



*Société anonyme.* Share capital: €13,113,262

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

Registered in Paris under no. 342 376 332

## ANALYSIS OF THE GROUP'S BUSINESS AND RESULTS

### KEY CONSOLIDATED FINANCIAL DATA

<i>In € millions</i>	<b>Six months to June 30, 2020</b>	<b>Six months to June 30, 2019</b>
<b>INCOME STATEMENT</b>		
<b>Total revenues</b>	<b>2,784</b>	<b>2,607</b>
<b>Services revenues</b>	<b>2,688</b>	<b>2,486</b>
<b>EBITDAaL</b>	<b>876</b>	<b>802</b>
Profit from ordinary activities	218	243
Profit for the period	208	62
Profit for the period attributable to owners of the Company	208	57
<b>BALANCE SHEET</b>		
Non-current assets	14,505	11,550
Current assets	2,408	1,620
<i>Of which cash and cash equivalents</i>	<i>1,003</i>	<i>453</i>
Assets held for sale	175	893
<b>Total assets</b>	<b>17,088</b>	<b>14,063</b>
Total equity	5,532	3,599
Non-current liabilities	7,766	6,904
Current liabilities	3,790	3,167
Liabilities held for sale	0	393
<b>Total equity and liabilities</b>	<b>17,088</b>	<b>14,063</b>
<b>CASH FLOWS</b>		
<b>Cash flows from operations</b>	<b>1,125</b>	<b>1,078</b>
Right-of-use assets and interest expense on lease liabilities – IFRS 16 impact	(363)	(332)
Capital expenditure – France	(622)	(779)
Capital expenditure – Italy	(223)	(161)
Capital expenditure – frequencies <sup>1</sup>	(2)	(69)
<b>Net change in cash and cash equivalents – Group (excluding change in net debt and dividends)</b>	<b>(109)</b>	<b>(600)</b>
Dividends	-	(53)
<b>Net debt</b>	<b>3,733</b>	<b>4,610</b>

<sup>1</sup> Including €1 million in Italy in H1 2020 (€61 million in H1 2019).

# 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 fixed narrowband Internet Service Provider to an integrated fixed and mobile Ultra-Fast Broadband operator. It is clearly focused on deploying the latest technologies and proposing straightforward commercial offerings. In May 2018, the Group expanded its geographic reach to Italy, where it captured market share of around 8% in just 24 months. Consequently, in the space of 20 years, the Group has become one of the leading electronic communications players in France and Italy, with over 26 million subscribers, €2.78 billion in revenues in first-half 2020 and more than 11,000 employees.

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.

Since the launch of its Mobile business in Italy, the Group has had two separate geographic segments: France and Italy, with France now split into the B2C segment and the B2B segment.

## **France B2C**

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 fixed telecommunications market. In addition, since 2012 when it first launched its mobile offerings, the Group has become an integrated operator present in both the fixed (Broadband and Ultra-Fast Broadband) and mobile segments. The Group’s success in these two segments has been built on three 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 6.3 million subscribers at June 30, 2020. The Italian Mobile business generated €312 million in revenues in the first six months of 2020.

## **France B2B**

As part of its Odyssey 2024 plan, the Group has set itself the objective of pursuing its expansion in France by more widely addressing the French telecommunications market through diversifying horizontally and entering the B2B market, drawing on its nationwide fixed and mobile infrastructure.

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 the impact of share-based payment expense.

*Revenues invoiced to subscribers*: revenues generated from the sale of services to subscribers.

## 1.1 Breakdown of revenues

### France B2C

#### Fixed offerings (Broadband and Ultra-Fast Broadband)

Since the Group put in place its new sales and marketing approach in 2018 – based on a more rational pricing and promotions policy – it has focused its sales strategy on (i) differentiation through innovation, and (ii) Free Fiber, where its significant investments over the last ten years have given it the highest number of net adds in the French market for the past five quarters, cementing its status as France's leading alternative Fiber operator.

The launch of the Freebox Pop on July 7, 2020 was an opportunity for the Group to simplify its range of offerings and enhance connectivity quality. Since that date, the Group has four main fixed offerings:

	Freebox POP	Freebox Delta	Freebox Revolution	Freebox mini 4K
<b>INTERNET</b>				
Optical fiber	✓	✓ (10 GB EPON Fiber)	✓	✓
xDSL+4G		✓		
ADSL2+	✓	✓	✓	✓
VDSL2	✓	✓	✓	✓
Wi-Fi	✓	✓	✓	✓
<b>TV</b>				
Freebox TV (more than 220 channels)	✓	Optional	✓	✓
OQEE platform	✓	✓		
Netflix	Optional	✓	Optional	Optional
Prime Video	Optional	✓		Optional
CANAL+ Series		Optional	Optional	Optional
Free Ligue 1 Uber Eats	✓	✓		
TV by CANAL	Optional with switch	✓	✓	
4K-compatible	✓	✓		✓
Storage	100 hours included	1 TB (optional)	250 GB	
Blu-Ray™ player			✓	
Catch-up TV	✓	✓	✓	✓
VOD access option	✓	✓	✓	✓
<b>SOUND</b>				
Devialet sound system		Optional <sup>2</sup>		
Compatible with Dolby Atmos	✓			
<b>VOICE ASSISTANT</b>				
Amazon Alexa		With Devialet sound system		
OK Freebox		With Devialet sound system		
Google Assistant	✓			✓
<b>CONNECTED HOME</b>				
Home automation system		✓		
Security package option		Optional		
<b>UNLIMITED CALLS</b>				
To more than 110 fixed-line destinations	✓	✓	✓	✓ <sup>(1)</sup>
To mobiles in Metro, France & overseas departments	✓	✓	✓	Optional
<b>OTHER OPTIONS</b>				
Bouquet Cafeyn		✓		
Prime Music	Optional	✓		Optional
Youbox	Optional	Optional	Optional	Optional
Fast delivery	Optional	✓	Optional	
<b>MONTHLY PRICE</b>				
First 12 months	€29.99	€39.99	€19.99	€14.99
After 12 months	€39.99	€49.99 (€39.99 without TV option)	€44.99	€34.99

(1) + 5 hours of fixed-line calls to Algeria.

(2) €480 in 1, 4 or 48 installments.

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 700 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);
- VDSL2, which gives subscribers in unbundled areas and with short lines speeds of up to 100 Mbps download and 40 Mbps upload;
- 4G+, which the Group has offered its subscribers since September 24, 2019 via a 4G+ Box that costs €29.99/month and provides easy access to ultra-fast Internet. This offer is aimed at people located in areas that are not eligible for Fiber, where fixed-line Internet speeds are low but there is good 4G+ coverage. Similarly, via xDSL/4G, the Freebox Delta 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.

Depending on the plan subscribers choose, the Group's offers include some or all of the following services:

- **Telephony:** all subscribers have access to a telephone service under which they can make calls through their Freebox to fixed numbers in Metropolitan France (apart from short numbers and special numbers), as well as to fixed lines in over 110 destinations outside Metropolitan France depending on the terms of their plan. Additionally, various Group 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, with another 60 available through the TV by CANAL Panorama package, 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 offers numerous value-added services** including Freebox Replay (its catch-up TV service), the highlights of the Ligue 1 Uber Eats championship (included in the Pop and Delta plans), 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 (available on all Freeboxes) and voice-controlling their box using OK Freebox and Alexa (Freebox Delta) and Google assistant (Freebox mini 4K). 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. The Freebox Pop – launched in July 2020 – allows subscribers to significantly improve WiFi reception in their homes thanks to the inclusion of a smart repeater which automatically connects up to the Freebox.
- **Hosting services,** which correspond to (i) providing dedicated servers to private individuals who 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.

## Mobile offerings

In first-half 2020, the Group continued to focus on improving its subscriber mix by increasing the proportion of subscribers on the Free Mobile Unlimited 4G Plan. This notably entailed keeping the intermediate plan first launched in 2018, which offers a discounted price for 12 months and then automatically switches to the Free Mobile Unlimited 4G Plan. The price of this intermediate offering varies depending on the period, and for the first six months of 2020 it ranged between €9.99 and €11.99 per month. At the same time, the Group pursued and stepped up its pro-active campaigns to migrate subscribers on the €2 plan to the Free Mobile Unlimited 4G Plan.

At June 30, 2020, the Group had the following mobile offerings:

	€2 Plan	Free Mobile Unlimited 4G Plan
<b>Commitment</b>	No commitment	No commitment
<b>Calls (from France and the rest of Europe and the French overseas departments (départements d'outre-mer – DOM) to fixed and mobile numbers in France, Europe and the DOM)</b>	120 voice call minutes (including to mobiles in the USA, Canada, the DOM and China, and to fixed lines in 100 international destinations)	Unlimited (including to mobiles in the USA, Canada, the DOM and China, to fixed lines in 100 international destinations, and from the USA, South Africa, Australia, Canada, Israel and New Zealand to fixed lines and mobiles in the same country as the originating call and in Metropolitan France)
<b>Texts/MMS in Metropolitan France and from Europe and the DOM to Metropolitan France, Europe and the DOM</b>	Unlimited	Unlimited
<b>Data</b>	50 MB per month of 3G/4G data in France and 50 MB usable in Europe and the DOM	Unlimited 4G data in France (100 GB per month for non-Freebox subscribers) and 25 GB per month usable in Europe, the DOM and 17 other countries
<b>Price</b>	€2/month	€19.99/month (€15.99/month for Freebox subscribers and €9.99/month for Freebox Pop subscribers <sup>2</sup> )

## 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 €59 and €539 and then pays a monthly rental fee of between €11 and €20 (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.

<sup>2</sup> The Freebox Pop offer was launched on July 7, 2020.

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 become owners of their Delta Player, which is invoiced at €480. Subscribers can choose the payment method they prefer from among the options available (cash payment or 4-month or 48-month installments).

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

## France B2B

The France B2B segment covers two business lines: Corporate Telecommunications Services (very small business, SMEs and large corporations) and Hosting Services, which involves three different types of services: (i) dedicated hosting services, which correspond to providing dedicated servers to SMEs that wish to secure their data, (ii) colocation services, which consist of providing physical space in a datacenter, as well as the associated electric capacity, in order to house bays and servers, and (iii) cloud computing, which gives on-demand network access to a shared pool of configurable computing resources.

## Italy

The Group has had resounding commercial success in Italy since it first launched its Mobile business there on May 29, 2018. It ended the first half of 2020 with some 6.3 million subscribers, representing around 8% of the Italian mobile market (excluding M2M).

At June 30, 2020, the Group had two offerings in Italy:

- A €7.99/month plan, which includes:
  - unlimited voice calls (i) to mobiles and fixed lines in Italy, mobiles in the United States and Canada and fixed lines in over 60 international destinations, and (ii) from Europe to fixed lines 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 checking data usage – 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.

- A €4.99/month plan, which includes:
  - unlimited voice calls in Italy and to over 60 international destinations, as well as from Europe to fixed lines and mobiles in Italy;
  - unlimited texts/MMS in Italy and from Europe to Italy and Europe;
  - 40 MB of 4G/4G+ data and an additional 40 MB of roaming in Europe.

In Italy, the Group also proposes a selection of the latest Apple iPhones (iPhone XR, XS, XS Max, 11 and 11 Pro). 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.

## **1.2 The Group's main operating costs**

### **France**

#### **Main operating costs of the Group's fixed offerings**

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

The operating costs related to the Group's DSL offerings differ 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 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 (€9.46 per month and per line in first-half 2020) as well as maintenance costs.

##### **(ii) Costs related to Fiber offerings**

In very densely populated areas, as the Group rolls out its network it is offering its subscribers in eligible areas the option of migrating to a Fiber offering. The gross margin and EBITDA/L 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.

In areas where the fiber rollout is covered by co-financing agreements and public initiative networks ("PINs"), the business model applied by the Group until 2019 has been changed by the partnership entered into with InfraVia in February 2020 via Investissements dans la Fibre des Territoires ("IFT", in which Iliad holds a 49% stake – see Section 1.3.ii below). Until 2019, in order to optimize its capital expenditure, when certain geographic areas became fiber-ready, the Group sometimes had to choose whether to pay rental fees on top of the capital outlay it was already investing. In such cases, the operating costs borne by the Group were higher than in cases when it co-invested. From now on, the Group will automatically lease its fiber infrastructure from IFT, with IFT in charge of co-investing. This new model results in average operating costs that are generally higher than for the model used until 2019, but this effect is offset for the Group by optimized capital expenditure and good visibility of its cost structure.

#### **Main operating costs of the Group's mobile offerings**

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

The applicable termination charges in first-half 2020 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 2G and 3G roaming services provided to it in France, which are defined in a roaming agreement signed with the country's incumbent operator (Orange) in 2011. This agreement has been extended to enable Free Mobile to gradually stop using the Orange network for 2G/3G roaming services, notably by progressively and substantially reducing the maximum Internet speeds provided to roaming subscribers (currently capped at 384 kbps). The extension of the agreement with the gradual reduction of Internet speeds is intended to provide for an organized termination of the roaming services, notably for subscribers who have 2G devices and for the residual



areas where Free Mobile's network is still in the rollout phase. In this gradual termination phase, the costs of the roaming agreement are no longer material in relation to the Group's overall financial position.

## 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.

Consequently, margin levels depend on the total number of subscribers, the volume of traffic carried on the Group's network, and subscriber usage patterns, particularly for 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 have amounted to 0.76 euro cents per minute since January 1, 2020. 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 141,000 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 the first half of 2020, it continued to extend its unbundled coverage by opening some 300 new subscriber connection nodes, which brought the total number of unbundled subscriber connection nodes to almost 14,900 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 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 increasing margins and profitability.

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

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

In decision no. 2013-1475 dated December 10, 2013, ARCEP (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 infrastructure 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.

#### **(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.

**a. Private co-financed areas (approximately 16 million lines)**

Under the offer proposed by the incumbent operator and the second operator responsible for rolling out fiber in private co-financed areas, each operator can access all of the deployed lines and only has to co-finance the rollout to the extent of the local market share it is seeking to achieve, through purchases of 5% tranches. As a result of the incumbent operator's access offer, co-financing can be used not only for the line between the shared access point and the building, but also for the backhaul fibers between the shared access point and the optical node.

**b. Public Initiative Networks – PINs (rest of France)**

FTTH networks are rolled out in PIN areas in many different ways, which may require entering into agreements with the public bodies in charge of deploying the networks or with the private entities responsible for marketing them.

Partnership with InfraVia

In 2019, in order to accelerate its fiber rollouts in private co-financed areas and PIN areas, and to cement its status as the leading alternative FTTH operator, the Group made the strategic decision to enter into a partnership with InfraVia, a French private equity firm specialized in infrastructure. The deal – which closed on February 28, 2020 – involved setting up a company called IFT (49%-owned by the Group), dedicated to co-financing the creation of new FTTH sockets and taking up new co-financing tranches. Since late February 2020, IFT has provided all of Free's access and information services for the co-financed sockets concerned, under a long-term service agreement, and will also be able to offer the same services to third-party operators.

**(iii) Fiber progress report at June 30, 2020**

Following a record year in 2019, the Group once again stepped up the pace of its fiber rollouts in the first half of 2020, both in terms of new connectible sockets and new subscribers connected up to FTTH:

- The number of connectible sockets increased by nearly 2.9 million during the six month period, totaling 16.8 million at end-June 2020 (versus 11.5 million one year earlier) and representing more than one out of two households in France. The Group's fiber offerings are now available in some 6,100 municipalities (compared with 4,400 at end-2019). Having completed its horizontal coverage in very densely populated areas in 2018, the Group almost finished its vertical connections in first-half 2020, with a ratio of around 94% at the period-end.
- The Group's FTTH subscriber base has grown by more than 68% in the space of 12 months and stood at 2.2 million at June 30, 2020, with Free recording the highest number of new fiber subscribers in France for five quarters in a row. This sharp increase was due to three main factors:
  - French households' growing appetite for FTTH technology.
  - The gradual commencement of marketing Free's FTTH offerings outside very densely populated areas.
  - The successful reorganization of internal procedures for connecting FTTH subscribers, notably by hiring and training employees specialized in subscriber connections.

The strong acceleration in subscriber connections has enabled the Group to consolidate its position as France's leading alternative FTTH operator. As a result, in May 2020 it had already reached its target of having 2 million FTTH subscribers in 2020. In view of this, the Group is raising its Fiber subscription objectives to:

- Reach 2.8 million subscribers in 2020 and more than 5 million in 2024 (instead of "2 million subscribers in 2020 and more than 4.5 million subscribers in 2024" previously).

The rollout objectives remain unchanged as follows:

- Having 22 million connectible sockets in 2022 and around 30 million in 2024.

## 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 then rounded out its portfolio in Metropolitan France in 2015 and 2016 by acquiring additional spectrum in several refarming processes carried out by ARCEP. At June 30, 2020, the Group had a total portfolio of 55 MHz duplex with balanced coverage across Metropolitan France, enabling it to deliver high-performing services in both 3G and 4G.

Following the procedure to reallocate frequencies in the 900 MHz, 1,800 MHz and 2.1 GHz bands, whose licenses expire between 2021 and 2024, the Group will have additional frequencies in the 900 MHz and 2.1 GHz bands. ARCEP announced the spectrum reallocation in a decision dated November 15, 2018, with the Group being allocated 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.

	Frequency portfolio at end-June 2020	Frequency portfolio at end-2024
700 MHz	2 x 10 MHz	2 x 10 MHz
900 MHz	2 x 5 MHz	2 x 8.8 MHz
1,800 MHz	2 x 15 MHz	2 x 15 MHz
2.1 GHz	2 x 5 MHz	2 x 14.8 MHz
2.6 GHz	2 x 20 MHz	2 x 20 MHz
<b>Total</b>	<b>2 x 55 MHz</b>	<b>2 x 68.6 MHz</b>

In late 2019, ARCEP launched the procedure for allocating frequencies in the 3.4 - 3.8 GHz band in Metropolitan France. Free Mobile put itself forward as a bidder in the process in late February 2020.

On April 2, 2020, ARCEP announced that Free Mobile and its three competitors had qualified to each receive a block of 50 MHz at the end of the procedure, and that they could take part in the auction for the remaining 110 MHz in the 3.4 - 3.8 GHz band. This auction has been postponed to late September as a result of the Covid-19 health crisis.

Consequently, Free Mobile will only obtain the licenses for the frequencies it will receive (fixed block plus the amount obtained at auction) – and will only have to pay the related license fees – at the end of the procedure, which is now likely to be in the last quarter of 2020.

### 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 fixed transmission network and putting in place specific business units that effectively manage and oversee the network rollout processes (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 to expand its mobile network in first-half 2020, by:

- **Opening some 1,200 new 3G sites**, bringing its total number of 3G sites to over 18,200 at end-June 2020 and giving it a coverage rate of 98.2% of the French population.
- **Continuing to deploy 4G technology**. This has been a priority for the Group ever since it launched its Mobile business. And first-half 2020 was no exception, with (i) new 1,800 MHz frequencies made available at over 1,050 additional sites, and (ii) the deployment of 700 MHz frequencies at over 3,600 additional sites across the country, which means that almost 94% of the Group's 4G sites in France are equipped for 700 MHz frequencies. The continued deployment of these new frequencies

during the period enabled the Group to increase its 4G coverage to 97.3% at June 30, 2020 and to strengthen its 4G indoor quality. At that date, the Group had almost 16,700 4G sites in total.

■ **Continuing to invest in the fiber backhaul network for mobile sites.** In view of ever-faster Internet speeds and the growing number of 4G users, the interconnection capacity of mobile sites is of critical importance to operators. In order to be able to offer its subscribers the best possible speeds, the Group has decided to prioritize the use of fiber for connecting its sites. As a result, at June 30, 2020, over 90% of its sites in very densely populated areas were fiber-connected, enabling the Group to offer its subscribers the best 4G speeds.

■ **Continuing to develop the shared passive mobile infrastructure offering** with other operators (see the section on the strategic industrial partnership with Cellnex).

The depreciation/amortization periods applied for the main assets brought into service by the Group 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, 2020, the Group had a full physical presence in France, thanks to:

- Its 90 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, 2020, 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 Iliad 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, which has been paid in full.

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 frequencies in the 3.6 GHz-3.8 GHz and 26 GHz-27 GHz bands 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 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.

	Frequency portfolio at end-June 2020
700 MHz	2 x 10 MHz
900 MHz	2 x 5 MHz
1,800 MHz	2 x 10 MHz
2.1 GHz	2 x 10 MHz
2.6 GHz	2 x 10 MHz
3.6-3.8 GHz	1 x 20 MHz
26.5-27.5 GHz	1 x 200 MHz
<b>Total</b>	<b>310 MHz</b>

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**

On the back of the success it has seen in Italy since the launch of its Italian mobile operations, the Group has significantly accelerated the rollout of its own network:

- At end-June 2020, it had over 5,800 equipped sites in Italy, versus around 4,000 at December 31, 2019. The Group's access to sites was facilitated by the acquisition of sites decommissioned by Wind/Tre as well as sites made available by major infrastructure lessors and operators.
- The Group also continued to switch on mobile sites during the first half of 2020. At the period-end, a total of 3,980 sites had been switched on in Italy, enabling Iliad Italia to carry some traffic on its own network.
- The Group also pursued the deployment of its 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.

The deployment and maintenance of the Group's passive mobile telecommunications infrastructure in Italy is partly covered by a strategic partnership agreement with Cellnex, which was signed in May 2019 and completed in December 2019. This partnership firstly entailed the sale of 2,185 sites, which has been followed by a long-term access and services agreement entered into between Cellnex and Iliad Italia that provides for a build-to-suit program.

## **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 15 stores in major Italian cities.
  - A network of some 1,000 SIM card dispenser kiosks ("Simboxes"), located in over 360 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 plans.
- 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 2020

The key figures and significant events of first-half 2020 are set out below.

<i>In € millions</i>	<b>Six months to June 30, 2020</b>	Six months to June 30, 2019	% change
<b>Revenues – France</b>	<b>2,475</b>	<b>2,432</b>	<b>+1.8%</b>
<i>By type of revenues</i>			
- Fixed services	1,336	1,312	+1.8%
- Mobile services	1,041	997	+4.4%
<i>Of which revenues invoiced to subscribers</i>	830	789	+5.2%
- Devices	103	126	-18.3%
- Intra-group sales – France	(4)	(3)	NM
<i>By segment</i>			
- B2C	2,440	2,403	+1.5%
- B2B	35	29	+21.7%
<b>Revenues – Italy</b>	<b>312</b>	<b>177</b>	<b>+76.2%</b>
<i>Intra-group sales</i>	(3)	(2)	NM
<b>Consolidated revenues</b>	<b>2,784</b>	<b>2,607</b>	<b>+6.8%</b>
<b>Services revenues – France</b>	<b>2,377</b>	<b>2,309</b>	<b>+2.9%</b>
<b>Consolidated services revenues</b>	<b>2,688</b>	<b>2,486</b>	<b>+8.1%</b>
EBITDAaL – France	960	910	+5.6%
- B2C	956	904	+7.0%
- B2B	4	6	-14.8%
EBITDAaL – Italy	(84)	(108)	-22.5%
<b>Consolidated EBITDAaL</b>	<b>876</b>	<b>802</b>	<b>+9.4%</b>
Capex – France <sup>(1)</sup>	622	779	-20.2%
- B2C	612	771	-20.6%
- B2B	9	8	+13.4%
Capex – Italy <sup>(1)</sup>	223	161	+38.8%
<b>Consolidated capex<sup>(1)</sup></b>	<b>845</b>	<b>940</b>	<b>-10.1%</b>
<b>Profit from ordinary activities</b>	<b>218</b>	<b>243</b>	<b>-7.2%</b>
Profit from ordinary activities – France	432	418	+3.5%
Profit/(loss) from ordinary activities – Italy	(214)	(175)	+21.9%
<b>Profit for the period</b>	<b>208</b>	<b>62</b>	<b>NM</b>
<b>Net debt</b>	<b>3,733</b>	<b>4,610</b>	<b>-19.0%</b>
<b>Leverage ratio</b>	<b>2.16x</b>	<b>2.73x</b>	<b>-0.57x</b>

(1) Excluding frequencies.



### 3 COMPARISON OF RESULTS FOR FIRST-HALF 2020 AND FIRST-HALF 2019

<i>In € millions</i>	<b>Six months to June 30, 2020</b>	<b>Six months to June 30, 2019</b>	<b>% change</b>
<b>Revenues</b>	<b>2,784</b>	<b>2,607</b>	<b>+6.8%</b>
<b>Services revenues</b>	<b>2,688</b>	<b>2,486</b>	<b>+8.1%</b>
Purchases used in production	1,014	1,012	+0.2%
<b>Gross profit</b>	<b>1,771</b>	<b>1,595</b>	<b>+11.0%</b>
<b>as a % of revenues</b>	<b>63.6%</b>	<b>61.2%</b>	<b>+2.4 pts</b>
Payroll costs	(160)	(136)	+16.9%
External charges	(297)	(259)	+14.7%
Taxes other than on income	(79)	(63)	+25.0%
Additions to provisions	(32)	(25)	+29.4%
Other income and expenses from operations, net	(11)	(17)	-35.3%
Depreciation of right-of-use assets	(315)	(293)	+7.7%
<b>EBITDAaL</b>	<b>876</b>	<b>802</b>	<b>+9.4%</b>
<b>as a % of revenues</b>	<b>31.5%</b>	<b>30.8%</b>	<b>+0.7 pts</b>
Share-based payment expense	(18)	(14)	+32.9%
Depreciation, amortization and provisions for impairment of non-current assets	(640)	(545)	+17.3%
<b>Profit from ordinary activities</b>	<b>218</b>	<b>243</b>	<b>-9.9%</b>
Other operating income and expense, net	231	(2)	NM
<b>OPERATING PROFIT</b>	<b>450</b>	<b>241</b>	<b>+86.8%</b>
Finance costs, net	(39)	(30)	+31.1%
Other financial income and expense, net	(80)	(42)	+89.3%
Corporate income tax	(135)	(82)	+65.0%
Share of profit/(loss) of equity-accounted investees	13	(25)	NM
<b>PROFIT FOR THE PERIOD</b>	<b>208</b>	<b>62</b>	<b>NM</b>

## a. Analysis of consolidated results

### (a) Key indicators

<i>France</i>	<b>June 30, 2020</b>	<b>March 31, 2020</b>	<b>3-month change</b>
Total mobile subscribers	13,406k	13,326k	+80k
- Of which on the Free Mobile Unlimited 4G Plan*	8,383k	8,278k	+105k
- Of which on the voice-based plan	5,023k	5,048k	-25k
Average 4G data usage (in GB per month per subscr.)	16.6	14.7	+1.9
Total Broadband and Ultra-Fast Broadband subscr.	6,572k	6,507k	+65k
- Of which Fiber	2,218k	1,975k	+243k
<b>Total number of subscribers – France</b>	<b>19,978k</b>	<b>19,833k</b>	<b>+145k</b>
Number of connectible Fiber sockets	16,750k	15,400k	+1,350k
	<b>Q2 2020</b>	<b>Q1 2020</b>	<b>Q2 2019</b>
Broadband and Ultra-Fast Broadband ARPU** (in €)	31.9	32.0	32.4
<i>Excluding e-books</i>	31.9	32.0	31.6
Mobile ARPU invoiced to subscribers** (in €)	10.2	10.6	10.1
<i>Excluding e-books</i>	10.2	10.6	9.8
<i>Italy</i>	<b>June 30, 2020</b>	<b>March 31, 2020</b>	<b>3-month change</b>
Total mobile subscribers	6,260k	5,806k	+454k

\* 50/100 GB for non-Freebox subscribers.

\*\* See glossary for definition.

### (b) Second-quarter consolidated revenues

<i>In € millions</i>	<b>Q2 2020</b>	<b>Q2 2019</b>	<b>% change</b>
<b>Revenues – France</b>	<b>1,242</b>	<b>1,219</b>	<b>+1.9%</b>
<i>By type of revenues</i>			
- Fixed services	672	658	+2.2%
- Mobile services	514	510	+0.9%
<i>Of which revenues invoiced to subscribers</i>	408	405	+0.7%
- Devices	58	53	+9.6%
- Intra-group sales – France	(3)	(2)	NM
<i>By segment</i>			
- B2C	1,224	1,204	+1.7%
- B2B	18	15	+19.4%
<b>Revenues – Italy</b>	<b>162</b>	<b>96</b>	<b>+68.2%</b>
<i>Intra-group sales</i>	(2)	(1)	NM
<b>Consolidated revenues</b>	<b>1,402</b>	<b>1,314</b>	<b>+6.7%</b>
<b>Services revenues – France</b>	<b>1,186</b>	<b>1,168</b>	<b>+1.6%</b>
<b>Consolidated services revenues</b>	<b>1,348</b>	<b>1,264</b>	<b>+6.7%</b>

### Analysis of results for France (B2C + B2B)

The following table presents income statement data for France (up to “Operating profit”) for the six-month periods ended June 30, 2020 and June 30, 2019:

<i>In € millions</i>	<b>Six months to June 30, 2020</b>	<b>Six months to June 30, 2019</b>	<b>% change</b>
<b>Revenues</b>	<b>2,475</b>	<b>2,432</b>	<b>+1.8%</b>
<b>Services revenues</b>	<b>2,377</b>	<b>2,309</b>	<b>+2.9%</b>
Purchases used in production	(716)	(793)	-9.8%
<b>Gross profit</b>	<b>1,761</b>	<b>1,639</b>	<b>+7.4%</b>
<b>as a % of revenues</b>	<b>71.1%</b>	<b>67.4%</b>	<b>+3.7 pts</b>
Payroll costs	(151)	(130)	+15.9%
External charges	(233)	(217)	+7.1%
Taxes other than on income	(78)	(63)	+24.4%
Additions to provisions	(32)	(25)	+29.4%
Other income and expenses from operations, net	(11)	(17)	-34.5%
Depreciation of right-of-use assets	(295)	(277)	+6.4%
<b>EBITDAaL</b>	<b>960</b>	<b>910</b>	<b>+5.6%</b>
<b>as a % of revenues</b>	<b>38.8%</b>	<b>37.4%</b>	<b>+1.4 pts</b>
Share-based payment expense	(18)	(13)	+33.4%
Depreciation, amortization and provisions for impairment of non-current assets	(510)	(479)	+6.6%
<b>Profit from ordinary activities</b>	<b>432</b>	<b>418</b>	<b>+3.5%</b>
Other operating income and expense, net	181	(2)	NM
<b>Operating profit</b>	<b>613</b>	<b>416</b>	<b>+47.4%</b>

## (i) Analysis of revenues by type

### Fixed services revenues

Services revenues generated by the Fixed business amounted to €1,336 million in first-half 2020, up 1.8% year on year (3.9% excluding the impact of the e-book offering). Trends improved in the second quarter, with revenues rising 2.2% (4.7% excluding the impact of e-books). The main factors underlying the performance of Fixed services in first-half 2020 were as follows:

- **The total Fixed subscriber base rose by 112,000 during the period, with a 65,000 increase in the second-quarter – the best performance in the last four years. For the first time in seven years, the Group returned to a leading position in terms of fixed-line net adds for a quarter.**
- **Fiber saw brisk momentum, despite the national lockdown measures: 458,000 new subscribers for the Group's Fiber plans in first-half 2020, with 243,000 in the second quarter, giving Free the highest number of FTTH net adds in France for the fifth quarter in a row.** At end-June 2020, the Fiber subscriber base totaled 2.22 million, representing a rise of 70% in the space of 12 months, with the penetration rate among the overall subscriber base rising 13 points year on year to 33.7%. The objective of having 2 million Fiber subscribers in 2020 was already reached by May, and the Group is ahead of schedule for the target set in its Odyssey 2024 plan of having at least 4.5 million Fiber subscribers in 2024.
- **Free offers its subscribers excellent Fiber service quality, with the best average download speed on the market at 479 Mbps, according to nPerf<sup>3</sup>.** In addition, Free is France's only operator to offer 10G Fiber technology and an upload speed of up to 700 Mbps.
- **At €31.9, ARPU was 10 euro cents lower than in first-quarter 2020 and 60 euro cents lower than in second-quarter 2019.** Unlike in the second quarter of 2019, ARPU was not lifted by the inclusion of the e-book offering. Excluding the e-book impact, ARPU was up 0.9% year on year. The subscriber mix is continuing to improve, with a higher proportion of subscribers now on value-added plans, particularly thanks to the ramp-up of Fiber. However, the higher number of net adds is having a short-term dilutive impact on ARPU due to the discount given to new subscribers for the first 12 months.

### Mobile services revenues

Mobile services revenues climbed 4.4% to €1.04 billion for the first half of 2020, with a 0.9% increase in the second quarter to €514 million. Revenues invoiced to subscribers rose 5.2% for the six-month period and 0.7% in the second quarter. The main factors underlying the performance of Mobile services in first-half 2020 were as follows:

- **An increase in net adds for the third consecutive quarter, with 80,000 new subscribers – the Group's best performance in two years.** At June 30, 2020, the Group had a total of 13.4 million mobile subscribers, of which 8.4 million were on the Free Mobile Unlimited 4G Plan (50/100 GB for non-Freebox subscribers).
- **A further improvement in the subscriber mix, with 105,000 new subscribers signing up to the Free Mobile Unlimited 4G Plan in the second quarter (50/100 GB for**

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<sup>3</sup> In the nPerf performance survey of fixed Internet connections in Metropolitan France published on July 27, 2020, in terms of average FTTH speeds in first-half 2020, Free was ranked number one for download speed (479.07 Mbps) and number two for upload speed (285.95 Mbps). Average based on 1,073,355 tests carried out between January 1 and June 30, 2020 on FTTH lines by users of the nPerf tool in Metropolitan France. See [www.nperf.com](http://www.nperf.com) for the full survey and the methodology used.

non-Freebox subscribers). At end-June 2020, subscribers on this plan accounted for 62.5% of the total mobile subscriber base versus 59.5% one year earlier.

- **A good performance from the Mobile business during the period, with a 5.2% rise in revenues invoiced to subscribers.** However, the impact of the Covid-19 crisis was felt in the second quarter, when revenues invoiced to subscribers only edged up 0.7%. Excluding the impact of e-books, revenues invoiced to subscribers rose 4.0% in the second quarter (versus 11.6% in the first quarter). The Group estimates that the Covid-19 crisis shaved around €20 million off revenues invoiced to subscribers.
- **Other Mobile revenues increased by 1.5% in both the second quarter and the full six-month period, coming in at €106 million and €211 million respectively.** Primarily stemming from interconnections between operators for voice and text message services, these revenues generate low margins and have been adversely affected from a structural standpoint by a decreasing use of text messages as mobile data usage rises. However, in both the first and second quarters of 2020, they were boosted by an increase in voice traffic following the lockdown imposed in France.
- **Rapid deployment of 700 MHz frequencies for the 4G network, with over 3,600 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<sup>4</sup> (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 16.6 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 2020 had over 18,200 mobile sites altogether.

## Devices

Sales of devices decreased by 18.3% to €103 million for the six-month period as a whole, although they rose 9.6% to €58 million in the second quarter. The unfavorable basis of comparison with first-half 2019 due to the launch of the Freebox Delta Devialet Player during that period was partially offset by higher sales of mobile phones in the first six months of 2020.

### (ii) Gross profit

Gross profit for France amounted to €1,761 million and was up by almost 4 percentage points on first-half 2019 as a percentage of revenues.

The main reason for this year-on-year growth was the first-time application of IFRS 16, but it was also 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 stemming from the increase in the Fiber subscriber base.

### (iii) Payroll costs

Excluding Italy, the Group's headcount was 10,681 at June 30, 2020, representing an increase of 448 compared with June 30, 2019.

The rise was due to (i) new hires to support the Group's faster pace of Fiber rollouts and connections, and (ii) new recruits for the mobile and hosting businesses and the expansion of the distribution network.

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<sup>4</sup> nPerf performance survey of mobile Internet connections in Metropolitan France in first-half 2020 published on July 7, 2020. Survey based on 554,142 tests carried out between January 1 and June 30, 2020 on 4G by users of the nPerf tool in Metropolitan France. See [www.nperf.com](http://www.nperf.com) for the full survey and the methodology used.

**(iv) External charges**

External charges rose by 7.1% to €233 million in the first six months of 2020. The year-on-year increase was attributable to (i) the higher amount of rental costs related to the mobile network due to the deployment of almost 1,200 mobile sites in first-half 2020, and (ii) the faster pace of Fiber rollouts and connections (a 46% rise in the number of connectible sockets in one year and a 68% increase in the Fiber subscriber base), which led to additional expenses (rental, maintenance, energy, insurance, sub-contracting and easement costs, etc.).

**(v) Taxes other than on income**

Taxes other than on income rose 24% in first-half 2020 to €78 million, owing to the larger number of mobile sites.

**(vi) Additions to provisions**

Additions to provisions for bad debts, impairment of inventories, and contingencies totaled €32 million in the first six months of 2020. The main amounts recognized during the period related to provisions for bad debts and for claims and litigation.

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

This item represented a net expense of €11 million in first-half 2020.

**(viii) Depreciation of right-of-use assets**

Depreciation of right-of-use assets amounted to €295 million for the six months ended June 30, 2020, up 6% year on year due notably to the increase in the Broadband and Ultra-Fast Broadband subscriber base. This income statement item results from the Group's application since January 1, 2019 of IFRS 16, Leases.

**(ix) EBITDAaL – France (B2C + B2B)**

EBITDAaL generated in France rose 5.6% to €960 million, representing an EBITDAaL margin of 38.8%, up 1.4 points on first-half 2019.

This performance was a continuation of that seen in 2019, which was the first full year to feel the beneficial impact of the Group's transformation plan launched in May 2018. This plan has entailed overhauling the Group's business model and sales and marketing strategy as well as increasing the independence of its networks.

Its results 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 led to sales of devices, which have a dilutive impact on margins.

The main factors affecting EBITDAaL generated in France in first-half 2020 were as follows:

■ **Positive factors:**

- **An operating leverage effect** stemming from the €41 million increase in mobile services revenues invoiced to subscribers compared with first-half 2019, with a higher contribution from the Fixed business, whose revenues advanced €23 million year on year.
- **Further openings of sites newly equipped for 700 MHz frequencies and deployments of new sites, giving the Group more consistent and higher quality mobile coverage**, which is encouraging subscribers to switch to the Free Mobile Unlimited 4G Plan (50/100 GB for non-Freebox subscribers).

- **An increase in the total number of Fiber subscribers** to 2.2 million, resulting in operating cost savings in very densely populated areas.

■ **Negative factors:**

- **The higher number of mobile sites**, meaning higher taxes and rental and energy costs.
- **The ongoing rollout of the Group's Fiber network** and the creation of the joint venture with InfraVia ("IFT"), generating more maintenance and rental costs.
- **Lost earnings resulting from the Covid-19 crisis**, mainly for the Mobile business due to (i) off-plan usage not being billed for several weeks for subscribers on the voice-based plan, and (ii) lower roaming revenues (see above).

(x) **Profit from ordinary activities**

Profit from ordinary activities in France advanced 3.5% to €432 million in the first half of 2020. This increase reflects the rise in EBITDAaL, which more than offset the 6.6% year-on-year rise in 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 2020 and first-half 2019:

<i>In € millions</i>	<b>Six months to June 30, 2020</b>	<b>Six months to June 30, 2019</b>	<b>% change</b>
<b>Revenues – Italy</b>	<b>312</b>	<b>177</b>	<b>+76.2%</b>
Gross profit/(loss)	11	(44)	-
<b>EBITDAaL</b>	<b>(84)</b>	<b>(108)</b>	<b>-22.5%</b>
<i>as a % of revenues</i>	(27.0%)	(61.3%)	-
<b>Profit/(loss) from ordinary activities</b>	<b>(214)</b>	<b>(175)</b>	<b>+21.9%</b>
Operating profit/(loss)	(164)	(175)	-6.6%

(i) **Revenues**

Revenues generated by the Group in Italy totaled €312 million for first-half 2020 as a whole, and €162 million in the second quarter. The main factors underlying this performance were as follows:

- **A good sales performance since the beginning of the year, despite an unfavorable context for a new entrant such as Iliad Italia, with almost 1.0 million new subscribers, including 454,000 in the second quarter.** The Group had a total of 6.3 million subscribers in Italy at end-June 2020, representing a market share of some 8%, just 24 months after the business's launch.
- **Continued rollout of the mobile network, even during lockdown, with over 1,800 new sites equipped and almost 2,000 new sites switched on in the first six months of 2020.** As a result, the proportion of mobile traffic carried on the Group's own network is now increasing.

- **Further expansion of the Italian distribution network.** At June 30, 2020, the Group's Italian business had a total of 15 stores and more than 1,000 Simboxes located in 360 busy catchment areas.

**(ii) Gross profit**

Gross profit in Italy exceeded the breakeven point in first-half 2020, moving into positive territory for the first time and coming in at €11 million. As a percentage of revenues, the figure was up by more than 28 points year on year.

These rises mainly stemmed from lower roaming costs resulting from higher traffic volumes carried directly on the Group's own network, as well as the increase in the overall subscriber base.

**(iii) EBITDAaL**

The Italy segment ended first-half 2020 with negative EBITDAaL of €84 million, representing a loss that was 22% lower than the first-half 2019 figure. This year-on-year improvement was attributable to (i) the sharp increase in revenues, which has enabled the Group to move closer to achieving critical mass in Italy, and (ii) the direct impact of its network rollout drive. Other than the costs relating to the MOCN agreement, the Group's main expense items for its Italian operations accounted for in gross profit are as follows:

- **Expenses related to the Group's mobile network** (which comprised some 5,800 equipped sites at end-June 2020), mainly corresponding to rental costs and depreciation of right-of-use assets.
- **Interconnection costs.**
- **Marketing and advertising costs, and structural expenses** such as payroll costs and subscriber relations costs.

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

The Group's Italian operations generated a €214 million loss from ordinary activities in the first half of 2020, including the depreciation/amortization expense for the network's components and frequencies, which was up 94% year on year due to the rapid rollout of the network.



## b. Consolidated cash flows and capital expenditure

<i>In € millions</i>	<b>Six months to June 30, 2020</b>	<b>Six months to June 30, 2019</b>	<b>% change</b>
<b>Consolidated cash flows from operations</b>	<b>1,125</b>	<b>1,078</b>	<b>+4.4%</b>
Right-of-use assets and interest expense on lease liabilities – IFRS 16 impact	(363)	(332)	+14.2%
Change in working capital requirement	2	(28)	NM
<b>Operating free cash flow after IFRS 16</b>	<b>764</b>	<b>718</b>	<b>+6.4%</b>
Capital expenditure – France (excluding payments for frequencies)	(622)	(779)	-20.2%
Capital expenditure – Italy (excluding payments for frequencies)	(223)	(161)	+38.5%
Income tax paid	(160)	(115)	+39.1%
Other	135	(194)	NM
<b>Consolidated free cash flow (excluding payments for frequencies, financing activities and dividends)</b>	<b>(106)</b>	<b>(531)</b>	<b>-80.0%</b>
Capital expenditure – payments for frequencies – France	(2)	(8)	NM
Capital expenditure – payments for frequencies – Italy	(1)	(61)	NM
<b>Consolidated free cash flow (excluding financing activities and dividends)</b>	<b>(109)</b>	<b>(600)</b>	<b>-81.9%</b>
Dividends	-	(53)	NM
<b style="color: red;">Cash and cash equivalents at end of period</b>	<b>985</b>	<b>382</b>	<b>NM</b>

### Consolidated free cash flow

In the first half of 2020, 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 the quality of its subscriber service. Altogether during the period, the Group invested almost €850 million in its networks, and €2 million for the purchase of frequencies in France and Italy.

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

- €1.13 billion in consolidated cash flows from operations, before €363 million in lease payments and interest expense on lease liabilities recognized due to the application of IFRS 16. Adjusted for the impact of IFRS 16, consolidated cash flows from operations rose 6%, with operating losses in Italy offset by the year-on-year increase in France.

- An almost neutral change in working capital during the period (a positive €2 million), despite the Group's fast-track payments of invoices issued by small-business subcontractors during the lockdowns in France and Italy.
- €622 million in capital expenditure for France. The Group broadened its Fiber footprint during the period, deploying some 2.9 million new connectible sockets and connecting up more than 458,000 new Fiber subscribers. It also invested in the production and storage of the new Freebox Pop, opened over 3,600 sites equipped for 700MHz frequencies, and extended its mobile network, which comprised over 18,200 sites at June 30, 2020.
- €223 million invested in the Italian network and MOCN agreement, with the network rollout and activation of new sites continuing at a brisk pace despite the constraints caused by the lockdown in Italy.
- €160 million in income tax paid.
- Other: including (i) an inflow relating to the transactions carried out with InfraVia (net of cash payments and costs associated with those transactions), (ii) outflows related to the build-to-suit program with Cellnex, (iii) a capital injection in the joint venture in the Caribbean, and (iv) TRM (Telecom Reunion Mayotte) dividend payments.

#### Net change in cash and cash equivalents

The Group ended the period with €985 million in available cash and cash equivalents.

### **c. Consolidated debt**

The Group is not subject to any liquidity risk or the risk of breaching financial covenants (ratios, targets, etc.).

At June 30, 2020, it had gross debt of €4,736 million and net debt of €3,733 million (excluding the impact of IFRS 16). The Group has ample liquidity thanks to the sale proceeds received in December 2019 and February 2020 on the close of the deals with Cellnex and InfraVia respectively, plus the proceeds from its latest bond issue received on June 17, 2020.

The Group is pursuing its strategy of investing in major industrial projects that will generate substantial future cash flows, while maintaining a solid financial structure and significant access to financing. At June 30, 2020, the Group's leverage ratio was a contained 2.16x EBITDAaL.

Gross debt at June 30, 2020 primarily comprised the following:

#### **(a) Borrowings due within one year**

- A €1.4 billion NEU CP program.

The Group has a short-term NEU CP program representing a maximum amount of €1.4 billion, which was renewed on July 22, 2020. At June 30, 2020, €510 million of this program had been used, down by a sharp €485 million on the amount used at December 31, 2019. This decrease was due to the fact that the Group allocated a portion of the proceeds it received from its asset sales to Cellnex and InfraVia to redeeming some of its NEU CP.

- 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 are repayable in installments and have long maturities. At June 30, 2020, the Group had the following EIB loan due within one year:

- A €150 million loan granted in 2010 which had a final maturity date in July 2020 and has been fully repaid since July 28, 2020.

## **(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 are repayable in installments and have long maturities. At June 30, 2020, the Group had the following EIB loans due beyond one year:

- 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.

#### ■ Loans granted by KfW IPEX-Bank

KfW IPEX-Bank has granted Iliad several loans in order to help finance the rollout of its Fiber and mobile networks in France and Italy. These loans – which are repayable in installments and have long maturities – were as follows at June 30, 2020:

- 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, 2020.

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 €1,650 million syndicated revolving credit facility maturing in 2025

The Group has a €1,650 million syndicated revolving credit facility set up with a pool of international banks, with final maturity in 2025. None of this facility had been drawn down at June 30, 2020 and it was therefore still available in full.

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.

The Group's bank borrowings are subject to financial covenants based on its leverage ratio. None of these covenants had been breached at June 30, 2020.

The above-mentioned borrowings do not include the following loans that were fully repaid in advance on the following dates in the first quarter of 2020:

- January 9, 2020: a syndicated term loan maturing in 2023 (€500 million).
- January 27, 2020: a bilateral credit facility maturing in 2023 (€50 million).
- February 28, 2020: a EIB loan with the final installment due in 2022 (€83 million).

### 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 a further €1,150 million worth of bonds in two tranches:

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

■ €650 million worth of bonds maturing in 2026

On June 10, 2020, the Group issued €650 million worth of bonds which pay interest at 2.375% per year.

The bonds will be redeemed at face value at maturity on June 17, 2026.

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>	<b>Maturity</b>	<b>Type of repayment/redemption</b>	<b>Total amount of financing</b>	<b>Amount used</b>	<b>Amount available</b>
<b><u>Bank borrowings</u></b>					
EIB - 2016	September 2030	In installments	200	200	-
EIB - 2018	December 2032	In installments	300	300	-
KFW - 2017	May 2029	In installments	90	81	-
KFW - 2019	October 2030	In installments	150	-	150
Syndicated revolving credit facility - 2018	July 2024	At maturity	1,650	-	1,650
<b><u>Bonds</u></b>					
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	-
Ordinary bonds - 2020	June 2026	At maturity	650	650	-
<i>Schuldschein</i> notes	May 2023, 2026 and 2027	At maturity	500	500	-

#### **d. Ownership structure at June 30, 2020**

At June 30, 2020, iliad's share capital was made up of 59,252,622 ordinary shares, held by the following shareholders:

- Executive Management: 44,637,642 shares, representing 75.33% of the share capital.
- Public: 13,859,580 shares, representing 23.39% of the share capital.
- Treasury shares: 755,400 shares, representing 1.27% of the share capital.

At June 30, 2020 there were:

- Two iliad stock option plans in place with a total of 187,574 shares under option.
- Three share grant plans in place representing a potential 858,766 new iliad shares.

## 2 ADDITIONAL INFORMATION

### a. Strategic objectives

In addition to the human impact, the coronavirus pandemic has generated an economic slowdown in certain regions. The social and financial impacts for the Iliad Group are currently limited. Nevertheless, the pandemic could impact the Iliad Group and its objectives, as is the case for all companies in the telecommunications sector. Possible impacts include the shortage of certain electronic components and a slower rollout of Fixed and Mobile networks.

#### France

##### ■ B2C

- Fixed:
  - Achieve a 25% share of the Broadband and Ultra-Fast Broadband market in the long term.
  - Have 2.8 million Fiber subscribers by end-2020 and more than 5 million by end-2024 (**revised objectives**).
  - Have 22 million connectible Fiber sockets by end-2022 and around 30 million by end-2024.
- Mobile:
  - Have more than 80% of the subscriber base signed up to the Free Mobile Unlimited 4G Plan<sup>5</sup> by 2024.
  - Have over 25,000 sites by 2024.
  - Achieve a 25% share of the mobile market in the long term.
- Financial targets:
  - EBITDAaL margin in France (excluding B2B and sales of devices) of over 40% in 2020.
  - In view of the unexpected increase in Fiber subscriptions, achieve an EBITDAaL less capex figure in France (excluding B2B activities) of more than €700 million in 2020 (**revised objective**).
  - Achieve an EBITDAaL less capex figure in France (excluding B2B activities) of approximately €900 million in 2021 (**revised objective**).

##### ■ 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.

#### Italy

- Have over 5,000 active sites by end-2020 (**revised objective**).
- Based on this target number of active sites, we expect EBITDAaL losses to be lower in 2020 than in 2019.
- Have rolled out between 10,000 and 12,000 sites by end-2024.

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<sup>5</sup> 50/100 GB for non-Freebox subscribers.

- Achieve EBITDAaL break-even with a market share of less than 10%.
- Launch our Fixed business in the country by summer 2021 **(new objective)**.
- Generate €1.5 billion in revenues in Italy in the long term.

## **b. Events after the balance sheet date**

- No significant events occurred after the reporting date that require disclosure in this report.

## **c. 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 switching from one offer to another or cancellation fees), divided by the total number of Broadband and Ultra-Fast Broadband subscribers invoiced for the last month of the quarter.

*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.

*EBITDAaL:* Profit from ordinary activities before depreciation, amortization and impairment of property, plant and equipment and intangible assets, and the impact of 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.

*Mobile ARPU invoiced to subscribers:* Includes revenues invoiced to subscribers divided by the total number of Mobile subscribers during the period.

*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).

*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.