



Société anonyme. Share capital: €13,105,191

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Paris, France

Registered in Paris under no. 342 376 332

The Group has applied IFRS 16, Leases since January 1, 2019 using the retrospective approach, without restating comparative prior periods.

The income statement, balance sheet and segment information have been restated accordingly. Further to the application of IFRS 16, the Group has amended its key profitability indicator, which becomes EBITDAaL (EBITDA after leases) with effect from January 1, 2019.

ANALYSIS OF THE GROUP'S BUSINESS AND RESULTS

KEY CONSOLIDATED FINANCIAL DATA

<i>In € millions</i>	Six months to June 30, 2019	Six months to June 30, 2018
INCOME STATEMENT		
Total revenues	2,607	2,404
Services revenues	2,486	2,303
EBITDAaL	802	866
Profit from ordinary activities	243	406
Profit from recurring operations	91	232
BALANCE SHEET		
Non-current assets	11,550	8,103
Current assets	1,620	1,920
<i>Of which cash and cash equivalents</i>	453	897
Assets held for sale	893	18
Total assets	14,063	10,041
Total equity	3,599	3,445
Non-current liabilities	6,904	3,996
Current liabilities	3,167	2,600
Liabilities held for sale	393	0
Total equity and liabilities	14,063	10,041
CASH FLOWS		
Cash flows from operations	1,078	852
Impact of IFRS 16	(332)	-
Capital expenditure – France	(779)	(773)
Capital expenditure – Italy	(161)	(91)
Capital expenditure – frequencies ¹	(69)	(81)
Net change in cash and cash equivalents – Group (excluding change in net debt and dividends)	(600)	(744)
Dividends	(53)	(40)
Net debt	4,610	3,257

¹ Including €61 million in Italy for the first installment of the last payment to Wind/Tre.

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 has since recruited 3.8 million subscribers. Consequently, in the space of 20 years, the Group has become one of the leading electronic communications players in France and Italy, with over 23 million subscribers, nearly 11,000 employees, and €2.6 billion in revenues in the first half of 2019.

Iliad S.A. is the parent company of the Iliad Group, which operates under the trade names of Free in France and Iliad in Italy. Iliad S.A. 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**

The Group launched its mobile telephony offering in Italy on May 29, 2018 and had 3.8 million subscribers at June 30, 2019. The Italian mobile business generated €177 million in revenues in the first six months of 2019.

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

EBITDAaL: profit from ordinary activities before depreciation, amortization and impairment of property, plant and equipment and intangible assets, and impact of stock option-/share-based payment expense.

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

1.1 Breakdown of revenues

France

Landline offerings (Broadband and Ultra-Fast Broadband)

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. 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. A premium offering is also available, 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 achieving a better segmentation of the subscriber mix.

At June 30, 2019, therefore, the Group had five main landline offerings:

- **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 plan 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 a 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 1 TB of data via NAS (also optional). If subscribers wish to sign up for the Freebox Delta plan without purchasing the Free-Devialet Player, they can opt for the Freebox Delta S plan, which does not include 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 Fiber 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 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:

- **optical fiber (Fiber)**, which gives access to Ultra-Fast Broadband (up to 10 Gbps download and up to 600 Mbps upload);
- **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;
- **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).

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, 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.

B2B offerings

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.

During the first half of 2019, the Group strengthened its positioning on the B2B market by acquiring a 75% majority stake in Jaguar Network, representing an investment of just under €100 million.

This acquisition will help the Group expand its presence in the B2B market in France by developing innovative and competitive access offerings and services. It will also create significant synergies for investment, innovation and know-how.

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 have been taken 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, resulting in 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 June 30, 2019, therefore, 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 over 65 other countries,
 - 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).

Sales of devices (mobile phones and Delta Players)

■ 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.

■ Delta Players:

As part of the Freebox Delta offering, subscribers also become owners of a Delta Player, which is invoiced at €480. Subscribers can opt for whatever method of payment they prefer from among the options available.

In all cases, the Group recognizes the corresponding revenue when the Player 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.

It subsequently upscaled its offer, proposing a plan costing €7.99 a month that 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. 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 for €4.99/month, which includes:

- unlimited voice calls in Italy and to over 60 international destinations, including landlines and mobiles in the United States 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, 8 and 7). 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. Subscribers who choose to purchase a phone from Iliad Italia can pay for it either up front or in 30 monthly installments.

1.2 The Group's main operating costs

France

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 (€9.27/month and line) as well as maintenance costs.

(ii) Costs related to Fiber offerings

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

Main operating costs of the Group's mobile offerings

(i) Mobile call and text message termination charges

The applicable termination charges in first-half 2019 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 in France, which are defined in a roaming agreement signed with the country'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 in 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 data 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 progressively 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

MOCN (Multi-Operator Core Network) roaming agreement

The Group has to pay roaming charges for the roaming services provided to it in Italy, 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, data, 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.

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 0.90 euro cents per minute as of January 1, 2019 compared with 0.98 euro cents per minute in 2018, Text message termination charges are not regulated.

1.3 Capital expenditure and depreciation

France

Broadband (DSL offerings)

(i) Transmission network and unbundling the local loop

Having laid over 135,000 km of fiber, the Group 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 first-half 2019, the Group continued to extend its coverage by opening some 700 new subscriber connection nodes, which brought the total number of unbundled subscriber connection nodes to 14,000 throughout France at the period-end. All of the network equipment (Freebox DSLAMs) installed in the subscriber connection nodes are

compatible with VDSL2 technology, which therefore means eligible subscribers have access to the best possible speeds on the local copper loop.

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

(ii) Operating costs and capital expenditure by subscriber

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.

Rollout of a Fiber 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 Fiber 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 Fiber lines outside very densely populated areas and (ii) undertake to co-finance the Fiber 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 Fiber coverage in all of the geographic areas in which the incumbent operator has deployed a Fiber 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)

Fiber 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 Fiber lines in PIN areas, including Axione, Orange, Altitude and Covage, among others. The Group has also signed agreements directly with public bodies such as Auvergne Très Haut Débit, Vendée Numérique, Rosace and Berry Fibre Optique. 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 numerous regions.

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) Fiber progress report at June 30, 2019

During the period:

- the number of connectible sockets increased by 2 million versus December 31, 2018 and **totaled 11.5 million at end-June 2019**. The Group's Fiber offerings are now available throughout the whole of Metropolitan France;
- **the Group's Fiber subscriber base grew by almost a third during the first half of 2019, bringing the total to 1.3 million at the period-end**. In the second quarter, the Group had the highest number of Fiber net adds in France (172,000). This increase was due to three main factors:
 - o the successful reorganization of internal procedures for connecting Fiber subscribers, as presented at the Capital Markets Day,
 - o French households' appetite for Fiber technology, which is now the technology of choice for new Internet connections,
 - o the gradual start-up of marketing of Free's Fiber offerings outside very densely populated areas,
 - o a growing proportion of new subscribers as networks gradually open up in less densely populated areas. Over 50% of the Fiber net adds in first-half 2019 were new subscribers.

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 was gradually made available on a region-by-region basis starting with the Île-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 was 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 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.

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.

Going forward, the Group intends to bid for 5G frequencies in the auction expected to take place in the second half of 2019.

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).

During the first half of 2019, the Group continued its mobile network rollout drive, with:

- **the opening of some 900 new 3G sites**, bringing the Group's total number of 3G sites to 15,400 at end-June 2019;
- **an unprecedented pace of deployment for 700 MHz frequencies, considerably improving the 4G experience for Free Mobile subscribers.** 700 MHz frequencies carry much further than the other 4G frequencies and provide better indoor penetration, giving the Group major benefits in terms of both coverage and quality. Over 3,000 new mobile sites were equipped to use 700 MHz frequencies during the first half of 2019, representing a two-fold increase in the space of just six months. The Group intends to keep up the brisk pace of deployment for these frequencies, especially as they have become available across France since July 1, 2019. At June 30, 2019, the Group's 4G coverage of the French population was over 93%, compared with 92% at end-2018;
- **continued investment in the fiber backhaul network for mobile sites.** In view of ever-faster Internet speeds and the growing number of 4G users, and in anticipation of the rollout of the Group's 5G network, the interconnection capacity of mobile sites is of major importance to operators. In order to be able to offer its subscribers the best possible speeds and be ready for 5G, the Group has decided to prioritize the use of fiber for connecting its sites. As a result, at June 30, 2019, 92% of the Group's sites in very densely populated areas were fiber-connected, enabling it to offer its subscribers the best speeds.

The depreciation/amortization periods applied for the main assets brought into service in the first half of 2019 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.

Rollout of the distribution network: stores and kiosks

At June 30, 2019, the Group had a full physical presence in France, thanks to:

- its 62 Free Centers;
- its network of self-service kiosks for mobile subscriptions that have an integrated SIM card dispenser, rolled out in partnership with the Maison de la Presse and Mag Presse store network. At June 30, 2019, the Group had approximately 1,500 such kiosks across France.

Italy

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 June 30, 2019, the Group had paid approximately €300 million, and the outstanding balance is due to be settled in the second half of 2019.

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

In 2018, the Italian government carried out an auction for the allocation of 700 MHz frequencies as well as the 3.6 GHz-3.8 GHz and 26 GHz-27 GHz frequencies that will be used for 5G. The results of the 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.

In accordance with the rules set for the spectrum auction and pursuant to the Italian 2018 Finance Act (L. 205/2017), the purchase price for the above frequencies is payable in installments over the period 2018-2022 as follows:

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

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 has notably involved:

- deploying mobile sites. In first-half 2019, the Group had 2,400 equipped sites in Italy, versus 1,500 at December 31, 2018, in line with its objective of having around 3,500 equipped sites by the end of 2019. The Group's access to sites has been facilitated by the acquisition of sites scheduled to be decommissioned by Wind/Tre as well as sites made available by major infrastructure lessors and operators;
- switching on mobile sites, which it began in the first half of 2019. At end-June 2019, it had over 400 active sites in Italy, enabling it to start carrying some traffic on its own network;
- deploying a backbone of over 20,000 km in order to connect up Italy's main towns and cities to the Group's two principal 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.

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 13 stores in major Italian cities,
 - a network of over 670 SIM card dispensers ("Simboxes") located in more than 210 kiosks 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 FIRST-HALF 2019

The key figures and significant events of first-half 2019 were as follows:

<i>In € millions</i>	Six months to June 30, 2019	Six months to June 30, 2018	% change
Revenues – France	2,432	2,395	+1.5%
- <i>Landline</i>	1,312	1,332	-1.5%
- <i>Mobile</i>	997	962	+3.7%
<i>O/w revenues invoiced to subscribers</i>	789	738	+7.0%
- <i>Devices</i>	126	106	+19.0%
- <i>Intra-group sales – France</i>	(3)	(5)	-40.0%
Revenues – Italy	177	9	-
Intra-group sales – Italy	(2)	-	-
Consolidated revenues	2,607	2,404	+8.4%
Services revenues – France	2,309	2,294	+0.7%
Consolidated services revenues	2,486	2,303	+7.9%
EBITDAaL – France	910	894	1.8%
EBITDAaL – Italy	(108)	(28)	-
Consolidated EBITDAaL	802	866	-7.4%
Profit from ordinary activities	243	406	-40.1%
Profit from recurring operations	91	232	-60.8%
Leverage ratio	2.8x	1.8x	1.0x

Group

- Consolidated revenues up 8.4% to €2.6 billion, with 7.9% growth in consolidated services revenues.
- Return to growth for services revenues in France (up 0.7%), led by a good performance from the Mobile business (revenues invoiced to subscribers up 7%).
- €177 million in revenues in Italy during the period.
- 1.8% increase in EBITDAaL in France to €910 million, offset by operating losses in Italy, resulting in a 7.4% decrease in consolidated EBITDAaL to €802 million.

France

First-half 2019 operational information:

- tangible results for the Group's transformation plan launched in 2018:

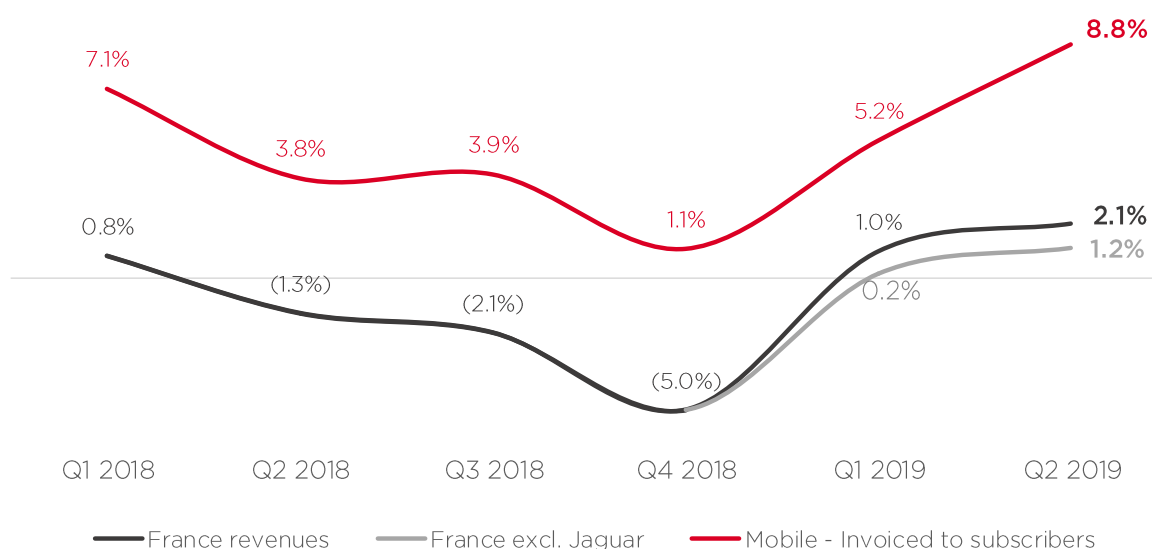
- **a record half-year for Fiber with 322,000 new subscribers for the Group's Fiber plans. In the second quarter, the Group had the highest number of Fiber net adds in France (172,000).** The total Fiber subscriber base amounted to 1.3 million at end-June 2019, up by a third in the space of six months,
- **145,000 net adds for the Free Mobile Unlimited 4G Plan** (50/100 GB for non-Freebox subscribers), bringing the total number of subscribers on the plan to 7.9 million at end-June 2019. **ARPU invoiced to subscribers was up 12% year on year to €10.1**, demonstrating the success of the Group's strategy to gradually upscale its subscriber base. The loss of 127,000 subscribers during the period mainly concerned lower added-value plans;
- **pursuit of the marked acceleration begun a year ago in rollouts of ultra-fast landline and mobile networks**, in line with the Group's aim of being the alternative operator of choice for latest-generation networks:
 - **Landline:**
 - **largest Fiber network among France's three alternative operators, with 11.5 million connectible sockets,**
 - **intensified marketing of the Group's Fiber plans in less densely populated areas**, with an acceleration in commercial launches on France's public initiative networks (PINs). The Group's Fiber offerings are now available throughout the whole of Metropolitan France,
 - **best Fiber speed**, with an average download speed of more than 457 Mbps according to nPerf. In addition, the Group is the only operator in France to offer 10G Fiber technology and was the first to provide all of its subscribers with an average upload speed of 600 Mbps,
 - The overall Landline subscriber base contracted by 31,000 in first-half 2019, negatively impacted in the second quarter by questionable mass communication regarding the brand on NextRadioTV channels;
 - **Mobile:**
 - **intensified deployment of 700 MHz frequencies, enhancing the 4G experience provided by the Group's network.** Over 3,000 sites were newly equipped to use 700 MHz frequencies in the first six months of 2019. At the same time, Free kept up its brisk pace of new mobile site rollouts and had a total of 15,400 at the period-end. The Group's mobile network now covers almost 97% of the French population (in 3G),
 - **best 4G speed out of France's three alternative operators**, with an average download speed of 45 Mbps, according to nPerf. The strong performance of the Group's 4G network is reflected in the average monthly data usage per 4G subscriber, which was 11.9 GB in first-half 2019.

First-half 2019 financial information:

- **revenue upturn in France (1.5% growth during the period)**, confirming the initial positive results of the Group's transformation plan:

- **0.7% increase in Mobile services revenues**, driven by 1.8% growth in the second quarter,
- **improved trends for Landline services revenues (which edged down just 1.5% year on year)**, thanks to the Group's new sales and marketing strategy, and the fact that it is no longer dependent on price-slashed deals,
- **an excellent performance from the Mobile business, with a 7% rise in revenues invoiced to subscribers**, reflecting a better subscriber mix and the fact that the Group is no longer dependent on price-slashed deals,
- **sales of devices up 19% to €126 million**, due to the combined impact of a sharp decrease in sales of mobile devices offset by sales of the Freebox Delta Player;

■ **sharp upswing in services revenues during the second quarter of 2019:**



- **EBITDAaL for France up €16 million year on year.** The positive effects of the better mobile subscriber mix, higher number of Fiber subscribers and roaming cost savings were partially offset by (i) the effect of fierce competition, which led to a reduction in the Group's landline and mobile subscriber bases in France, and (ii) higher costs related to the rollout of the Group's Fiber and mobile networks;
- **capital expenditure for France (excluding payments for frequencies) amounting to €779 million**, reflecting the amounts required to support the expansion of the Group's Fiber and mobile networks and Fiber subscriber connections, as well as the increase in capital spending related to the launch of the new Freeboxes and the large-scale switch-on of 700 MHz-compatible equipment.

Italy

- **Very strong pace of net adds, with almost one million subscribers signed up during the period. Despite fierce competition, Iliad Italia accelerated its pace of subscriber recruitment in the second quarter of 2019, with over 500,000 net adds.** By creating a go-to brand, Iliad Italia achieved the most successful launch in Europe for a new entrant since that of Free Mobile in 2012.

- **Total subscriber numbers topped the 4 million mark in the summer of 2019.**
- **€177 million in revenues.**
- **EBITDAaL amounting to a negative €108 million**, primarily reflecting (i) roaming costs due to the larger subscriber base which led to an increase in mobile data volumes and (ii) network costs for the 2,400 mobile sites deployed by the Group, with the majority of these costs being borne without the offsetting benefit of the coverage those sites will provide.
- **€161 million in capital expenditure (excluding payments for frequencies), reflecting the expansion of the Group's Italian mobile network.** The Group equipped 900 new sites during the period, bringing the total number of equipped sites to 2,400 at end-June 2019, and activated more than 400 sites. It spent €61 million on the purchase of frequencies in first-half 2019.

3 COMPARISON OF RESULTS FOR FIRST-HALF 2019 AND FIRST-HALF 2018

<i>In € millions</i>	Six months to June 30, 2019	Six months to June 30, 2018	% change
Revenues	2,607	2,404	+8.4%
Services revenues	2,486	2,303	+7.9%
Purchases used in production	1,012	1,031	-1.8%
Gross profit as a % of revenues	1,595 61.2%	1,373 57.1%	+16.2% +4.1 pts
Payroll costs	(136)	(142)	-4.2%
External charges	(259)	(261)	-0.8%
Taxes other than on income	(63)	(62)	+1.6%
Additions to provisions	(25)	(30)	-16.7%
Other income and expenses from operations, net	(17)	(11)	+54.5%
Depreciation of right-of-use assets	(293)	-	-
EBITDAaL as a % of revenues	802 30.8%	866 36.0%	-7.4% -5.2 pts
Share-based payment expense	(14)	(6)	+133.3%
Depreciation, amortization and provisions for impairment of non-current assets	(545)	(454)	+20.0%
Profit from ordinary activities	243	406	-40.1%
Other operating income and expense, net	(2)	1	-
OPERATING PROFIT	241	407	-40.8%

Finance costs, net	(30)	(17)	+72.8%
Other financial income and expense, net	(42)	(21)	+100.0%
Corporate income tax	(82)	(140)	-41.4%
Share of profit/(loss) of equity-accounted investees	(25)	(23)	8.7%
PROFIT FOR THE PERIOD	62	206	-69.9%
PROFIT FOR THE PERIOD FROM RECURRING OPERATIONS	91	232	-60.8%

3.1 Analysis of consolidated results

(a) Key indicators

<i>France</i>	Six months to June 30, 2019	Six months to June 30, 2018	Q2 2019 change
Total mobile subscribers	13,314,000	13,625,000	-77,000
- Of which on the Free Mobile Unlimited 4G Plan*	7,928,000	7,550,000	+70,000
- Of which on the voice-based plan	5,386,000	6,075,000	-147,000
Average 4G data usage (in GB per month per subscriber)	11.9 GB	9.6 GB	+0.3 GB
Total Broadband and Ultra-Fast Broadband subscribers	6,396,000	6,473,000	-15,000
- Of which Fiber	1,305,000	734,000	+172,000
Total number of subscribers – France	19,710,000	20,098,000	-92,000
Broadband and Ultra-Fast Broadband ARPU (in €)	32.5	32.8	-
Mobile ARPU invoiced to subscribers (in €)	10.1	9.0	+€0.6
Number of connectible Fiber sockets	11.5m	7.9m	+1m
<i>Italy</i>	Six months to June 30, 2019	Six months to June 30, 2018	Q2 2019 change
Total mobile subscribers	3,841,000	635,000	+532,000

* 50/100 GB for non-Freebox subscribers.

(b) Analysis of results for France

The following table presents income statement data for France (up to “Operating profit”) for the six-month periods ended June 30, 2019 and June 30, 2018:

<i>In € millions</i>	Six months to June 30, 2019	Six months to June 30, 2018	% change
Revenues	2,432	2,395	+1.5%
Services revenues	2,309	2,294	+0.7%
Purchases used in production	(793)	(1,023)	-22.5%
Gross profit	1,639	1,372	+19.5%
as a % of revenues	67.4%	57.3%	+10.1 pts
Payroll costs	(130)	(139)	-6.5%
External charges	(217)	(238)	-8.8%
Taxes other than on income	(63)	(61)	+3.3%
Additions to provisions	(25)	(30)	-16.7%
Other income and expenses from operations, net	(17)	(10)	+70.0%
Depreciation of right-of-use assets	(277)	-	-
EBITDAaL	910	894	1.8%
as a % of revenues	37.4%	37.3%	+0.1 pt
Share-based payment expense	(13)	(6)	-
Depreciation, amortization and provisions for impairment of non-current assets	(479)	(451)	+6.2%
Profit from ordinary activities	418	437	-4.3%
Other operating income and expense, net	(2)	1	-
Operating profit	416	438	-5.0%

(i) Revenues

The table below shows the breakdown of revenues for France by category for first-half 2019 and first-half 2018 as well as the percentage change between the two periods:

<i>In € millions</i>	Six months to June 30, 2019	Six months to June 30, 2018	% change
Consolidated revenues	2,607	2,404	+8.4%
Services	2,486	2,303	+7.9%
Devices	126	106	+19.0%
Intra-group sales	(5)	(5)	0.0%
Total revenues – France	2,432	2,395	+1.5%
Services	2,309	2,294	+0.7%

• Landline	1,312	1,332	-1.5%
<i>Of which Jaguar Network</i>	21	-	-
• Mobile	997	962	+3.7%
<i>Revenues invoiced to subscribers</i>	789	738	+7.0%
<i>Other</i>	208	224	-7.1%
Devices (Landline and Mobile)	126	106	+19.0%
Intra-group sales – France	(3)	(5)	+40.0%
<i>Revenues – France excluding Jaguar Network</i>	<i>2,411</i>	<i>2,395</i>	<i>+0.6%</i>
Revenues – Italy	177	9	-
Intra-group sales – Italy	(2)	-	-

Landline services revenues

Services revenues generated by the Landline business edged down 1.5% to €1,312 million in first-half 2019. The improved trends seen in the first three months of the year continued into the second quarter, although competition remained fierce. The main factors underlying this business's performance in first-half 2019 were as follows:

- **the Group started to see initial encouraging results from its transformation plan.** Following a revenue trough in the fourth quarter of 2018, trends for the Landline business began to pick up in the first quarter of 2019 and improved further in the second quarter, in spite of a mature, highly competitive market characterized by many promotional deals. This performance demonstrates the Group's decision to refocus its strategy on gradually upscaling its subscriber base and was achieved notably through: (i) marketing new offers, (ii) strengthening distribution channels, (iii) putting in place a subscriber loyalty program, (iv) offering state-of-the-art equipment, with the launch of the Freebox Delta and Freebox One, and (v) stepping up the pace of Fiber migrations;
- **the Group is no longer dependent on price-slashed deals, with the proportion of landline subscribers on such deals decreasing nearly four-fold in the space of a year.** Gross adds excluding price-slashed deals rose by 20% over the period;
- **the pace of Fiber connections was stepped up in the first half of 2019, with over 320,000 new subscribers recruited, including 172,000 in the second quarter alone.** This demonstrates the success of the Group's overhaul of its rollout and subscriber connection processes, and cements its position as France's leading alternative Fiber operator. On this basis, the Group will exceed its objective of signing up 500,000 new Fiber subscribers during the year as a whole. More than one in five subscribers now have Fiber and the Group had a total of 1.3 million Fiber subscribers at end-June 2019, as well as 11.5 million connectible sockets, i.e., 2 million more than at December 31, 2018;
- **in parallel, Free offers the best Fiber service quality on the market to its subscribers and the best Fiber speeds,** with an average download speed of over 450 Mbps, according to nPerf. In addition, Free is France's only operator to offer 10G Fiber technology and an average upload speed of up to 600 Mbps;
- **trends for Landline services revenues improved during the period, edging down just 1.5% for the six months as a whole (and by 0.5% in the second quarter).** This illustrates the resilience of the Group's business model in an extremely competitive environment that has led to a slight contraction in its subscriber base over the past 12 months;

- **the decline in Broadband and Ultra-Fast Broadband ARPU slowed, with the figure coming in at €32.5 in June 2019.** This highlights the first beneficial effects of the Group's new sales and marketing strategy, which is less dependent on flash sales, as well as the positive impact of the launch of the new Freeboxes.

Mobile services revenues

Mobile services revenues climbed 3.7% in the first six months of 2019 to just under €1 billion, and growth for revenues invoiced to subscribers was even more buoyant, reaching 7%. The main factors underlying this business's performance in first-half 2019 were as follows:

- **a further improvement in the subscriber mix, despite an intensely competitive environment, with 145,000 new subscribers signing up to the Free Mobile Unlimited 4G Plan** (50/100 GB for non-Freebox subscribers). The number of subscribers on the €2/month plan (€0/month for Freebox subscribers) decreased in first-half 2019 due to subscribers migrating to the Free Mobile Unlimited 4G Plan (50/100 GB for non-Freebox subscribers), and the effect of market competition. Overall, the mobile subscriber base saw a reduction of 127,000 subscribers during the period. At June 30, 2019, the Group had a total of 13.3 million mobile subscribers, of which 7.9 million were on the Free Mobile Unlimited 4G Plan (50/100 GB for non-Freebox subscribers).
- **reduced dependence on price-slashed deals, with a six-fold decrease in the space of a year in the proportion of subscribers signed up through flash sales.** Gross adds excluding price-slashed deals rose by almost 15% over the period;
- **an excellent performance in terms of revenues invoiced to subscribers, with 7% growth during the period (and almost 9% for the second quarter).** ARPU invoiced to subscribers rose 12% year on year, reflecting the success of the Group's strategy of gradually upscaling its subscriber base. This ARPU increase was achieved despite a decrease in the overall subscriber base. Revenues invoiced to subscribers – which is the Mobile business's main margin generator – totaled almost €800 million in the first half of 2019;
- **continuing downward trend for incoming revenues,** which retreated 7.1% over the period, mainly as a result of fewer text messages being sent due to the increasing use of mobile data;
- **rapid deployment of 700 MHz frequencies for the 4G network, with over 3,000 sites newly equipped to use these frequencies, significantly improving the subscriber experience.** Free Mobile has the best 4G speeds out of France's three alternative operators according to nPerf (average download speed of 45 Mbps), and is the operator that is deploying its 700 MHz frequencies across France at the fastest pace. The average monthly 4G data usage of a Free Mobile subscriber is now 11.9 GB. In line with the development of its 4G network, the Group is continuing to roll out its mobile network across France and at end-June 2019 it had a total of 15,400 mobile sites.

Devices

Since the launch of the Freebox Delta in late 2018, the Group has recognized the revenues generated from the sale of the Player to subscribers. Sales of devices are recorded in a separate line of the income statement as they do not generate margins in line with the services provided by the Group and they are expected to account for an increasingly high proportion of consolidated revenues. During the first half of 2019, revenues generated from sales of devices jumped by some 20%, powered by initial revenues from sales of the Freebox Delta Player. On the other hand, the decrease in revenues generated from sales of devices for the Mobile business continued, due to the Group's stricter policy put in place in 2018 concerning phone rentals.

(ii) Gross profit

Gross profit for France amounted to €1,639 million, up by 10 percentage points as a percentage of revenues during the period.

The growth in gross profit was mainly attributable to the first-time application of IFRS 16, but was further driven by (i) lower roaming costs resulting from higher traffic volumes carried directly on the Group's own network, (ii) a better mobile subscriber mix, and (iii) savings on unbundling costs due to the increase in the Fiber subscriber base. However, as a percentage of revenues, gross profit for the period was negatively impacted by the sharp increase in sales of devices, which generate low margins for the Group.

(iii) Payroll costs

Excluding Italy, the Group's headcount was 10,200 at June 30, 2019, representing an increase of more than 400 compared with December 31, 2018.

The rise was due to (i) the integration of Jaguar Network's employees during the first half of 2019, (ii) new hires to support the Group's accelerated pace of Fiber rollouts and connections, and (iii) new recruits for the mobile and hosting businesses and the expansion of the distribution network.

Despite this increase in headcount, payroll costs recognized for France in the income statement decreased slightly year on year to €130 million, reflecting the fact that a portion of the Group's payroll costs are capitalized, notably costs related to Fiber rollouts and connections.

(iv) External charges

External charges contracted by 8.8% to €217 million during the period following the first-time application of IFRS 16. Excluding the impact of IFRS 16, external charges increased over the period as a result of (i) the deployment of over 2,000 mobile sites in the past twelve months and (ii) the accelerated pace of Fiber rollouts and connections over the same period (near-50% year-on-year increase in the number of connectible sockets and almost double the number of Fiber subscribers). These factors led to additional expenses, such as rental, maintenance, energy, insurance, sub-contracting and easement costs.

(v) Taxes other than on income

Taxes other than on income edged up to €63 million, due to the larger number of mobile sites.

(vi) Additions to provisions

Additions to provisions for bad debts, impairment of inventories, and contingencies and charges totaled €25 million in first-half 2019, 17% lower than in the first half of 2018. As this item mainly comprises additions to provisions for bad debts, it automatically decreased as a result of the Group's stricter policy concerning mobile phone rentals.

(vii) Other income and expenses from operations, net

This item represented a net expense of €17 million in first-half 2019.

(viii) EBITDAaL

EBITDAaL generated in France rose 1.8% to €910 million, representing an EBITDAaL margin of 37.4%, up slightly on the first half of 2018.

Over the past twelve months, EBITDA performance in France has been affected by the Group's transformation plan, which has involved an overhaul of its business model and sales and marketing approach as well as increased independence for its networks.

The results of this plan can be seen in the faster pace of Fiber rollouts and connections, and a better mobile subscriber mix with more subscribers on the Free Mobile Unlimited 4G Plan (50/100 GB for non-Freebox subscribers). At the same time, the launch of the new Freeboxes has resulted in sales of devices which have a dilutive impact on margins.

The main factors affecting EBITDA generated in France in first-half 2019 were as follows:

■ **positive factors:**

- **large-scale opening of sites newly equipped for 700 MHz frequencies and continued rollouts of new sites, giving the Group a more even mobile coverage.** This led to a reduction in roaming and enabled more subscribers to be migrated to the Free Mobile Unlimited 4G Plan (50/100 GB for non-Freebox subscribers), therefore generating a higher EBITDA margin,
- **an increase in the Fiber subscriber base**, to a total 1.3 million Fiber subscribers. This led to operating cost savings, the positive effect of which is starting to be felt at the level of gross profit and therefore EBITDAaL,
- **the inclusion of digital books in some of the Group's landline and mobile plans in February 2019**, which led to an increase in ARPU and EBITDAaL;

■ **negative factors:**

- **a rise in the number of mobile sites**, resulting in higher rental and energy costs,
- **rollout of the Group's Fiber network**, generating higher maintenance and rental costs,
- **even fiercer competition**, which eroded the landline and mobile subscriber base and pushed down revenues (and therefore the related margin), combined with the impact of promotional deals,
- **dilutive impact on EBITDA margin of higher sales of device**, due to sales of the Player as part of the Freebox Delta offering.

(ix) Profit from ordinary activities

Profit from ordinary activities in France contracted 4% to €418 million in the first half of 2019. The year-on-year decrease reflects higher depreciation and amortization expenses deriving from the extension of the Group's Fiber 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 first-half 2019 and first-half 2018:

<i>In € millions</i>	Six months to June 30, 2019	Six months to June 30, 2018	% change
Revenues – Italy	177	9	-
Gross profit/(loss)	(44)	(1)	-
EBITDAaL	(108)	(28)	-
<i>as a % of revenues</i>	-	-	-
Profit/(loss) from ordinary activities	(175)	(31)	-
Operating profit/(loss)	(175)	(31)	-

(i) Revenues

Revenues generated by the Group in Italy totaled €177 million in first-half 2019. The main factors underlying this performance were as follows:

- **an excellent sales performance, with over one million net adds during the period.** The Group had 3.8 million subscribers in Italy at end-June 2019, just one year after launching its mobile operations there;
- **a faster pace of net adds in the second quarter despite competitors launching targeted and more aggressively-priced offerings. This demonstrates the strength of the Iliad brand in Italy** after the Group successfully rose to the challenge of launching its offering in the country without any brand recognition at all;
- **continued brisk pace for the mobile network rollout, with 900 new sites equipped during the period, bringing the total to 2,400 at end-June**, in line with the Group's objective of having 3,500 equipped sites by the end of 2019. The Group also started carrying some of its mobile traffic on its own network, thanks to the 400 sites it activated during the period;
- **further expansion of the Group's distribution network in Italy**, with two stores and 15 new SIM card dispenser kiosks ("Simboxes") opened during the period. At June 30, 2019, the Group's Italian business had a total of 13 stores and 500 Simboxes located in 153 busy catchment areas.

(ii) EBITDAaL

The Italy segment ended first-half 2019 with negative EBITDAaL of €108 million.

This operating loss was due to the following factors:

- **higher roaming costs** attributable to the success of the Group's mobile offerings in Italy, which led to an increase in both the subscriber base and mobile data usage;
- **expenses related to the Group's mobile network**, which comprised 2,400 sites at end-June. These expenses mainly corresponded to rental costs for sites that were not yet activated in the first half of 2019 and therefore did not extend the Group's mobile coverage during the period;
- **interconnection costs**;
- **marketing and advertising costs, and structural expenses** such as payroll costs and subscriber relations costs.

(iii) Profit/(loss) from ordinary activities

The Group's Italian operations generated a €175 million loss from ordinary activities in the first half of 2019, including the depreciation/amortization expense for the network's initial components and frequencies.

3.2 Consolidated cash flows and capital expenditure

<i>In € millions</i>	Six months to June 30, 2019	Six months to June 30, 2018	% change

Consolidated cash flows from operations	1,078	852	+26.5%
Impact of IFRS 16	(332)	-	-
Change in working capital requirement	(28)	(81)	-65.4%
Operating free cash flow after IFRS 16	718	771	-6.9%
Capital expenditure – France (excluding payments for frequencies)	(779)	(773)	+0.8%
Capital expenditure – Italy (excluding payments for frequencies)	(161)	(91)	+76.9%
Income tax paid	(115)	(154)	-25.3%
Other	(194)	(415)	-53.3%
Consolidated free cash flow (excluding payments for frequencies, financing activities and dividends)	(531)	(662)	-19.8%
Capital expenditure – payments for frequencies – France	(8)	(8)	-
Capital expenditure – payments for frequencies – Italy	(61)	(73)	-16.4%
Consolidated free cash flow (excluding financing activities and dividends)	(600)	(744)	-19.4%
Dividends	(53)	(40)	+32.5%
Cash and cash equivalents at end of period	382	871	-56.1%

Consolidated free cash flow

In the first half of 2019, the Group pursued its capex programs focused on rolling out its Fiber 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 during the period, the Group invested €940 million in its networks, and almost €70 million for the purchase of frequencies in France and Italy.

The year-on-year change in consolidated free cash flow mainly reflects the following:

- €1,078 million in consolidated cash flows from operations, before lease payments relating to the first-time application of IFRS 16, representing €332 million, with the year-on-year increase in France offset by operating losses in Italy;
- a €28 million negative change in working capital requirement, with a negative contribution for France and a positive contribution for Italy;
- €779 million in capital expenditure for France, in line with the Group's full-year objective. During the period, the Group broadened its Fiber footprint, deploying nearly 2 million new connectible sockets and connecting up over 320,000 new Fiber subscribers. It also opened more than 3,000 sites that are newly equipped for 700 MHz frequencies, extended its mobile network (which represented 15,400 sites at June 30, 2019), and incurred capital expenditure related to the launch of its new Freeboxes in late 2018;

- €161 million invested in the Italian network and MOCN agreement and €61 million paid for the purchase of frequencies from Wind/Tre as part of the EU remedy package (all of the installments for these frequencies will have been paid by the second half of 2019);
- €115 million in income tax paid;
- other: includes (i) the outflow for the Group's acquisition of an interest in Jaguar Network in January 2019 and (ii) the launch of the share buyback program by the Group at the period-end.

Net change in cash and cash equivalents

The Group ended the period with €382 million in available cash and cash equivalents.

3.3 Strategic industrial partnership with Cellnex

On May 7, 2019, Iliad entered into exclusive negotiations to sell 70% of the company that manages its passive mobile telecom infrastructure in France, encompassing 5,700 sites. At the same time, Iliad Italia signed an agreement to sell the entire capital of its Italian passive mobile telecom infrastructure, covering some 2,200 sites. The initial cash consideration payable to the Group for the overall transaction amounts to €2 billion.

This transaction will enable the Group to optimize its future 4G and 5G rollouts while raising its investment capacity and strengthening its financial profile. As well as this industrial partnership, the agreements with Cellnex provide for a build-to-suit program for up to 4,500 sites over a seven-year period in France and 1,900 sites over six years in Italy (of which 2,500 and 1,000 sites, respectively, are covered by commitments granted by Iliad).

The deal will be subject to the customary terms and conditions for this type of transaction and is expected to close in the fourth quarter of 2019 or the first quarter of 2020.

3.4 Consolidated debt

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

At June 30, 2019, the Group had gross debt of €5,063 million and net debt of €4,610 million. The Group has strong liquidity and low average interest rates, enabling it to increase its leverage in line with its strategy of investing in major industrial projects, which will generate substantial future cash flows. Consequently, at June 30, 2019 the Group's leverage ratio was 2.8x EBITDAaL, and around 2x EBITDAaL after taking into account the transaction with Cellnex.

The Group's gross debt primarily comprised the following at June 30, 2019:

(a) Borrowings due within one year

- A €1 billion NEU CP program.

The Group has set up a short-term NEU CP program for up to €1 billion. At June 30, 2019, €755 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 Fiber networks. These loans – which are repayable in installments and have long maturities – were as follows at June 30, 2019:

- 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 June 30, 2019.

■ Loans granted by KFW IPEX-Bank

KFW IPEX-Bank has granted Iliad several loans in order to help finance the rollout of its landline and mobile networks in France and Italy. These loans – which are repayable in installments and have long maturities – were as follows at June 30, 2019:

- a €90 million loan granted in 2017 with the final installment due in March 2028;
- a €150 million loan granted in 2019 with a final maturity of up to April 2030, unused at June 30, 2019.

The applicable interest rate 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.

■ A €500 million syndicated credit facility maturing in 2023

The Group has a €500 million syndicated credit facility with a pool of international banks, originally set up on January 8, 2016 and renewed on July 16, 2018. This credit facility – which takes the form of a term loan – matures in 2023.

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

The Group has a €1,650 million syndicated credit facility set up with a pool of international banks, with a final maturity of up to 2025. None of this facility had been drawn down at June 30, 2019.

The applicable interest rate is based on Euribor for the period plus a margin of between 0.25% and 1.20% per year depending on the Group's leverage ratio.

■ A €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 June 30, 2019.

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.

Schuldschein notes

On May 22, 2019, Iliad carried out a *Schuldscheindarlehen* issue (*Schuldschein* notes), raising a total of €500 million in six tranches:

- three fixed-rate tranches totaling €175 million, paying interest at 1.400%, 1.845% and 2.038%, and redeemable at maturity on May 22, 2023, May 22, 2026 and May 24, 2027, respectively;
- three variable-rate tranches totaling €325 million, with lending margins of 1.40%, 1.70% and 1.80%, and redeemable at maturity on May 22, 2023, May 22, 2026 and May 24, 2027, respectively.

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

<i>In € millions</i>	Maturity	Type of repayment/ redemption	Total amount of financing	Amount used	Amount available
<u>Bank borrowings</u>					
EIB - 2010	July 2020	In installments	150	33	-
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	-
KFW - 2019	October 2030	In installments	150	-	150
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	November 2021 and April 2025	At maturity	500 and 650	1,150	-
<i>Schuldschein</i> notes	May 2023, 2026 and 2027	At maturity	500	500	

3.5 Ownership structure at June 30, 2019

At June 30, 2019, Iliad's share capital was made up of 59,140,919 ordinary shares, held by the following shareholders:

- Executive Management: 33,516,724 shares, representing 56.7% of the share capital.
- Public: 25,624,195 shares, representing 43.3% of the share capital.

At June 30, 2019 there were:

- two Iliad stock option plans in place with a total of 286,633 shares under option;
- two free share plans in place with a total of 597,260 vestable Iliad 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 Fiber subscriber base by more than 500,000 subscribers per year, with 2 million subscribers by 2020 and 4.5 million by 2024;
 - have 22 million connectible Fiber sockets by end-2022 and around 30 million by end-2024.
- Mobile business:
 - roll out some 2,000 new sites in 2019;
 - have more than 80% of the subscriber base signed up to the Free Mobile Unlimited 4G Plan² by 2024;
 - have over 25,000 sites by 2024;
 - achieve a 25% share of the mobile market in the long term.
- B2B:
 - obtain a B2B market share of around 4% to 5% by 2024;
 - generate B2B revenues of between €400 million and €500 million by 2024.
- Financial targets:
 - return to revenue growth in France in 2019;
 - speed up EBITDAaL growth in France in 2019, particularly in the second half of the year;
 - generate EBITDAaL margin in France (excluding B2B and sales of devices) of over 40% in 2020;
 - have 2019 CAPEX in France (excluding payments for frequencies) in line with the 2018 CAPEX figure;
 - achieve an EBITDAaL 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 EBITDAaL in 2019 than that recorded in 2018, as business growth speeds up and the mobile network is rolled out;
- have rolled out between 10,000 and 12,000 sites by end-2024;

² 50/100 GB for non-Freebox subscribers.

- achieve EBITDAaL break-even, with a market share of less than 10%;
- generate €1.5 billion in revenues in Italy in the long term.

4.2 Events after the balance sheet date

On September 2, 2019, Iliad decided to enter into exclusive negotiations with InfraVia – a French investment company specialized in the infrastructure sector – to form a partnership aimed at accelerating the rollout of fiber (FTTH) in low- and medium-density population areas across France (representing approximately 26 million lines). As part of the operation, Iliad has set up a special entity to actively manage fiber lines. In particular, the entity will be tasked with acquiring and operating the Group's co-financed FTTH tranches in the areas concerned. Free will transfer its existing co-financing agreements to the entity along with around one million existing co-financed sockets. The Group will sell 51% of the entity to InfraVia based on an enterprise value of around €600 million.

4.3 Glossary

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

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

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

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

Connectible Fiber 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 (up to December 31, 2018): Profit from ordinary activities before share-based payment expense, depreciation, amortization and provisions for impairment of non-current assets.

EBITDAaL: profit from ordinary activities before depreciation, amortization and impairment of property, plant and equipment and intangible assets, and impact of stock option-/share-based payment expense.

FCF: Free cash flow.

Fiber: 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 EBITDAaL.

M2M: Machine to machine communications.

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

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

Profit from recurring operations: Profit excluding the impact of non-recurring items, such as restructuring and acquisition costs and non-recurring income tax charges, including non-recurring items recorded in "Share of profit of equity-accounted investees".

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

Services revenues: Revenues excluding sales of devices.

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 Fiber offerings through a telephone exchange unbundled by Free.