking €475 million in damages for Free Mobile and €88 million for Free. By way of a ruling dated January 29, 2018, after offsetting the claims and counter claims, the Paris Commercial Court ordered SFR to pay €5 million in compensation to Free Mobile. SFR has appealed this decision and the case is still ongoing.

On July 31, 2015, Free applied to the Paris Commercial Court for an injunction ordering Numericable-SFR to cease using the term "fiber" when referring to access that end-connects subscribers by cable. Free claimed that this constituted unfair competition and parasitic business practice and also sued for damages for its related loss. The Court held that SFR and NC Numéricâble had engaged in misleading commercial practices in their use of the term “fiber” for the Red Fibre, Box Fibre Starter, Box Fibre Power and Box Fibre Family offerings due to the fact that the end-connection to subscribers is by cable. Consequently the court ruled against SFR and NC Numéricâble (on a joint and several basis) in relation to a number of the claims against them. SFR has appealed the decision. In parallel, the Group has lodged an application with the enforcement judge requesting the enforcement of the sanctions imposed by the Paris Commercial Court while the appeal is pending. Proceedings are still ongoing.

Disputes with Bouygues Telecom

In late 2014, Bouygues Telecom filed an application with the Paris Commercial Court, claiming that Free Mobile had breached its obligations as a mobile telephony operator and accusing it of misleading commercial practices. Free Mobile is contesting Bouygues Telecom’s position in this case, which it does not consider to be founded. Bouygues Telecom estimated its alleged losses in relation to the case at €813 million. By way of a decision on February 27, 2019, the Paris Commercial Court dismissed all of Bouygues Telecom’s claims and ordered it to pay Free Mobile €350,000 in costs pursuant to Article 700 of the French Civil Procedure Code.

On November 10, 2015, Free filed an application with the Paris Commercial Court for (i) an injunction ordering Bouygues Telecom to cease practices related to its marketing that constitute unfair competition and defamation, and (ii) damages for Free's related loss, which it is in the process of valuing. Proceedings are still ongoing.

Fastweb dispute

On January 14, 2017, Fastweb filed an application with the European Court of Justice requesting an annulment of the European Commission’s decision of September 1, 2016 authorizing, subject to certain conditions, the mergers of Hutchison’s and VimpelCom’s subsidiaries in Italy. Proceedings are still ongoing in this case.

## NOTE 35: EVENTS AFTER THE REPORTING DATE

On January 18, 2019, the Group announced that it had entered into a strategic alliance with Jaguar Network by acquiring a 75% majority stake in the company for just under €100 million. The long-standing shareholder and founder of Jaguar Network has retained the remaining 25% interest in the company.

Jaguar Network is a sovereign service provider that supplies high availability services to private businesses and the public sector and is one of France's leading developers of cutting-edge technologies for the Cloud, Telecommunications and Smart Cities markets.

This acquisition marks a major step forward in the Iliad Group's development strategy for addressing the corporate market, by forging an alliance with a well-known entrepreneur and combining the strong, complementary skills of both groups.

# NOTE 36: LIST OF CONSOLIDATED COMPANIES AT DECEMBER 31, 2018

The following table includes the Group's main legal holdings.

| | Registration number | Head office | Percentage ownership<br>Dec. 31, 2018 | Percentage ownership<br>Dec. 31, 2017 | Consolidation method<br>in 2018 |
|---|---|---|---|---|---|
| **Iliad**<br>16 rue de la Ville l'Evêque<br>75008 Paris | 342 376 332 | Paris | 100.00% | 100.00% | Full |
| **Assunet**<br>16 rue de la Ville l'Evêque<br>75008 Paris | 421 259 797 | Paris | 89.96% | 89.96% | Full |
| **Centrapel**<br>8 rue de la Ville l'Evêque<br>75008 Paris | 434 130 860 | Paris | 100.00% | 100.00% | Full |
| **Certicall**<br>40 avenue Jules Cantini<br>13006 Marseille | 538 329 913 | Paris | 100.00% | 100.00% | Full |
| **Equaline**<br>18 rue du Docteur G. Pery<br>33300 Bordeaux | 538 330 358 | Paris | 100.00% | 100.00% | Full |
| **Free**<br>8 rue de la Ville l'Evêque<br>75008 Paris | 421 938 861 | Paris | 100.00% | 100.00% | Full |
| **Freebox**<br>16 rue de la Ville l'Evêque<br>75008 Paris | 433 910 619 | Paris | 97.99% | 97.99% | Full |
| **Free Caraïbe**<br>8 rue de la Ville l'Evêque<br>75008 Paris | 808 537 641 | Paris | 100.00% | 100.00% | Full |
| **F Distribution**<br>8 rue de la Ville l'Evêque<br>75008 Paris | 528 815 376 | Paris | 100.00% | 100.00% | Full |
| **Fibre Inc.**<br>1209 Orange Street, Wilmington<br>New Castle County, 19801<br>Delaware – United States | / | Wilmington | 100.00% | 100.00% | Full |
| **Free Carrier**<br>16 rue de la Ville l'Evêque<br>75008 Paris | 790 148 944 | Paris | 100.00% | 100.00% | Full |
| **Free Fréquences**<br>16 rue de la Ville l'Evêque<br>75008 Paris | 529 917 833 | Paris | 99.87% | 99.81% | Full |
| **Free Infrastructure**<br>16 rue de la Ville l'Evêque<br>75008 Paris | 488 095 803 | Paris | 100.00% | 100.00% | Full |
| **Free Mobile**<br>16 rue de la Ville l'Evêque<br>75008 Paris | 499 247 138 | Paris | 97.30% | 96.15% | Full |

| | Registration number | Head office | Percentage ownership<br>Dec. 31, 2018 | Percentage ownership<br>Dec. 31, 2017 | Consolidation method<br>in 2018 |
|---|---|---|---|---|---|
| **Free Réseau**<br>16 rue de la Ville l'Evêque<br>75008 Paris | 419 392 931 | Paris | 99.99% | 99.99% | Full |
| **IFW**<br>8 rue de la Ville l'Evêque<br>75008 Paris | 400 089 942 | Paris | 100.00% | 100.00% | Full |
| **IH**<br>8 rue de la Ville l'Evêque<br>75008 Paris | 441 532 173 | Paris | 100.00% | 100.00% | Full |
| **Iliad 2**<br>16 rue de la Ville l'Evêque<br>75008 Paris | 537 915 050 | Paris | 100.00% | 100.00% | Full |
| **Iliad 4**<br>16 rue de la Ville l'Evêque<br>75008 Paris | 799 285 820 | Paris | 100.00% | 100.00% | Full |
| **Iliad 6**<br>16 rue de la Ville l'Evêque<br>75008 Paris | 834 309 486 | Paris | 100.00% | 100.00% | Full |
| **Iliad 7**<br>16 rue de la Ville l'Evêque<br>75008 Paris | 834 309 676 | Paris | 100.00% | 100.00% | Full |
| **Iliad 10**<br>16 rue de la Ville l'Evêque<br>75008 Paris | 844 880 492 | Paris | 100.00% | / | Full |
| **Iliad 78**<br>16 rue de la Ville l'Evêque<br>75008 Paris | 834 315 673 | Paris | 70.00% | 70.00% | Full |
| **Iliad Gaming**<br>8 rue de la Ville l'Evêque<br>75008 Paris | 522 418 250 | Paris | 100.00% | 100.00% | Full |
| **Iliad Holding S.p.A**<br>Largo Angelo Fochetti 29<br>Rome - Italy | / | Rome | 100.00 % | 100.00 % | Full |
| **Iliad Italia S.p.A**<br>Largo Angelo Fochetti 29<br>Rome - Italy | / | Rome | 100.00 % | 100.00 % | Full |
| **Immobilière Iliad**<br>16 rue de la Ville l'Evêque<br>75008 Paris | 501 194 419 | Paris | 100.00% | 100.00% | Full |
| **Initix**<br>8 rue de la Ville l'Evêque<br>75008 Paris | 828 684 639 | Paris | 95.05% | / | Full |
| **IRE**<br>16 rue de la Ville l'Evêque<br>75008 Paris | 489 741 645 | Paris | 100.00% | 100.00% | Full |

| | Registration number | Head office | Percentage ownership<br>Dec. 31, 2018 | Percentage ownership<br>Dec. 31, 2017 | Consolidation method<br>in 2018 |
|---|---|---|---|---|---|
| **MCRA**<br>8 rue de la Ville l'Evêque<br>75008 Paris | 532 822 475 | Paris | 100.00% | 100.00% | Full |
| **Mobipel**<br>142-160 avenue de Stalingrad<br>92700 Colombes | 538 168 675 | Colombes | 0.00% | 100.00% | N.C. |
| **NJJ Boru**<br>16 rue de la Ville l'Evêque<br>75008 Paris | 833 797 467 | Paris | 49.00% | / | Equity |
| **Online**<br>8 rue de la Ville l'Evêque<br>75008 Paris | 433 115 904 | Paris | 95.003% | 95.05% | Full |
| **Online Immobilier**<br>16 rue de la Ville l'Evêque<br>75008 Paris | 537 915 019 | Paris | 95.003% | 95.05% | Full |
| **Protelco**<br>8 rue de la Ville l'Evêque<br>75008 Paris | 509 760 948 | Paris | 100.00% | 100.00% | Full |
| **Qualipel**<br>61 rue Julien Grimau<br>94400 Vitry sur Seine | 533 513 958 | Vitry sur Seine | 100.00% | 100.00% | Full |
| **Resolution Call**<br>7 Bld Mohamed V<br>20800 Mohammedia - Morocco | / | Morocco | 100.00% | 100.00% | Full |
| **Scaleway US Corporation**<br>C/O IMS - 1700 W Irving Park, Suite 302<br>Chicago, IL 606013 | / | Chicago | 95.003% | / | Full |
| **Sepia**<br>12 rue Henri Cornu – Technopole de la Réunion<br>97801 Saint Denis Cedex 9 | Registration no. in progress | Saint Denis | 50.00% | 50.00% | Equity |
| **Total Call**<br>Technoparc – Route de Nouceur<br>Sidi Maar Casablanca - Morocco | / | Morocco | 100.00% | 100.00% | Full |
| **Telecom Academy "Privé"**<br>Lotissement Attaoufik<br>Lot n° 9 & 10<br>Immeuble Le Shadow<br>Sidi Maarouf<br>Casablanca - Morocco | / | Morocco | 100.00% | 100.00% | Full |
| **Télécom Réunion Mayotte**<br>68 rue du Faubourg Saint-Honoré<br>75008 Paris | 812 123 214 | Paris | 50% | 50% | Equity |

## NOTE 37: AUDIT FEES

In accordance with the disclosure requirements of standards 2016-08, 2016-09, 2016-10 and 2016-11 issued by France's accounting standards authority (the "ANC"), the table below sets out the amount of fees paid to the statutory auditors of Iliad SA and its fully consolidated subsidiaries, not including fees invoiced by the statutory auditors' network firms.

| *In € thousands* | **PricewaterhouseCoopers** | | **Deloitte & Associés** | | **Total** | |
|---|---|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| Statutory audit services | 362 | 302 | 327 | 256 | 689 | 558 |
| Non-audit services | 101 | 160 | 48 | 48 | 149 | 208 |
| **TOTAL FEES** | **463** | **462** | **375** | **304** | **838** | **766** |

Services other than audit work provided during the year mainly concern:

- verifying the consolidated non-financial information statement presented in the Group's management report;
- work relating to comfort letters for the April 2018 bond issue;
- providing various statements.