



*Société anonyme.* Share capital: €13,084,512

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75008 Paris, France

Registered in Paris under no. 342 376 332

IFRS 15, Revenue from Contracts with Customers, has been applicable since January 1, 2018. Iliad has therefore prepared its consolidated financial statements for 2018 in accordance with this new standard, which impacts its figures for revenues and purchases used in production in the income statement.

## ANALYSIS OF THE GROUP'S BUSINESS AND RESULTS

### KEY CONSOLIDATED FINANCIAL DATA

<i>In € millions</i>	<b>Year ended Dec. 31, 2018</b>	<b>Year ended Dec. 31, 2017</b>
<b>INCOME STATEMENT</b>		
Total revenues	4,891	4,860
<b>Revenues excluding sales of terminals</b>	<b>4,689</b>	<b>4,615</b>
<b>EBITDA</b>	<b>1,755</b>	<b>1,777</b>
Profit from ordinary activities	690	862
Profit for the period	330	405
<b>BALANCE SHEET</b>		
Non-current assets	9,959	7,424
Current assets	1,277	972
<i>Of which cash and cash equivalents</i>	181	216
Assets held for sale	15	20
<b>Total assets</b>	<b>11,252</b>	<b>8,416</b>
Total equity	3,606	3,374
Non-current liabilities	4,974	2,882
Current liabilities	2,671	2,160
<b>Total equity and liabilities</b>	<b>11,252</b>	<b>8,416</b>
<b>CASH FLOWS</b>		
Cash flows from operations	1,693	1,737
Capital expenditure – France	(1,555)	(1,460)
Capital expenditure – Italy	(261)	(43)
Capital expenditure – frequencies <sup>1</sup>	(605)	(528)
Net change in cash and cash equivalents – Group (excluding change in net debt and dividends)	(1,444)	(754)
Dividends	(40)	(26)
Net debt	3,983	2,449

In accordance with IFRS 15, €21.4 million has been reclassified from “Capital expenditure – France” to “Cash flows from operations” for 2017.

<sup>1</sup> Including €342 million in Italy (second installment paid to Wind/Tre and first installment of the 5G spectrum auction) and €263 million in France (including the last installment relating to the acquisition of 700MHz frequencies).

## 1 OVERVIEW

Over the last 20 years, the Iliad Group (the “**Group**”) has experienced very strong growth in France, with numerous technological and commercial developments. It has gone from being a landline narrowband Internet Service Provider to an integrated landline and mobile ultra-fast broadband operator. It has some 20 million subscribers in France and is clearly focused on deploying the latest technologies and proposing straightforward commercial offerings. In 2018, the Group expanded its geographic reach to Italy, where it recruited 2.8 million subscribers in seven months. Consequently, in the space of 20 years, the Group has become one of the leading electronic communications players in France and Italy, with some 23 million subscribers, over 10,000 employees, and almost €4.9 billion in revenues.

Iliad SA is the parent company of the Iliad Group, which operates under the trade names of Free in France and Iliad in Italy. Iliad SA has been listed on Euronext Paris (ILD ticker symbol) since 2004.

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

### - **France**

Fueled by the success of its Broadband and Ultra-Fast Broadband offerings marketed under the Free brand, the Group has positioned itself as a major player in the French landline telecommunications market. In addition, since 2012 when it first launched its mobile offerings, the Group has become an integrated operator present in both the landline Broadband and Ultra-Fast Broadband and mobile segments. The Group's success in these two segments has been built on the following fundamentals – straightforward offerings, excellent value for money and innovation.

### - **Italy**

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

The Group launched its mobile telephony offering in Italy on May 29, 2018 and had over 2.8 million mobile subscribers at December 31, 2018. The Italian mobile business generated €125 million in revenues in seven months of operations in 2018.

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

- EBITDA, which corresponds to profit from ordinary activities before share-based payment expense, depreciation, amortization and provisions for impairment of non-current assets.

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

## 1.1 Breakdown of revenues

### France

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

##### Presentation of the Group's landline offerings

In 2018, the Group put in place a new sales and marketing approach based on:

- **A more streamlined pricing and promotions policy.** The Group overhauled the pricing for its long-standing deals by offering an automatic discount for the first 12 months. It also introduced a 12-month contract period and a €49 activation fee. Consequently, the Group now has four Internet access deals offered at a discounted price. All of these deals come with a Freebox and are priced at between €9.99 and €29.99 per month for the first 12 months and then €24.99 to €44.99 per month. It also has a premium offering, with no discount, priced at €49.99 a month.
- **Differentiation through innovation,** with the launch of the Freebox Delta and the Freebox One in December 2018, aimed at upscaling the Group's offerings and achieving a better segmentation of the subscriber mix.

At December 31, 2018 therefore, the Group had five main offerings in all:

- **The Freebox Delta – Free's premium offering (€49.99 per month)** – which delivers the fastest possible speeds, whether via fiber, through 10G fiber technology, or DSL, by bonding xDSL and 4G. The Freebox Delta deal also includes 280 TV channels and calls to landlines and mobiles, as well as Netflix Essential for S-VOD (4K HDR possible if the subscriber has Netflix Premium), and LeKiosk for unlimited access to newspapers and magazines. Subscribers also become owners of the Freebox Delta Player (invoiced at €480), which comes with a Devialet speaker, two voice assistants (OK Freebox and Amazon Alexa), a smart-home hub and a security pack (optional). Lastly, subscribers can store up to 1TB of data via NAS (also optional). If subscribers wish to sign up to the Freebox Delta deal without purchasing the Free-Devialet Player they can opt for the Freebox Delta S plan, which excludes TV services, OK Freebox and Amazon Alexa but has a lower monthly price than the full Freebox Delta offering.
- **The Freebox One (€29.99 per month for one year and then €39.99 per month),** which has a Server and a Player combined in a single box. The Freebox One plan includes Netflix Essential and provides access to 4K HDR download-to-own content through the Canal VOD platform. The standard services such as 220 channels with Freebox TV and 110 telephone destinations to landlines and mobiles are also included. And, of course, the Freebox One is compatible with FTTH and xDSL technologies.
- **The Freebox Revolution (€19.99 per month for one year and then €44.99 per month),** which allows subscribers to connect several terminals and offers optimal Internet access. The Freebox Revolution also includes many innovative services, such as the NAS server which has storage capacity of up to 250 GB accessible from anywhere at any time, a Blu-Ray™ player and calls to mobile numbers in Metropolitan France. It incorporates state-of-the-art technologies including PLC (Power Line Communication), a gyroscopic remote control, a gamepad and speakers.
- **The Freebox mini 4K (€14.99 per month for one year and then €34.99 per month),** which is the world's first triple-play box that has integrated AndroidTV™ – the Google™ platform for TV – and is compatible with 4K technology (Ultra High Definition). It has Bluetooth™ technology and offers many other innovative services, such as a remote control with a voice search function and the possibility of using a mobile phone as the remote control. It is also the most compact box on the market, measuring 11 x 15 cm.

- **The Freebox Crystal (€9.99 euros per month for one year and then €24.99 per month)**, which was originally withdrawn from the Group's commercial offerings when it was replaced by the Freebox mini 4K. However, when the Group overhauled its landline offerings it decided to bring back the Freebox Crystal as an entry-level offering.

Depending on the eligibility of the subscriber's line, Free's offers are compatible with the following broadband and ultra-fast broadband technologies:

- **Fiber (FTTH)**, which gives access to Ultra-Fast Broadband (up to 10 Gbps download and up to 400 Mbps upload).
- **ADSL**, which allows subscribers to access the Internet at a speed of at least 2 Mbps and up to 22.4 Mbps in areas where the local loop is unbundled, and 17.6 Mbps in non-unbundled areas, depending on whether a subscriber's line is eligible (IP speeds).
- **VDLS2**, which gives subscribers in unbundled areas and with short lines Internet access at speeds of up to 100 Mbps download and 40 Mbps upload.
- **xDSL/4G** which enables the xDSL signal to be bonded with a 4G signal in areas with low speeds, so subscribers can have up to 10 times faster speeds than when using ADSL alone.

Through the Group's offerings, depending on the plan they choose, subscribers are provided with the services described below:

- **Telephony**. All subscribers have access to a telephone service under which they can make calls through their Freebox to landline numbers in Metropolitan France (apart from short numbers and special numbers), as well as to over 110 landline destinations outside Metropolitan France depending on the terms of their plan. Additionally, certain of the Group's offers include free calls or packaged deals for calls to mobile numbers in Metropolitan France.
- **Free proposes the largest audiovisual offering in the market**, enabling its subscribers to access a television service comprising some 600 channels in all. Freebox TV has 220 channels in its basic package and the TV by CANAL Panorama package adds 60 more channels, 30 of which are exclusive to Freebox TV. Around 240 high definition channels are also available as well as a catch-up TV service covering more than 100 channels.
- **Free also offers numerous value added services** including Freebox Replay (its catch-up TV service), video on demand (VOD), subscription video on demand, such as Netflix (S-VOD), subscription to pay-TV packages and channels (Canal+, beIN Sports, etc.) and video games. The TV by CANAL offer gives subscribers access to over 100 channels on replay and 8,000 items of on-demand content on all types of screen (smartphone, tablet, Xbox 360, Xbox One and PC/Mac). Freebox Crystal and Freebox mini 4K subscribers can sign up to the Famille by CANAL offer and benefit from all of the above channels, except for sports channels.
- **Free proposes new uses for households**, such as unlimited access to newspapers and magazines via LeKiosk (Freebox Delta), Netflix (Freebox Delta and Freebox One) and voice-controlling their box using OK Freebox and Alexa (Freebox Delta) and Google assistant (Freebox mini 4K). Lastly, in 2018 the Group moved into the smart-home segment by adding a smart-home hub (Freebox Delta and Freebox Delta S) as well as a security pack for home surveillance.

## Hosting offers and services available under the Online, Dedibox and Iliad Entreprises brands

The Group's hosting business is structured around three service areas, each of which is represented by a brand:

- **Hosting services**, which correspond to (i) providing dedicated servers to private individuals and SMEs that wish to secure their data, and (ii) website hosting and the purchase/resale of domain names (services targeted mainly at private individuals and very small businesses that have relatively low data storage requirements). Hosting services are invoiced based on a monthly or annual subscription depending on the type of offer.
- **Colocation services**, which consist of providing physical space in a data center, as well as the associated electrical capacity, in order to house bays and servers that generally belong to end-customers.
- **Cloud computing**, which is a model enabling convenient, on-demand network access to a shared pool of configurable computing resources. The Scaleway offering provides such access, with small virtual servers that can be scaled up to dedicated physical servers.

### (b) Mobile offerings

As part of its new sales and marketing strategy launched in 2018, the Group is particularly focusing on improving its subscriber mix by increasing the proportion of its subscribers on the Free Mobile Unlimited 4G Plan. The following measures were taken during the year to help achieve this objective:

- Launch of an intermediate deal at €8.99/month for the first year, with automatic migration to the Free Mobile Unlimited 4G Plan at the end of 12 months, which will lead to an increase in revenues invoiced to subscribers.
- Stepping up campaigns for migrating subscribers on the €2 plan to the Free Mobile Unlimited 4G Plan.

At December 31, 2018, the Group had the following mobile offerings:

- **The €2/month plan (€0/month for Freebox subscribers)**, which includes:
  - 120 minutes of voice calls per month in Metropolitan France and (i) to mobiles in the United States, Canada, China and the French overseas departments (*départements d'outre-mer* – DOM) as well as to 100 landline destinations outside Metropolitan France, and (ii) from Europe and the DOM to landlines and mobiles in Metropolitan France, Europe and the DOM.
  - Unlimited texts/MMS in Metropolitan France and from Europe and the DOM to Metropolitan France, Europe and the DOM.
  - 50 MB of 3G/4G mobile data plus an additional 50 MB usable in Europe and the DOM, as well as unlimited access to the FreeWifi network.
  - This no-commitment plan – which also includes services such as voice mail, caller display and usage monitoring – was primarily designed for subscribers mainly wanting to make voice calls at a competitive price. Under the plan, subscribers can opt for extra minutes and data volume as well as for calls to and from additional foreign countries.

- **The Free Mobile Unlimited 4G Plan** (100 GB for non-Freebox subscribers) **at €19.99/month (€15.99/month for Freebox subscribers)**, which includes:
  - Unlimited voice calls (i) to mobiles and landlines in Metropolitan France, mobiles in the United States, Canada, China and the DOM and 100 landline destinations outside Metropolitan France, and (ii) from Europe and the DOM to landlines and mobiles in Metropolitan France, Europe and the DOM and from the United States, South Africa, Australia, Canada, Israel and New Zealand to landlines and mobiles in the same country as the originating call and in Metropolitan France.
  - Unlimited texts/MMS in Metropolitan France and (i) from Europe and the DOM to Metropolitan France, Europe and the DOM (excluding MMS to Mayotte), and (ii) from the United States, South Africa, Australia, Canada, Israel and New Zealand to landlines and mobiles in the same country as the originating message and in Metropolitan France.
  - Unlimited 4G data for Freebox subscribers in Metropolitan France (50/100 GB/month for non-Freebox subscribers) and 25 GB/month of data in Europe, the DOM, Switzerland, the United States, South Africa, Australia, Canada, Mexico, Turkey, Algeria, Thailand, Russia, Brazil, Israel, New Zealand, Ukraine, Jersey, Guernsey and the Isle of Man.
  - The Group also has a special version of its Free Mobile Unlimited 4G Plan – the **Free 4G Series Plan** – which costs **€8.99 per month** for 12 months before automatically switching to the Free Mobile Unlimited 4G Plan (100 GB for non-Freebox subscribers). This plan includes fewer roaming destinations than the standard Free Mobile Unlimited 4G Plan and less mobile data (50 or 60 GB depending on the package).

### (c) Mobile phones

The Group offers a selection of the latest mobile phones on the market. With a view to being as transparent as possible, Free offers phones separately from its subscriptions, which means that subscribers can opt for whichever plan and phone they prefer, or can choose not to purchase a phone at all. Several different solutions are available for subscribers who choose to obtain their phone from Free:

- Purchasing a phone and paying for it upfront.
- Purchasing a phone and spreading the payments (four interest-free installments or 24 installments, depending on the model).
- Renting a phone: subscribers can rent high-end smartphones for a minimum of 24 months. Depending on the type of phone chosen, the subscriber makes an initial payment of between €89 and €399 and then pays a monthly rental fee of between €12 and €30 (again, depending on the phone) over a period of 24 months. At the end of this period, subscribers can either return their phone and get a latest-generation phone under a new rental agreement, or extend the rental period for their existing phone.

In all cases, the Group recognizes the corresponding revenue when the phone is received by the subscriber.

### Italy

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

Iliad Italia originally launched a single plan costing €5.99 a month (unlimited calls and text messages, with 30 GB/month of data in Italy and 2 GB/month in Europe) plus a €9.99 SIM card activation fee. Iliad Italia subsequently upscaled its offer, proposing 40 GB/month for €6.99 a month. Since September 6, 2018, Iliad Italia has offered a plan costing €7.99/month which includes:

- Unlimited voice calls (i) to mobiles and landlines in Italy, mobiles in the United States and Canada and over 60 international landline destinations and (ii) from Europe to landlines and mobiles in Italy and Europe.
- Unlimited text messages in Italy and from Europe to Italy and Europe.
- 50 GB/month of 3G/4G/4G+ data in Italy and 4 GB/month of data in Europe.
- This no-commitment plan – which also includes services such as voice mail, caller display and usage monitoring – has no hidden costs and is guaranteed for life. It was primarily designed for subscribers who want the freedom to call and have 4G/4G+ data access at a very competitive price. The plan includes mobile data in Europe and unlimited minutes of international calls.

The Group also proposes a plan centered on voice calls at the cheapest price in the Italian market for this segment, which includes:

- Voice call minutes in Italy and to over 60 international destinations, including landlines and mobiles in the USA and Canada, as well as from Europe to landlines and mobiles in Italy and Europe.
- Unlimited texts/MMS in Italy and from Europe to Italy and Europe.
- 40 MB of 4G/4G+ data plus an additional 40 MB of roaming in Europe.
- This no-commitment plan has no hidden costs, is for life, and includes the same services as the 50 GB and 40 GB offerings.

The Group's Italian offering also includes a selection of the latest Apple iPhones (iPhone XR, XS, XS Max and 8). With a view to being as transparent as possible, Iliad Italia offers phones separately from its mobile subscriptions, which means that subscribers can opt for whichever plan and phone they prefer, or can choose not to purchase a phone at all. Currently the solution offered by Iliad Italia for acquiring a phone is outright purchase with upfront payment.

## 1.2 The Group's main operating costs

### France

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

##### (i) Costs related to DSL offerings

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

Currently, almost all of the Group's DSL subscribers are fully unbundled, for which the Group pays for the rental of the copper pair from the incumbent operator (€9.31/month and line) as well as maintenance costs.



**(ii) Costs related to FTTH offerings**

As it rolls out its network, the Group is offering its subscribers in eligible areas the possibility of migrating to an FTTH offering. The gross margin and EBITDA margin on FTTH offerings are higher than DSL margins as the Group no longer has to pay for the rental of the copper pair from the incumbent operator.

The Group's objective is therefore to maximize the proportion of FTTH subscribers in eligible areas where technically feasible.

For co-financed areas, when certain areas are first opened up, in order to optimize its capital expenditure the Group sometimes has to make a choice of whether to pay rental costs in addition to its investments. In such cases, the operating costs borne by the Group are higher than in cases when it co-invests.

**(b) Main operating costs of the Group's mobile offerings**

**(i) Mobile call and text message termination charges**

The applicable termination charges in 2018 were 0.74 euro cents for mobile voice calls and 1 euro cent for text messages.

**(ii) Roaming charges**

The Group has to pay roaming charges for the roaming services provided to it, which are defined in a roaming agreement signed with France's incumbent operator in 2011. The agreement applies to 2G and 3G technologies and has been amended since it was first signed – notably in relation to interconnection capacity – in order to take into account the increase in mobile subscriber numbers. It had an initial term of six years commencing from the commercial launch of the Group's mobile offerings but was extended on June 15, 2016 and now expires at end-2020.

The roaming agreement allows the Group to:

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

Margins are significantly higher for Free Mobile's own-network traffic than for roaming traffic. Margin levels also depend on (i) changes in subscriber usage patterns, particularly in relation to data, and (ii) the proportion of subscribers on the Free Mobile Unlimited 4G Plan (50/100 GB for non-Freebox subscribers).

The Group's objective is therefore to maximize the proportion of traffic carried directly on its own network, by pursuing the rollout targets described in section 1.3.d below, and to increase the proportion of subscribers on the Free Mobile Unlimited 4G Plan (50/100 GB for non-Freebox subscribers), notably by migrating subscribers on the €2/month plan (or €0/month for Freebox subscribers) to the Unlimited 4G Plan (50/100 GB for non-Freebox subscribers). Achieving this objective is being helped by the fact that people are increasingly using mobile Internet on a daily basis.

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

## Italy

### **(c) MOCN (Multi-Operator Core Network) roaming agreement**

The Group has to pay roaming charges for the roaming services provided to it, which are defined in a Multi-Operator Core Network (MOCN) agreement signed with Wind/Tre in 2016. This agreement enabled the Group to offer all-technology services with nationwide coverage immediately as from the launch of its mobile operations in Italy. It has an initial five-year term renewable for a further five-year period at the Group's initiative. This technical solution for connecting up Wind/Tre's radio equipment to the Group's core network creates a more effective and optimal flow of traffic between the two networks compared with a more "conventional" roaming solution.

The charges provided for in the roaming agreement include (i) a fixed portion corresponding to the purchase of a right to use a certain capacity during the initial period of the agreement (which is recognized as capital expenditure in accordance with IFRS), and (ii) a variable portion based on volumes used (minutes, SMS, MMS, Internet, etc.). The volume-based variable portion represents the majority of the roaming charges paid by the Group.

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

### **(d) Mobile call and text message termination charges**

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

## **1.3 Capital expenditure and depreciation**

### France

#### **(a) Broadband (DSL offerings)**

##### **(i) Transmission network and unbundling the local loop**

Having laid over 130,000 km of fiber, Iliad has rolled out one of the largest IP networks in France, both in terms of coverage and traffic volumes. The Group draws on this extensive network to connect up subscriber connection nodes and unbundle the local loop. In 2018, the Group continued to extend its coverage by opening 1,700 new subscriber connection nodes, which brought the total number of unbundled subscriber connection nodes to 13,300 throughout France at the year-end. All of the network equipment (Freebox DSLAMs) installed in the subscriber connection nodes are compatible with VDLS2 technology, which therefore means eligible subscribers have access to the best possible speeds on the local copper loop.

The optical fiber used in the transmission network is depreciated over periods ranging from 10 to 27 years. The equipment installed in the subscriber connection nodes (Freebox DSLAMs) is depreciated over five or six years.

## **(ii) Operating costs and capital expenditure by subscriber**

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

- The boxes provided to subscribers (the cost of which varies depending on the model).
- Fees billed by the incumbent operator for access to unbundling services (also known as cabling costs or access fees), which amount to €50 per subscriber for full unbundling.
- Logistics and modem dispatch costs.

All of the above items (Freebox modems, access fees and logistics costs) are depreciated over a period of five or seven years.

## **(b) Rollout of an FTTH network**

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

The FTTH rollout is a logical extension of Iliad's strategy of investing in the deployment of its own infrastructure with the aim of raising margins and profitability.

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

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

In Decision no. 2013-1475 dated December 10, 2013, ARCEP (the French regulatory authority for electronic and postal communications) issued a list of 106 municipalities that it classified as “very densely populated areas”. In these areas, each operator is responsible for rolling out its own network up to shared access points which are generally located inside buildings. The in-building cabling is then shared by the operators.

The Group is rolling out its own infrastructure in very densely populated areas, which requires:

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

By rolling out its own optical fiber local loop, the Group directly owns all of its fiber-to-the-home infrastructure and is therefore totally independent from the incumbent operator. This means that it has complete control over its service quality and subscriber relations, and can provide its subscribers with access to a technology that fully meets their growing bandwidth requirements.

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

### **(ii) Outside very densely populated areas**

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

#### Private co-financed areas (approximately 14 million lines)

The Group was the first operator, as of August 2012, to (i) take up the incumbent operator's third-party operator access offer for its FTTH lines outside very densely populated areas and (ii) undertake to co-finance the FTTH network in certain urban areas proposed by the incumbent operator. This offer enables each operator to access all of the lines deployed and to co-finance the rollout only to the extent of the local market share that the operator is seeking to achieve, through purchases of 5% tranches. It enables the co-financing not only of the line between the shared access point and the building but also the backhaul fibers between the shared access point and the optical node.

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

The Group has also signed an access agreement based on co-financing along the same principles with the second operator responsible for deployments in these areas and, as part of this agreement, has undertaken to co-finance the network in several urban areas.

#### Public Initiative Networks – PINs (rest of France)

FTTH networks are rolled out in PIN areas in a number of ways, which may require entering into agreements with the public bodies in charge of rolling out the networks or with the private entities that market them. Since 2017, the Group has entered into a number of framework agreements with operators marketing FTTH lines in PIN areas, including Axione, Orange for the Mayenne *département* and Altitude. The Group has also signed agreements directly with public bodies such as Auvergne Très Haut Débit and Vendée Numérique. Under these agreements, the Group can access the networks by leasing the individual lines used, or through co-financing under conditions similar to those applicable in private co-financed areas outside very densely populated areas. The Group has pledged to co-finance some or all of the rollouts in the Aisne, Vaucluse and Vendée *départements*, as well as the *départements* of former regions Nord-Pas-de-Calais and Auvergne (France recently redrew its internal borders, reducing the total number of regions). And in January 2019, it signed a partnership agreement with Covage covering 1.4 million FTTH sockets, which will be deployed by 2023.

Outside very densely populated areas, the Group occasionally has to make a choice between co-financing and rental, in order to optimize its capital expenditure.

### **(iii) FTTH progress report at December 31, 2018**

2018 was a record year, both in terms of new connectible sockets and new subscribers connected up to FTTH:

- **The number of connectible sockets increased by more than 50% over the year** and totaled 9.6 million at end-December 2018 (versus 6.2 million one year earlier). The Group's fiber offerings are now available in some 1,100 municipalities. In addition, the Group completed its horizontal coverage in very densely populated areas in 2018.

- **The Group's FTTH subscriber base grew by 75% in 2018, bringing the total to 983,000 at the year-end.** Fourth-quarter 2018 was a record quarter in terms of connections, with over 140,000 new subscribers (i.e. almost double the number for fourth-quarter 2017). This increase was due to three main factors:
  - o French households' growing appetite for FTTH technology.
  - o The gradual start-up of marketing of Free's FTTH offerings outside very densely populated areas.
  - o The successful reorganization of internal procedures for connecting FTTH subscribers, notably by hiring and training employees specialized in subscriber connections.

The sharp acceleration in subscriber connections has enabled the Group to consolidate its position as France's leading alternative FTTH operator. The Group therefore significantly exceeded its objective of having 9 million connectible sockets by end-2018, and reached its target of one million FTTH subscribers in early 2019. As a result, the Group confirms that it intends to:

- Have installed 20 million connectible sockets by 2022.
- Connect up more than 500,000 subscribers per year.

### **(c) A comprehensive and enriched frequency portfolio**

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

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

- 5 MHz duplex in the 1,800 MHz frequency band freed up by Bouygues Telecom as part of the refarming process defined by ARCEP in its December 16, 2014 decision. The frequencies concerned gradually became available during the first half of 2015 and have been fully available throughout Metropolitan France since July 1, 2015.
- An additional 10 MHz duplex in the 1,800 MHz frequency band, after ARCEP authorized Orange and SFR to refarm their 1,800 MHz frequencies. This 10 MHz was freed up for the Group's use throughout Metropolitan France on May 25, 2016.
- 10 MHz obtained on November 17, 2015 following the national auction for spectrum in the 700 MHz frequency band. This spectrum will be made available gradually on a region by region basis starting with the Ile de France region in April 2016 and followed by a further region each quarter from January 1, 2018 through July 1, 2019 (when the frequency in the final region will be freed up). These frequencies were acquired for a total of €933 million, payable in four installments, the last of which was paid in December 2018.

The Group therefore now has a total portfolio of 55 MHz duplex (increased to 68.5 MHz following the reallocation process described below for frequencies in the 900 MHz, 1,800 MHz and 2.1 GHz bands), with balanced coverage across Metropolitan France, enabling it to deliver high-performing services in both 3G and 4G.

In 2018, ARCEP 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. Free Mobile already has a license to use frequencies in the 1,800 MHz band.

Only France's four national operators participated in this reallocation procedure and all applicants for the available licenses were required to accept a number of regional digital development obligations.

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.

#### **(d) Rollout of a network of mobile masts**

Since it was awarded France's fourth 3G mobile license, the Group has implemented its mobile network rollout strategy by drawing on its extensive landline transmission network (see section 1.3.a above) and putting in place a specific organizational structure to effectively manage and oversee the network rollout process (seeking out sites, undertaking discussions with all types of lessors, carrying out administrative and regulatory procedures, performing installation works and ensuring compliance with the related safety rules, and monitoring the operation and maintenance of radio equipment at sites where it has been installed).

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

- **The opening of almost 2,400 new 3G sites**, bringing the Group's total number of 3G sites to 14,500 at end-2018 and giving it a coverage rate of over 96% of the French population.
- **Ongoing deployment of 4G technology**, which has been a priority for the Group since it first launched its Mobile business. This priority was put into practice in 2018, with (i) new 1,800 MHz frequencies made available at over 3,000 additional sites, and (ii) the deployment – in accordance with the applicable regulatory schedule for their availability – of 700 MHz frequencies at 2,300 additional sites. The continued deployment of these new frequencies during 2018 enabled the Group to increase its 4G coverage to 92% at the year-end and to strengthen its 4G indoor quality. At December 31, 2018, the Group had more than 12,000 4G sites.
- **Continued investment in the fiber backhaul network for mobile sites**. In view of ever-faster Internet speeds and the growing number of 4G users, the interconnection capacity of mobile sites is of critical importance to operators. In order to be able to offer its subscribers the best possible speeds, the Group has decided to prioritize the use of fiber for connecting its sites. As a result, at December 31, 2018, 92% of the Group's sites in very densely populated areas were fiber-connected, enabling it to offer its subscribers the best 4G speeds.

Thanks to these advances, the Group exceeded its coverage objectives for the year, as well as its target of deploying more than 2,000 new sites in 2018. The Group intends to (i) continue its gradual deployment of 700 MHz frequencies in eligible areas as these frequencies become available in line with the regulatory schedule, and (ii) finalize bringing into service 1,800 MHz frequencies at its directly-owned 4G sites.

The depreciation/amortization periods applied for the main assets brought into service in 2018 are as follows:

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

### **(e) Rollout of the distribution network: stores and kiosks**

At December 31, 2018, the Group had a full physical presence in France, thanks to:

- Its 59 Free Centers.
- Its network of self-service kiosks for mobile subscriptions that have an integrated SIM card dispenser, rolled out in partnership with the Maison de la Presse and Mag Presse store network. At December 31, 2018, the Group had approximately 1,500 such kiosks across France.

## **Italy**

### **(a) A balanced frequency portfolio of 265 MHz (including 45 MHz duplex)**

In November 2016, the Italian authorities authorized the transfer of the various frequencies covered by the agreement signed between Iliad and the Hutchison and VimpelCom groups. This gave the Group a balanced portfolio of 2 x 35 MHz (duplex) frequencies in Italy, comprising:

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

The purchase price of this portfolio of frequencies was €450 million, payable in installments between 2017 and 2019. At December 31, 2018, the Group had already paid a total of €243 million.

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

In its 2018 Finance Act published in late 2017, the Italian government issued its procedures for the allocation 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 (duplex) 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.

These frequency purchases were in line with Iliad Italia's aim of strengthening its portfolio in order to pursue its innovation drive, rapidly develop a 5G offering and meet the rising demand for bandwidth in Italy.

The total purchase price of the frequencies was €1,193 million. In accordance with the rules set for the spectrum auction and pursuant to the Italian 2018 Finance Act (L.205/2017), the amount due is payable in installments over the period 2018-2022 as follows:

In € millions	2018	2019	2020	2021	2022
Installments	144	9	55	27	959

### (b) Rollout of a mobile network in Italy

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

- Setting up a local structure for deploying the mobile sites using (i) sites that are scheduled to be decommissioned by Wind/Tre, mainly from 2018 through 2020 and (ii) sites made available by major infrastructure lessors and operators. At end-December 2018, the Group was fully dependent on its roaming agreement with Wind/Tre and had already secured 2,500 sites, of which 1,500 are already fully equipped.
- Deploying a backbone of some 10,000 km in order to connect up Italy's principal towns and cities to the Group's two main mobile network centers located in Milan and Rome.
- Rolling out the core network and interconnections with Wind/Tre to manage traffic under the MOCN (Multi-Operator Core Network) solution. This technical solution for connecting up Wind/Tre's radio equipment to the Group's core network creates a more effective and optimal flow of traffic between the two networks compared with a more "conventional" roaming solution.

### (c) Rollout of a distribution network in Italy

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

- Physical distribution:
  - A network of 11 stores in major Italian cities.
  - A network of over 500 SIM card dispenser kiosks ("Simboxes"), with 138 located in busy catchment areas. These kiosks comply with the applicable Italian legislation, particularly "Pisanu's law", which requires identification of subscribers when they take out their subscription.
  - Access to a nationwide network of resellers enabling subscribers to top up their plan.
- Digital distribution:
  - Online distribution accessible via mobile phone, tablet or computer, enabling users to take out their mobile plan on line and receive their SIM card at home through the post.



## 2 SIGNIFICANT EVENTS OF THE YEAR

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

<i>In € millions</i>	<b>2018</b>	2017	% change
Revenues – France	4,768	4,860	-1.9%
- <i>Landline</i>	2,638	2,726	-3.2%
- <i>Mobile</i>	2,139	2,143	-0.2%
- <i>Intra-group sales</i>	(9)	(9)	-
Revenues – Italy	125	-	-
Intra-group sales	(2)	-	-
Consolidated revenues	4,891	4,860	+0.6%
<b>Revenues – France excluding sales of terminals</b>	<b>4,566</b>	<b>4,615</b>	<b>-1.1%</b>
<b>Group revenues excluding sales of terminals</b>	<b>4,689</b>	<b>4,615</b>	<b>+1.6%</b>
EBITDA - France	1,807	1,777	+1.7%
EBITDA - Italy	(52)	-	-
<b>Consolidated EBITDA</b>	<b>1,755</b>	<b>1,777</b>	<b>-1.2%</b>
<b>Profit from ordinary activities</b>	<b>690</b>	<b>862</b>	<b>-20.0%</b>
<b>Profit for the period<sup>2</sup></b>	<b>330</b>	<b>405</b>	<b>-18.5%</b>
<b>Leverage ratio</b>	<b>2.3x</b>	<b>1.4x</b>	<b>+0.9x</b>

### Group

- Consolidated revenues were up by 0.6% to €4.9 billion. Excluding sales of terminals, growth came in 1.6%.
- Successful launch of Iliad Italia and firm economic resistance in France thanks to the performance of the Mobile business.
- Continued solid financial structure, with a leverage ratio of 2.3x EBITDA and a significant level of liquidity.

### France

#### 2018 operational information

- Success for the differentiation strategy put in place by the Group in both the Landline and Mobile businesses:

<sup>2</sup> Including the negative contribution of Italy for €121 million, and the Group's share of the profit/(loss) of eir for a negative €25 million

- **Nearly two-fold increase in the total FTTH subscriber base** to 983,000 at end-2018.
- **722,000 net adds for the Free Mobile Unlimited 4G Plan** (50/100 GB for non-Freebox subscribers), i.e., 7.8 million subscribers.
- **Sales performance nevertheless impacted by a fiercer competitive environment in 2018:**
  - Contraction in the subscriber base for the €2/month mobile plan (€0/month for Freebox subscribers) and for the Landline business due to the expiry of promotions.
- **A major player in digital transformation, the Group has stepped up the rollout of its Landline and Mobile businesses, making it the leading alternative operator of latest-generation networks:**
  - **More than 50% increase in FTTH coverage** over the year, to nearly 10 million connectible sockets; the Group's Fiber offerings are now available in over 90 *départements*.
    - **Best average speed on fiber** for the year<sup>3</sup>, with an average download speed of 453 Mbps.
  - **The Group is maintaining the unprecedented pace of its Mobile network rollout**, with nearly 2,400 new sites brought into service in 2018. In February 2019, Free passed the milestone of 15,000 base stations, giving it a coverage rate of over 96% of the French population.
    - **Best alternative operator in terms of average download speed for 4G<sup>4</sup>** – 45 Mbps – more than 30% faster than France's two other alternative operators. The strong performance of the Group's 4G network is reflected in the average monthly data usage per 4G subscriber, which was 10.9 GB in 2018, one of the highest usage levels in Europe.

## 2018 financial information

- **Overall financial performance holds firm despite a fiercely competitive environment that led to a contraction in the subscriber base and trimmed 1.1% off revenues excluding sales of terminals.**
  - **Landline revenues down 3% against a backdrop of heavy promotions**, due to fierce competition as well as a higher VAT rate.
  - **Mobile revenues invoiced to subscribers up 4% year on year** despite a decrease in the total subscriber base, reflecting the improved subscriber mix.
- **A low-point reached in France in fourth-quarter 2018**, but the sales and marketing initiatives launched during the year should drive a return to revenue growth for the Landline business in 2019 and re-boost growth in revenues invoiced to subscribers in the Mobile business.

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<sup>3</sup> nperf survey of landline Internet connections for 2018

<sup>4</sup> nperf survey of mobile connections – Q4 2018

- **EBITDA up to more than €1.8 billion, representing 37.9% of revenues, demonstrating the success of the Group's strategy of investing in its networks**, and despite a contraction in EBITDA for the Landline business.
- **Profit up 13% in France to €476 million**, based on a constant Group structure, excluding the share of the profit/(loss) of eir;
- **Ambitious capital expenditure, at €1.55 billion**, supporting the rapid extension of the FTTH network, the opening of new mobile sites and the launch of the new Freeboxes.

### Italy

- **Outstanding commercial success, with 2.8 million subscribers recruited in the space of 7 months** and the creation of a go-to brand. Iliad Italia's launch was the most successful in Europe for a new entrant since that of Free Mobile in 2012.
- **€125 million in revenues.**
- **Operating losses** of €52 million.
- **€261 million invested** in the Italian network and the rollout of the MOCN agreement, and €342 million paid for purchases of frequencies.

## 3 COMPARISON OF RESULTS FOR 2018 AND 2017

<i>In € millions</i>	<b>2018</b>	<b>2017</b>	<b>% change</b>
Revenues	4,891	4,860	+0.6%
<b>Revenues excluding sales of terminals</b>	<b>4,689</b>	<b>4,615</b>	<b>+1.6%</b>
Purchases used in production	(2,129)	(2,230)	-4.5%
<b>Gross profit</b>	<b>2,762</b>	<b>2,630</b>	<b>+5.0%</b>
<b>as a % of revenues</b>	<b>56.5%</b>	<b>54.1%</b>	<b>+2.4 pts</b>
Payroll costs	(285)	(256)	+11.3%
External charges	(579)	(417)	+38.8%
Taxes other than on income	(97)	(108)	-10.2%
Additions to provisions	(26)	(53)	-50.9%
Other income and expenses from operations, net	(20)	(19)	+5.3%
<b>EBITDA</b>	<b>1,755</b>	<b>1,777</b>	<b>-1.2%</b>
<b>as a % of revenues</b>	<b>35.9%</b>	<b>36.6%</b>	<b>-0.7pt</b>
Share-based payment expense	(14)	(4)	-
Depreciation, amortization and provisions for impairment of non-current assets	(1,050)	(911)	+15.3%

<b>Profit from ordinary activities</b>	<b>690</b>	<b>862</b>	<b>-20.0%</b>
Other operating income and expense, net	(11)	(1)	-
<b>OPERATING PROFIT</b>	<b>680</b>	<b>861</b>	<b>-21.0%</b>
Finance costs, net	(46)	(28)	+64.3%
Other financial income and expense, net	(42)	(63)	-33.3%
Corporate income tax	(239)	(366)	-34.7%
Share of profit/(loss) of equity-accounted investees	(23)	1	-
<b>PROFIT FOR THE PERIOD</b>	<b>330</b>	<b>405</b>	<b>-18.5%</b>

### 3.1 Analysis of consolidated results

#### (a) Key indicators

<i>France</i>	<b>Dec. 31, 2018</b>	<b>Dec. 31, 2017</b>
Total mobile subscribers	<b>13,441,000</b>	13,695,000
- Of which on the Free Mobile Unlimited 4G Plan*	<b>7,783,000</b>	7,060,000
- Of which on the voice-based plan	<b>5,658,000</b>	6,635,000
Average 4G data usage (in GB per month per subscriber)	<b>10.9 GB</b>	8.4 GB
Total Broadband and Ultra-Fast Broadband subscribers	<b>6,427,000</b>	6,520,000
- Of which FTTH	<b>983,000</b>	556,000
<b>Total number of subscribers – France</b>	<b>19,868,000</b>	20,215,000
Broadband and Ultra-Fast Broadband ARPU** (in €)	<b>31.8</b>	33.9
Number of connectible FTTH sockets	<b>9.6m</b>	6.2m
<i>Italy</i>	<b>Dec. 31, 2018</b>	<b>Dec. 31, 2017</b>
Total mobile subscribers	<b>2,837,000</b>	-

\* 50/100 GB for non-Freebox subscribers  
 \*\* €31.3 including the restatements related to IFRS 15

## (b) Analysis of results for France

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

<i>In € millions</i>	<b>2018</b>	<b>2017</b>	<b>% change</b>
Revenues	4,768	4,860	-1.9%
<b>Revenues excluding sales of terminals</b>	<b>4,566</b>	<b>4,615</b>	<b>-1.1%</b>
Purchases used in production	(2,044)	(2,230)	-8.3%
<b>Gross profit</b>	<b>2,724</b>	<b>2,630</b>	<b>+3.6%</b>
<b>as a % of revenues</b>	<b>57.1%</b>	<b>54.1%</b>	<b>+3.0 pts</b>
Payroll costs	(277)	(256)	+8.2%
External charges	(500)	(417)	+19.9%
Taxes other than on income	(96)	(108)	-11.1%
Additions to provisions	(26)	(53)	-50.9%
Other income and expenses from operations, net	(17)	(19)	-10.5%
<b>EBITDA</b>	<b>1,807</b>	<b>1,777</b>	<b>1.7%</b>
<b>as a % of revenues</b>	<b>37.9%</b>	<b>36.6%</b>	<b>+1.3pt</b>
Share-based payment expense	(14)	(4)	-
Depreciation, amortization and provisions for impairment of non-current assets	(964)	(911)	+5.8%
<b>Profit from ordinary activities</b>	<b>830</b>	<b>862</b>	<b>-4.3%</b>
Other operating income and expense, net	(11)	(1)	-
<b>Operating profit</b>	<b>819</b>	<b>861</b>	<b>-5.4%</b>

### (i) Revenues

The table below shows the breakdown of consolidated revenues for France by category for 2018 and 2017 as well as the percentage change between the two years.

<i>In € millions</i>	<b>2018</b>	<b>2017</b>	<b>% change</b>
<b>Landline</b>	<b>2,638</b>	<b>2,726</b>	<b>-3.2%</b>
Mobile	2,139	2,143	-0.2%
- Revenues invoiced to subscribers	1,498	1,441	+4.0%

- Terminals	202	245	-17.6%
- Other	438	457	-4.2%
<b>Mobile revenues excluding sales of terminals</b>	<b>1,937</b>	<b>1,898</b>	<b>+2.1%</b>
Intra-group sales	(9)	(9)	-
<b>Total revenues – France</b>	<b>4,768</b>	<b>4,860</b>	<b>-1.9%</b>
<b>Total revenues – France excluding sales of terminals</b>	<b>4,566</b>	<b>4,615</b>	<b>-1.1%</b>

### Landline revenues

Landline revenues came to just over €2.6 billion in 2018, representing a 3.2% year on year decrease against a backdrop of fiercer market competition. The main factors underlying this business's performance in 2018 were as follows:

- **Major actions undertaken to meet the challenges faced by the Group in 2018, including overhauling its sales and marketing approach.** In a mature and highly competitive market characterized by heavy promotions, the Group decided to refocus its strategy on gradually upscaling its subscriber base, by (i) launching new online deals that offer a 12-month promotional discount, (ii) initiating a subscriber loyalty program, (iii) offering state-of-the-art equipment, with the launch of the Freebox Delta and Freebox One, and (iv) stepping up the pace of its FTTH migrations.
- **A strong increase in FTTH connections during the year, with the milestone of one million subscribers passed in January 2019.** The Group cemented its position as France's number one alternative FTTH operator in 2018 and has set itself very ambitious targets, with the aim of reaching a pace of around half a million new subscribers each year as from 2019. During 2018 the Group (i) installed 3.4 million new connectible sockets, bringing the total to 9.6 million at the year-end, and (ii) connected up 427,000 additional subscribers to fiber. This means that the Group's FTTH subscriber base increased by 75% in the space of a year, and at December 31, 2018 it stood at 983,000.
- According to the nPerf survey of landline Internet connections in Metropolitan France for 2018, **Free was the operator offering the best fiber download speed in 2018**, with an average of 453 Mbps.
- **Over €2.6 billion in revenues.** The Group's landline revenues contracted 3.2% compared with 2017, with the decrease attributable to (i) a fiercely competitive environment, which led to a slight decline in the subscriber base, (ii) a higher VAT rate, and (iii) the negative impact of promotional deals.
- **Broadband and Ultra-Fast Broadband ARPU at €31.8 for 2018.** The decrease in overall ARPU slowed during the year, thanks to the initial positive effects of the Group's new sales and marketing policy.

### Mobile revenues

At just over €2.1 billion, revenues generated by the Mobile business in France were on a par with 2017, but the Group once again registered buoyant growth in revenues invoiced to subscribers, which rose 4% year on year. The main factors that drove the Mobile business's performance in 2018 were as follows:

- **A successful strategy for improving the subscriber mix, with 722,000 new subscribers signed up to the Free Mobile Unlimited 4G Plan (50/100 GB for non-**

Freebox subscribers), in a fiercely competitive environment and despite an unprecedented level of promotional deals (plans at €5 or €10 per month, guaranteed for life). The number of subscribers on the €2/month plan (€0/month for Freebox subscribers) continued to decrease in 2018 and was down by almost one million at the year-end, reflecting the policy put in place to migrate subscribers to the Free Mobile Unlimited 4G Plan (50/100 GB for non-Freebox subscribers). The steady growth in the number of subscribers signing up to this Plan demonstrates the strength of the Free brand, the quality of the Group's directly-owned network and the fact that the Group has got its strategy right by regularly enriching its mobile offerings. At December 31, 2018, the Group had a total of 13.4 million mobile subscribers, of which 7.8 million were on the Free Mobile Unlimited 4G Plan (50/100 GB for non-Freebox subscribers).

- **A much better subscriber mix: at end-2018, 58% of the Group's mobile subscribers, i.e. almost 7.8 million, were on the Free Mobile Unlimited 4G Plan (50/100 GB for non-Freebox subscribers).**
- **One of the highest levels of monthly average data usage per 4G subscriber in Europe (10.9 GB), illustrating the strong performance of the Group's network.** Thanks to the Group's large portfolio of frequencies dedicated to 4G and its gradual deployment of 700 MHz frequencies in authorized areas, the quality of its 4G network once again scored well in the nPerf mobile connections performance survey, with an average download speed of 45 Mbps – 30% faster than the speeds recorded by France's two other alternative operators<sup>5</sup>.
- **Revenues invoiced to subscribers up by 4%.** Despite a slight year-on-year decrease in the Group's total mobile subscriber base, the number of subscribers on the Free Mobile Unlimited 4G Plan (50/100 GB for non-Freebox subscribers) continued to rise. Revenues invoiced to subscribers – which is the Mobile business's main margin generator – came in at €1.5 billion. However, the overall figure was adversely affected by the measures taken to enrich the Free Mobile Unlimited 4G Plan (50/100 GB for non-Freebox subscribers), notably the addition of numerous new roaming destinations.
- **A near-18% reduction in revenues from sales of terminals, reflecting the stricter strategy for phone rentals put in place by the Group** in order to significantly reduce fraud and payment defaults on rentals.

### Intra-group sales

Intra-group sales correspond to sales between companies from the Group's two different businesses and mainly consist of billings of interconnection operations. They are eliminated in consolidation.

#### (ii) Gross profit

Gross profit for France amounted to €2,724 million in 2018, up 3.6% year on year.

As a percentage of revenues, gross profit climbed 3 percentage points to 57.1%. This increase stemmed solely from the Mobile business and was due to (i) lower roaming costs thanks to higher traffic volumes carried directly on the Group's own network, and (ii) a better subscriber mix, with more subscribers on the Free Mobile Unlimited 4G Plan (50/100 GB for non-Freebox subscribers).

Gross profit for the Landline business edged down year on year, as the positive impact of subscriber migrations to fiber was offset by the effect of the Group's promotional deals and subscriber loyalty measures launched in 2018.

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<sup>5</sup> nperf survey of mobile connections – Q4 2018

### (iii) Payroll costs

Excluding Italy, the Group's headcount was approximately 9,800 at December 31, 2018, representing a year-on-year increase.

The rise was mainly due to the Group's assertive strategy of accelerating its FTTH rollouts and connections as well as the recruitment of developers for its hosting activities.

In view of these factors, payroll costs (excluding employee benefits and capitalized costs) rose 8.2% to €277 million.

### (iv) External charges

External charges increased by 20% to €500 million in 2018. The year-on-year rise was attributable to the new FTTH and mobile deployments carried out in 2018, which led to additional costs (rental, maintenance, energy, insurance, sub-contracting, easements etc.).

### (v) Taxes other than on income

Taxes other than on income decreased by €12 million to €96 million, primarily due to reductions in certain taxes.

### (vi) Additions to provisions

Additions to provisions for bad debts, impairment of inventories and contingencies and charges totaled €26 million in 2018, down 50% year on year. The main amounts recognized during the year related to provisions for bad debts.

### (vii) Other income and expenses from operations, net

This item represented a net expense of €17 million in 2018.

### (viii) EBITDA

EBITDA generated in France climbed €30 million to €1,807 million and the EBITDA margin widened by 1.3 points to 37.9%. These figures – which were achieved despite the revenue decline – demonstrate the resilience of the Group's financial model and the effectiveness of its capital expenditure strategy.

In 2018 the Group decided to focus its efforts on creating value within its subscriber base, by accelerating growth in the number of FTTH subscribers, launching new commercial offerings in the summer and new Freeboxes in December, and reducing its use of aggressive promotions which have a dilutive impact on margins.

The EBITDA picture was mixed in 2018, with a contraction for the Landline business and a sharp rise for Mobile. Overall, consolidated EBITDA was affected by both positive and negative factors during the year.

#### ■ Positive factors:

- **Better mobile network coverage** (a coverage rate of more than 96% of the French population), resulting in lower roaming costs (a trend that is set to continue over the next two years, especially as the 3G roaming agreement is due to expire).
- **An improved mobile subscriber mix**, resulting in a higher amount of margin-generating revenues. At end-December 2018, 58% of the mobile subscriber base was on the Free Mobile Unlimited 4G Plan (50/100 GB for non-Freebox subscribers), i.e. 7.8 million subscribers.



- **An increase in the number of FTTH subscribers**, leading to operating cost savings. The Group has set itself the ambitious objective of connecting up over 500,000 new subscribers to FTTH a year.

■ **Negative factors:**

- **Even fiercer competition** in 2018, leading to an erosion of the landline and mobile subscriber base, and a decrease in revenues (and therefore the related margin), combined with the impact of promotions.
- **A rise in the VAT rate** as from March 1, 2018, adversely impacting revenues by tens of millions of euros on an annual basis.

**Other significant impacts:** signature of new audiovisual distribution contracts, the addition of new roaming destinations, and the end of roaming charges in Europe (whose 12-month effect ended in June 2018).

**(ix) Profit from ordinary activities**

Profit from ordinary activities retreated to €830 million in 2018. The year-on-year decrease chiefly reflects higher depreciation and amortization expenses deriving from the extension of the Group's FTTH and mobile networks and, to a lesser degree, the exercise of stock options by employees.

**(c) Analysis of results for Italy**

The following table presents a simplified income statement for the Italy segment for 2018 and 2017.

<i>In € millions</i>	<b>2018</b>	<b>2017</b>	<b>% change</b>
<b>Revenues – Italy</b>	<b>125</b>	-	-
Gross profit	39	-	-
<b>EBITDA</b>	<b>(52)</b>	-	-
<i>as a % of revenues</i>	-	-	-
Profit/(loss) from ordinary activities	(139)	-	-
Operating profit	(139)	-	-

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

**(i) Revenues**

- **Outstanding commercial success**, with over 2.8 million subscribers at end-2018, recruited in the space of just 7 months.
- **Successful brand integration.** The Group successfully met the challenge of launching its Italian offering despite initially having no brand recognition in the country. The Iliad brand is now well integrated into the Italian telecommunications landscape.
- **Successful strategy of upscaling and diversifying Iliad Italia's offerings.** The Group successfully introduced two consecutive price increases for its data-focused offering, while at the same time enriching it and keeping up the strong pace of net adds. At December 31, 2018, Iliad's main offer in Italy was invoiced at €7.99/month, including unlimited voice calls

and texts, as well as 50 GB of 4G/4G+ data and a 4 GB roaming allowance. Iliad Italia also proposes a plan centered on voice calls which costs €4.99/month and includes unlimited voice calls and text messages plus 40 MB of mobile data.

- **Revenues of €125 million generated in seven months.** This amount comprises the price of (i) subscriptions (€5.99/month, €6.99/month or €7.99/month for the data-based plan, depending on the offer, or €4.99/month for the voice-based plan), and (ii) SIM card activations carried out during the period (€9.99 per SIM card).

**(ii) EBITDA**

The Italy segment ended 2018 with negative EBITDA of €52 million, primarily reflecting (i) interconnection costs, (ii) marketing and advertising expenses related to the commercial launch and developing the brand's image in Italy, and (iii) overheads, particularly expenses relating to rentals, subscriber relations and wages and salaries.

**(iii) Profit/(loss) from ordinary activities**

The Group's Italian operations generated a €139 million loss from ordinary activities in 2018, including the depreciation/amortization expense for the network's initial components and frequencies.

### 3.2 Consolidated cash flows and capital expenditure

<i>In € millions</i>	<b>2018</b>	<b>2017</b>	<b>% change</b>
<b>Consolidated cash flows from operations</b>	<b>1,693</b>	<b>1,737</b>	<b>-2.5%</b>
Change in working capital requirement	32	(75)	-
<b>Operating Free Cash Flow</b>	<b>1,725</b>	<b>1,662</b>	<b>+3.8%</b>
Capital expenditure – France (excluding payments for frequencies)	(1,555)	(1,460)	+6.5%
Capital expenditure – Italy (excluding payments for frequencies)	(261)	(43)	-
Income tax paid	(306)	(334)	-8.4%
Other	(441)	(51)	-
<b>Consolidated Free Cash Flow (excluding payments for frequencies, financing activities and dividends)</b>	<b>(839)</b>	<b>(226)</b>	<b>+271.2%</b>
Capital expenditure – payments for frequencies – France	(263)	(257)	+2.3%
Capital expenditure – payments for frequencies – Italy	(342)	(271)	+26.2%
<b>Consolidated Free Cash Flow (excluding financing activities and dividends)</b>	<b>(1,444)</b>	<b>(754)</b>	<b>+90.8%</b>
Dividends	(40)	(26)	+53.8%
<b>Cash and cash equivalents at year-end</b>	<b>173</b>	<b>215</b>	<b>-19.5%</b>

### Consolidated Free Cash Flow

In 2018, the Group pursued its major capex programs focused on rolling out its landline and mobile networks in France and its mobile network in Italy, enabling it to become more autonomous and increase its profitability while at the same time enhancing its subscriber service quality. Altogether in 2018, the Group invested over €1.8 billion in its networks, and over €600 million for the purchase of frequencies in France and Italy.

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

- €1,693 million in consolidated cash flows from operations.
- A €32 million positive change in working capital requirement, with a negative contribution for France and a positive contribution for Italy.
- €1,555 million in capital expenditure for France, in line with the Group's objective. During the year the Group pursued its capital expenditure drive for its FTTH and mobile rollouts, with 3.4 million new FTTH connectible sockets and 427,000 new subscribers connected to fiber, as well as some 2,400 new 3G sites deployed and thousands of sites newly-equipped for 4G frequencies. The capital expenditure figure for 2018 also includes the effect of the new Freebox launches in 2018.
- €261 million invested in the Italian network and MOCN agreement and €342 million paid for the purchase of frequencies (the second installment paid to Wind/Tre and the first installment for the frequencies allocated in the 5G spectrum auction).
- €306 million in income tax paid.
- Other: includes the outflow for the acquisition of the Group's interest in eir and the partial buyout of minority interests in Free Mobile (both of which took place in the first half of 2018), as well as interest paid during the year.

### Net change in cash and cash equivalents

The Group ended the year with €173 million in available cash and cash equivalents.

## 3.3 Consolidated debt

The Group is not subject to any liquidity risk as a result of acceleration clauses contained in loan agreements entered into by Group companies or as a result of any breaches of financial covenants (ratios, targets, etc.).

At December 31, 2018, the Group had gross debt of €4,164 million and net debt of €3,983 million. The Group has strong liquidity, low average interest rates and, in line with its strategy, decided to increase its leverage in 2018 in view of the major industrial projects underway which will generate substantial future cash flows. Consequently, at December 31, 2018 the Group's leverage ratio was 2.3x EBITDA.

The Group's gross debt primarily comprised the following at December 31, 2018:

### (a) Borrowings due within one year

- A €1 billion short-term commercial paper program

The Group has set up a short-term commercial paper program for up to €1 billion. At December 31, 2018, €655 million of this program had been used.

## (b) Borrowings due beyond one year

### Bank borrowings

#### ■ Loans granted by the European Investment Bank (EIB)

The EIB has granted Iliad several loans in order to help finance the rollout of its ADSL and FTTH networks. These loans – which are repayable in installments and have long maturities – were as follows at December 31, 2018:

- A €150 million loan granted in 2010 with the final installment due in July 2020.
- A €200 million loan granted in 2012 with the final installment due in May 2022.
- A €200 million loan granted in 2016 with the final installment due in September 2030.
- A €300 million loan granted in 2018 with the final installment due in December 2032, unused at December 31, 2018.

#### ■ A €90 million bilateral credit facility with KfW IPEX-Bank

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

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

#### ■ A €500 million syndicated credit facility maturing in 2023

In view of the favorable conditions in the banking market and in order to extend the average maturity of its debt, on January 8, 2016, the Group set up a €500 million credit facility with a pool of 11 international banks. This term-loan – which originally had a five-year maturity expiring in 2021 – was renegotiated on July 16, 2018 and now matures in 2023.

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

The Group had a €1,400 million syndicated credit facility set up with a pool of 12 international banks, for which the second extension option was exercised in 2017 to extend its maturity to 2022. This facility was renegotiated on July 16, 2018, with its amount increased to €1,650 million and its maturity further extended to 2025. None of the facility had been drawn down at December 31, 2018.

The applicable interest rate is based on Euribor for the period plus a margin that varies depending on the Group's leverage ratio. The margin was originally between 0.35% and 1.10% per year but was reduced to between 0.25% and 0.95% when the facility was renegotiated in July 2018.

#### ■ €50 million bilateral credit facility maturing in 2023

On November 29, 2018, the Group set up a five-year €50 million bilateral credit facility with a bank. The facility is repayable at maturity.

The Group's bank borrowings are subject to financial covenants based on the Group's leverage and interest cover ratios. None of these covenants had been breached at December 31, 2018.

### Bonds

■ €650 million worth of bonds maturing in 2022

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

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

■ €650 million worth of bonds maturing in 2024

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

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

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

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

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

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

<i>In € millions</i>	<b>Maturity</b>	<b>Type of repayment/redemption</b>	<b>Total amount of financing</b>	<b>Amount used</b>	<b>Amount available</b>
<u>Bank borrowings</u>					
EIB - 2010	July 2020	In installments	150	50	-
EIB - 2012	May 2022	In installments	200	117	-
EIB - 2016	September 2030	In installments	200	200	-
EIB - 2018	December 2032	In installments	300	-	300
KFW - 2017	May 2029	In installments	90	90	-
Bilateral credit facility	November 2023	At maturity	50	50	-
Syndicated credit facility - 2016	July 2023	At maturity	500	500	-
Syndicated credit facility - 2015	July 2024	At maturity	1,650	-	1,650

### Bonds

Ordinary bonds - 2015	December 2022	At maturity	650	650	-
Ordinary bonds - 2017	October 2024	At maturity	650	650	-
Ordinary bonds - 2018	Nov. 2021 and April 2025	At maturity	500 & 650	1,150	-

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### (c) Finance lease commitments

The Group uses finance leases to finance (i) the purchase of real estate assets required for rolling out its networks and (ii) a portion of the technical equipment in its datacenters. At December 31, 2018, the Group's total obligations under finance leases amounted to €61 million.

### 3.4 Ownership structure at December 31, 2018

At December 31, 2018, Iliad's share capital was made up of 59,045,555 ordinary shares, held by the following shareholders:

- Executive Management: 33,516,724 shares, representing 56.8% of the share capital.
- Public: 25,528,831 shares, representing 43.2% of the share capital.

At December 31, 2018 there were:

- Two Iliad stock option plans in place with a total of 298,601 shares under option.
- Two free share plans in place with a total of 597,260 vestable shares.

## 4 ADDITIONAL INFORMATION

### 4.1 Strategic objectives

With a view to continuing to implement its strategy of achieving profitable growth, the Group has set itself the following objectives:

#### France

- Landline business:
  - Achieve a 25% share of the Broadband and Ultra-Fast Broadband market in the long term.
  - Increase the FTTH subscriber base by over 500,000 subscribers per year.
  - Have 20 million connectible FTTH sockets by end-2022.
- Mobile:
  - Roll out some 2,000 new sites in 2019.
  - Achieve a 25% share of the mobile market in the long term.
- Financial targets:
  - Return to revenue growth in France in 2019.
  - Speed up EBITDA growth in France in 2019.
  - Generate EBITDA margin in France (excluding B2B and equipment sales) of over 40% in 2020.
  - Have 2019 CAPEX in France (excluding purchases of frequencies) in line with the 2018 CAPEX figure.
  - Achieve an EBITDA less CAPEX figure in France (excluding B2B activities) of more than €800 million in 2020 and around €1 billion in 2021.

#### Italy

- Have 3,500 equipped sites at end-2019.
- Make a higher negative contribution to consolidated EBITDA in 2019 than that recorded in 2018, as business growth speeds up and the mobile network is rolled out.
- Achieve EBITDA break-even, with a market share of less than 10%.

### 4.2 Events after the balance sheet date

#### Strategic alliance with Jaguar Network

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 Iliad'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.

### **Potential industrial partnership for the Group's passive mobile infrastructure**

With the aim of speeding up rollouts and maximizing value creation, the Group has begun a process to review its mobile assets and is currently exploring the possibility of forming an industrial partnership with an investment fund for its passive mobile infrastructure, concerning approximately 5,700 mobile sites.

### **4.3 IFRS 15 reconciliation table for 2017 quarterly revenues**

In € millions	After IFRS 15				Before IFRS 15			
	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2017	Q2 2017	Q3 2017	Q4 2017
<b>Landline</b>	<b>683</b>	<b>682</b>	<b>680</b>	<b>681</b>	<b>698</b>	<b>696</b>	<b>694</b>	<b>695</b>
<b>Mobile</b>	<b>511</b>	<b>530</b>	<b>537</b>	<b>566</b>	<b>529</b>	<b>547</b>	<b>554</b>	<b>584</b>
- Revenues invoiced to subscribers	341	359	371	371	358	376	389	389
- Terminals	55	57	55	78	55	57	55	78
- Other	115	114	111	117	115	114	111	117
Intra-group sales	(3)	(2)	(2)	(2)	(3)	(2)	(2)	(2)
<b>Total revenues – France</b>	<b>1,192</b>	<b>1,209</b>	<b>1,215</b>	<b>1,245</b>	<b>1,224</b>	<b>1,240</b>	<b>1,246</b>	<b>1,277</b>

### **4.4 Glossary**

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

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

*Broadband and Ultra-Fast Broadband ARPU (Average Revenue Per Broadband and Ultra-Fast Broadband User):* Includes revenues from the flat-rate package and value-added services but excludes one-time revenues (e.g., fees for migration from one offer to another or subscription and cancellation fees), divided by the total number of Broadband and Ultra-Fast Broadband subscribers invoiced for the period.

*Broadband and Ultra-Fast Broadband subscribers:* Subscribers who have signed up for the Group's ADSL, VDSL or FTTH offerings.



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

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

*FCF:* Free Cash Flow

*FTTH (fiber-to-the-home):* Data delivery technology that directly connects subscribers' homes to an optical node (ON).

*Gross profit:* Corresponds to revenues less purchases used in production.

*Leverage ratio:* Represents the ratio between net debt (short- and long-term financial liabilities less cash and cash equivalents) and EBITDA.

*M2M:* Machine to machine communications.

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

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

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

*Total Broadband and Ultra-Fast Broadband subscribers:* Represents, at the end of a period, the total number of subscribers, identified by their telephone lines, who have signed up for a Free or Alice Broadband or Ultra-Fast Broadband offering, excluding those recorded as having requested the termination of their subscription.

*Total mobile subscribers – France:* Represents, at the end of a period, the total number of subscribers, identified by their telephone lines, who have subscribed to a Free mobile offering, excluding those recorded as having requested the termination of their subscription.

*Total mobile subscribers – Italy:* Represents, at the end of a period, the total number of subscribers, identified by their telephone lines, who have subscribed to an Iliad Italia mobile offering and who have issued or received at least one communication during the preceding three months.

*Unbundled subscribers:* Subscribers who have signed up for the Group's ADSL, VDSL or FTTH offerings through a telephone exchange unbundled by Free.