

## FRANCE TÉLÉCOM

### Q1 conference call - April, 29<sup>th</sup> 2009

#### **Gervais PELLISSIER**

Thank you very much. Good afternoon ladies and gentlemen. Thank you to all participants for joining us this afternoon. I am pleased to welcome you with my colleagues from the group management committee and my colleagues who are the country heads for this presentation of the first quarter of 2009 results of FRANCE TELECOM. Let me briefly comment the key points of those results. I do not read the cautionary statement as usual but I guess everybody has it in mind and I would like to start with page 4.

The main figures as usual that we present to you regarding the main KPIs, the reports on a quarterly basis; I remind you that according to the French reporting scheme, we do not report a full P&L on a quarterly basis. First of all, my main comment is on the revenue, noticing that in spite of deteriorating environment, first quarter results comfort our view on the year and as mentioned in March for the full year results, Q4 trends showed some signs of slowdown that have been confirmed in the first quarter unfortunately as expected. In spite of the difficult economic environment, the Group has posted a revenue growth of 0.4 % in Q1 on the comparable basis with 12.7 billion euros revenues. Most of the regions where we are present are now facing economic deterioration except France which continues to be resilient. Resilient performance of our domestic business: +2.1 % growth in Q1 and I will come back on that compared to 1 % in Q4 and in the enterprise segment with a slight growth of 0.4 % even it is slowing down compared to previous quarters.

Emerging markets performance is in fact quite differentiated from one country to the other and there are no global trends even if some countries are impacted by the economic downturns; some are still growing at a very high pace and some others are more impacted by social or political crisis than by the world economic downturn. As

expected, our EBITDA has decreased by 4 % at 4.3 billion euros with EBITDA margin rate decline of 1.7 point compared to a year ago. This is mainly linked with lower revenue growth but also with higher costs in terms of interconnection linked with the development of unlimited offers; this is also linked with increase of content costs which are now in their run rates. We now have the full run rate of our content investments on a quarterly basis which was not the case in first quarter 2008. CAPEX are at 1.2 billion euros decreasing by a little less than 16 % on a comparable basis. We have however to exclude from first quarter of 2008 figures a little less than 150 million euros real estate purchase and if we compare apple to apple what has happened, the decline of CAPEX is limited to 6.5 % with a CAPEX-to-sales ratio going down from 10.4 % to 9.7 % in this first quarter. The level of operational cash flow measured as EBITDA minus CAPEX has increased by a little more than 1 % in comparable terms and is quasi stable in historical terms.

On page five, a few comments on the global picture of the revenue. You remember that we have been using the comparison with the GDP since the release of our third quarter results and what we can observe today is that the gap between GDP trend and our revenue trend is slightly increasing with better relative performance of our revenues compared to the evolution of the GDP. Unfortunately and we were expecting that, GDP is decreasing now starting first quarter 2009 and this will probably continue if we believe IMF forecasts as recently published. This resilience as I said is mainly coming from France and from the enterprise business. We see however more negative or more worrying trends in Spain, in Central and Eastern Europe and in some emerging markets as I mentioned even if it is not a global trend for emerging markets.

On page 6, you have the detail of the revenue evolution for our reported segments. You remember also and by the way I guess most of you participated to the call last week where we presented the new segment reporting for the Group which is now a split by major countries or major regions and you have here the revenue evolution for those major countries and regions. The first comment I would like to make on this slide is the impact of FOREX. We have been mentioning if you remember on March the 5<sup>th</sup> that we would have an impact of FOREX on our 2009 performance. This is already the case in this first quarter with more than 500 million revenue loss just on two countries, Poland and UK because of the weakness of the British Pound and of the Polish Zloty.

Second point to comment, growth coming from France with a strong growth on mobile, I will come back on that. Situation in the UK in local currency which is more or less in line with what we observed in last quarter of 2008; more deterioration in Spain where revenue decline has accelerated especially for mobile in this first quarter of the year and a relatively a good situation in Belgium, we will see that afterwards. Regarding Poland

also a situation more or less like in Spain with an acceleration of the negative trend for mobile, we will come back also on that but I guess most of you have also observed and listened to the results published by TP group yesterday morning; you know already what is behind this. Regarding the Rest of the world, I will comment this back again; this quasi stability we observe: +0.4 % is the result of very different situations even if in terms of trend we can say there is still some growth in Africa Middle East and rather difficult situation in Central Europe. Enterprise at +0.4 % as already commented and we will come back on that and IC&SS where most of the revenue is coming from our activity as international carrier and there, there is still some growth reflecting the dynamism of internal exchange in terms of telecommunications.

As regards to the profitability, I already mentioned the FOREX impact on the revenues, there is also a strong FOREX impact on the EBITDA with more than 120 million euros deterioration of the EBITDA linked with the currency effect in terms of exchange. It does not include the parity effect which is included in the P&L of the countries themselves. For instance when UK is buying at more expensive prices its terminals, or Poland is buying at more expensive prices its network equipment, it is included in the P&L of the countries themselves so there is a second effect of currency which is within the P&L of the countries and which is directly impacting the margin in some geographies. But if we just take it in terms of accounting, the 120 million and then, we have more than 240 million increase of our OPEX partly linked with what I just said for instance in Poland and the UK but also linked with higher interconnection costs and higher content costs. If we have a look on the cost structure of FRANCE TELECOM for this first quarter, I think that the picture is a mix of good news and of signs we have to take care of. If I take the good points and good news first, labor cost are clearly under control. We fully benefit from the manpower reduction which has been conducted in the Group until the end of 2008 and this is a base in terms of improvement of the cost structure of the company, now at 17.8 % of the revenues, this is a good achievement. Other points which in my view are positive are the good control over other IT and network costs even if it is not fully reflected in the results themselves. Most of the increase and it is not written exactly on the slide is also linked with the storm we had to face in the South-West of France which has cost a little more than 30 million euros in this first quarter. Except this exceptional item, those costs are clearly under control. We have to pay more attention to the G&A where there are two or three negative items impacting our cost structure. First of all, there is a slight increase of the bad debt especially for the B2B segment. We have to take care of an increase in the number of mainly small and medium size customers who are facing difficulties to meet their contractual requirements.

Second item, even small for this first quarter, we have taken the first hit of the famous

French TV tax, audiovisual tax which has been accounted for early March. So we have one month of tax; the full impact for the year should be around 90 million euros and we are currently working with our colleagues from marketing and from France on how to get some balance, some offset of this tax by either delaying some tariff decrease or maybe by accelerating a few tariff increase on our business in France both for the consumer business but also for the B2B. Then if I come to the last line which are commercial expenses and content costs, I must say that in spite of the apparent increase, our feeling that those costs are clearly under control because soccer and cinema rights are clearly exactly at the level we were planning and now as I just mentioned a minute ago, they are in their full running rate for the company and regarding the commercial costs, in spite of some pressure in some geographies globally speaking most of the increase is still linked in terms of comparison with the subsidy of 3G and smart phones which were at a much lower level including the iPhone in first half 2008 where we did not have a subsidy system especially for the iPhone.

In terms of CAPEX, I already mentioned the real estate operation done in first quarter of 2008. So, we have to compare 1.3 billion spent in 2008 with the 1.23 spent in 2009. We said on March the 5<sup>th</sup> that we would immediately prioritize the CAPEX and in order to adapt to the economic environment, we would adjust our CAPEX spending. This is what we have been starting to do since the beginning of the year and the CAPEX prioritization is now operated in every country in order to ensure that we do not cut, we try to minimize the risks, I do not say we will fully get rid of it but we try to minimize the risk of cutting CAPEX that could be necessary to the future development of the Group. This is our main purpose but we are also seeing and it is already the case in Central and Eastern Europe that, because of slower growth in traffic or even sometimes stabilization of traffic especially on the consumer market, we have less need to increase capacity in some part of the networks. You have also noticed this morning that we have announced that we have repurchased the minority stake into FRANCE TELECOM Spain. This has been announced this morning and just to mention that it was something we had to do, linked with the initial shareholder agreement signed in November 2005 with the remaining minority shareholders, and after several weeks of negotiation, both parties have agreed on a repurchase price of 83 euro cents per share to be compared to the 91 euro cents that we have defined as the reference price in the liquidity mechanism. The total amount paid by Group will be 1.37 billion euros instead of 1.5 which would be the reference price we had in the shareholder agreement. You remember also that more than 810 million euros, we are already taken into account in our debt at the end of 2008, so the impact of this transaction on our 2009 net debt will be the difference between the paid amount and 810 which means a little less than 600 million euros.

I now switch to the operational performance by countries starting with France on page 12 and mention that revenue growth remains very strong especially on mobile; 7.4 % and that the decrease of home business remains also as expected at -1.2 %. To give a little more details on mobile, as you see on the slide, it is linked with the increase of the customer base at 25.1 million customers at the end of March. It is also linked with growth of data revenues with an addition of more than 100 million of non-voice revenues on the period. Data revenues represent now 25 % of service revenues. Regarding the fixed business, the good news is that now on the retail market, from the consumer market, Internet revenue growth is big enough to offset the decline PSTN, I will come back on that in terms of number of customers. If there is a decline, it is coming from the wholesale activities impacted by a regulatory price decrease on the unbundling tariffs. You have the operational performance on the next page 13, and there are two or three points to mention.

First of all, there is a strong contract net adds in terms of mobile, it is a good resilience of PSTN. So, market share for mobile has increased by 0.4 % with the continuous development of MVNO. Now MVNO customers are representing 7 % of the total customer base and little less than 2 million customers. Second important fact, contract customer base is continuing to increase by three points year over year and represents now more than 68 % of our customer base and ARPU has been growing on the period with data ARPU growth of 23 % mainly increased by usage compensating the decline of voice ARPU in the same period. For the fixed line, the French market is still a growing market with more than 2 % growth of the total number of copper lines on the French market and DSL market share is slightly decreasing in a slowing market. Regarding the number of fixed lines, we can also mention that first quarter 2009 is really a strong achievement in terms of preserving the base. We have lost 200 000 retail lines; we lost more than two times this figure in 2008 and four times this figure in 2007. You see the slowing down of the erosion on our copper line basis. Last point is the continuous development of TV, of multi-play, especially IPTV with a little less than 260 000 net adds for IPTV and satellite TV on the customer base; increasing usage of Video On Demand (multiplied by 4 in one year) and additional Pay TV subscriptions for our ORANGE channels with more than 233 000 net adds in Q1. This is 63 000 additional net adds compared to the end of February results to achieve now 353 000 Pay TV subscriptions on the French market.

UK. As I said, the situation in the UK is rather stable compared to what it was at the end of 2008, in the last Q of 2008 with a slight revenue growth on mobile: 0.4 % and however still some difficulties on the home market. Regarding mobile the non-voice revenues are growing by 3 % but with now a strong increase of data, representing now also like in France more or less one fourth of the total service revenues. To come on the

operational KPIs for the UK, we see a continuous move from prepaid to postpaid with a 10 % increase of the postpaid base linked with our strategy focussed on value, to increase direct distribution as we presented on March the 5<sup>th</sup> and we also by the way that even with economic downturn, a lot of customers are preferring to take a monthly fee subscription which is stable and where probably they pay less than remaining with the prepaid offers. Regarding the ARPU, it has been growing again with a strong push from fixed data ARPU which has about 20 % growth. Regarding the equipment of customers, the 3G base has increased to a little less than 4 million customers with 230 000 new USB dongles sold in Q1 2009 compared with 50 000 sold a year ago. On the fixed business, we are continuing to concentrate our investments but also our customer investments on the unbundling investment we have already done, with more than 45 % of our customer base on our unbundled sites compared to 37% in Q1 2008.

As regards Spain, I mentioned that revenue has been declining especially in mobile with 5 % decline. Our colleagues, our peers have not published their result yet for Spain but we think that our performance should better be than average on a market which is one of the market suffering probably the most in Western Europe because of the strong impact of the economic downturn on the household's consumption. Mobile revenue down by 5 % out of which 4 % is coming from the regulatory impact but we have also a significant slowdown in usage growth partly offset by a 3 % increase of the customer base. Mobile non-voice revenues have shown also a significant increase: 16 % increase in one year and regarding the fixed business revenues were up by 2.4 % mainly driven by the increase of wholesale revenue (hubbing) but also supported by the increase of the broadband DSL revenues.

In terms of operational indicators, you see on page 17 that quarterly net adds of 52 000 customers mainly driven by contract net additions; in Spain like in the UK like in France, the postpaid customer base is increasing. There is also the impact of the efforts done to improve our distribution channels and with more direct and online distribution like in the UK. Contract customers now represent 57 % of the mobile base which is 2 % more than in Q1 2008. In Spain, mobile ARPU has been decreasing because the increase of data has not been sufficient to offset the decline of voice because of the strong impact of the termination rate as reflected in the figures. On the fixed side, the 4.2 % increase of the broadband ARPU is mainly driven by increased usage of value added services, among them Voice-of-IP, Livebox and IPTV. As reflected on this slide, you see that 8.5 % of the customer base is using IPTV and 30 % is using Voice-of-IP which is one of the strongest achievements for an alternative player outside of France.

Poland, TP group has published their results yesterday with a revenue decline of 4.7 %.

Regulatory impact for mobile but also intensification of competition with disruptive behaviors of the fourth player on the prepaid market which has obliged most of the other players to react and this explains, this will be reflected on page 19, this is one of the reasons for the loss of prepaid customers. This also explains why the mobile ARPU is down because of the regulatory and price pressure I just mentioned. On the fixed business, the situation is rather better than a year ago with less erosion; erosion has been contained below 2 % and this is mainly due to the solid revenue growth of broadband with more than 12 % revenue growth. To look at the operational indicators for Poland, I already mentioned the evolution of the mobile customer base with an increase of the contract base like in any other big country we are managing but unfortunately a strong decline of the prepaid base which has an impact on the revenue as I described. Regarding the DSL retail access, there is an increase of 7 % and TV access and TV client base have been multiplied by 4 in one year and the number of fixed lines is eroding at a lower pace than what was done a year ago.

For the other countries on page 20, the situation, as I said, is quite diverse with Africa and Middle-East growing 5 % mainly triggered by Egypt and Botswana which still post double-digit growth and a good performance in most of the incumbent countries especially Senegal, Mauritius and Jordan. Some worries because of the political and social context in Madagascar or in country like Dominican Republic which is suffering a lot from decrease of tourism and I would say a more contracted situation in Europe with countries like Belgium with good resilience, not far from France: 2.5 % revenue growth. However, more difficulties in Romania which is one of the countries highly impacted by the economic slowdown and our revenue has been decreasing by 14 % in Romania; quasi stability in Slovakia and some decrease in Switzerland. Last point may be to mention, this is a strong increase of the customer base with 21 % increase of the customer base for those countries and strong increase of the DSL customer base plus 60 % in one year with a strong development in Africa but also in Europe. In Africa, we are now above 100 000 customers and more than 260 000 customers in DSL in total in those countries.

Last entity to be commented is enterprise division with +0.4 % organic growth which in our view is a very good performance and especially if we compare it with the performance of our peers in the B2B segment as it is progressively published on the market. What do we observe? First, legacy businesses are resisting better I would say because we do a good job but also because of the economic downturn where some corporate are delaying the migration they may have planned. So we keep more traditional revenues.

Regarding the advanced business network and the extended business services, we

observe still some growth with more than 6 % for advanced business networks and 9 % for services which in our view is a good performance as reflected on this slide. Page 22 is giving some operational indicators for the enterprise division. XoIP is continuing to increase at very high rate, multiplied by more than 2.3 year on year. Business Everywhere is still increasing in terms of access with a little bit more difficulties for the revenues generated because of the decrease of roaming. Globally speaking, decrease of roaming is affecting all countries and all segments: B2B or B2C . And IPVPN is growing but at a lower pace and one should insist and this is what he said on page 22, on the need to continue to improve and to strengthen the quality of service which is a key advantage if we do not want to fight only on prices whereas some big corporate are trying to renegotiate their contract.

What is now the outlook for the rest of the year? I shall be even more careful than what we said in March. Why? Because global economic visibility has not improved. If I just take the figures from the IMF on which we are basing our reasoning since Q3 2008, IMF was forecasting a GDP decrease of 1 % for our footprints. Their Q1 estimate is at -1.7 % and now their full year forecast is at -2.5 %. In 3 months, economic downturn has been increased by 2; the pace of economic downturn is 2.5 times what it was initially expected to be. This, in our view, shows the risk, the difficulty to make forecasts in terms of volume of activity. So, we try to adapt and this is what we have been saying to you on March the 5<sup>th</sup>. We will adapt and we will take the necessary measures to adapt. What do we say today? We will not say more in terms of forecast and guidance as what you got on March the 5<sup>th</sup>; on revenues we see deteriorating trends but we confirm our view that we will be better and remarkably better than GDP as expected already at the beginning of the year.

We also confirm the pressure on EBITDA margin. That was mentioned at the beginning of the year and which we observe in this first half. The good news is that the Group is well prepared to answer to this situation with marketing answers to boost the top line or to keep the market share and my colleagues may comment on that if you have questions. As we say on page 25, a couple of actions on the revenues, marketing but opex reduction programs which have been launched since the beginning of the year, the strong prioritization and piloting of our CAPEX spending. This is the slight change of guidance we give to you. You remember we said early March that we would guide the CAPEX between 12 % and 13 % of the revenues; today we consider that we will be slightly below 12 %. We explained in March that we had about 20 % flexibility of our CAPEX, 10 % reliable without optimization and 10 % depending on the activity level. We observe in some countries that activity level is lower than expected and as most of our competitors, we will adjust our CAPEX to the activity level and you remember that we had introduced now

for 3 years, a methodology to prioritize our CAPEX and we are clearly using that very strongly this year, not to cut at the same level all CAPEX, whatever or wherever they are. So, we are trying to be a little more subtle than just a general cut on CAPEX to try to prioritize, to see what is necessary for the business of today, what is necessary for the business of tomorrow, what is necessary for the business of the day after tomorrow.

Last but not least, we are rolling out our ORANGE 2012 ambition in all countries especially with the actions to transform our processes and to optimize the cost structure. You remember the gain of 1.5 billion euros we expect at the end of 2011 both in terms of CAPEX and OPEX and we will give you more details on that with the first half results when we will present to you a status of where we are on ORANGE 2012. This is to confirm to you and this is my last message for this presentation, to confirm to you our cash flow guidance for the year at 8 billion euros, which is the same level than what was achieved in 2008. So, confirmation of our cash flow guidance at 8 billion euros. Thank you very much. And now available are my colleagues to try to answer to your questions.

#### **Conference Coordinator**

Thank you Sir. In order to ask for the floor, please press the Star or Asterisk key followed by digit 1 on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal reach our equipment. We will take questions in the order received and we will take as many as time permits. If you find that your question has been answered, you may remove yourself from the queue by pressing Star2. Again, please press Star1 to ask a question. We may now take our first question from Nicolas COTE-COLISSON from HSBC. Please go-ahead.

#### **Nicolas COTE-COLISSON**

Thank you. I have got 2 questions. First one is on your strong performance in enterprise. I would like to know if you could give us a bit more color on the market share trends in France and outside France and how sustainable that trend is? My second question is on the minority buy-out in Spain. Does it change anything at the operational level? I mean is there anything that you can do now without minority that you could not do before?

#### **Gervais PELLISSIER**

Regarding the enterprise division, actually we keep a strong market share in France. I do not think we are decreasing our market share. Outside of France, I think the situation is in my view may be slightly favorable in the sense that some of our big competitors are in a mixed situation where either they have announced relatively poor performance and they have to take care of their margins and their cash flow at a broader extent. I will not

mention the names but I guess everybody understands who I am mentioning but even some of the solid performers are in this situation. So, on one hand we see less commercial aggressiveness from these people but on the other hand, we still see some crazy behaviors especially from operators overseas coming from the other side of the Atlantic. So based on that, I think there is a slight improvement at the current period. We are also very careful and this revenue evolution is not done at the expense of the margins. Regarding Spain, there is no change on the operational management itself. Now there could be a little more flexibility for tax optimization for instance.

**Nicolas COTE-COLISSON**

Ok, thank you.

**Conference Coordinator**

We will now take a question from James BRITTON from NOMURA. Please go-ahead.

**James BRITTON**

Thank you very much. I have two questions please. First of all, I understand that the margin pressure in the second half may actually be slightly less than in the first half. Can you explain why this might be the case given the regulatory pressure on termination rates? It should actually be quite a lot greater in the second half and economic pressures would probably be worse as well. And the second question is on your pricing strategy in Spanish mobile. Can you explain what you hope to achieve with the new offers that you launched this morning which seem to offer abundant usage tariffs at very discounts on current prices. And for fixed lines in Spain what can you do to limit the EBITDA losses in that business?

**Gervais PELLISSIER**

I will take your first question and I will leave Jean-marc VIGNOLLES, the CEO of Spain, answer the second question. Regarding the margin pressure, my comment is just fact-based. I have no clues on the future and on the trends. What I can just mention is that we will not have in the second half in terms of comparable basis the impact of content at much lower extent and the impact of iPhone subsidies which means that when we compare apple to apple the second half margins of 2009 with the second half margins of 2008, it is about between 0.7 and 1.0 pt impact just because of those two reasons. So it is just fact-based and sorry if I have not been speaking clearly, but there is no intent in my comments to comment future trends. The future trends, I am very careful on the revenue I would be as careful on the results of the revenue and the margins. Jean-Marc if

you want to comment your pricing strategy.

**Jean-Marc VIGNOLLES**

Yes. The offer we launched this morning BASICO of ORANGE which is a SIM-alone offer and which is basically a reply to our main competitors TELEFONICA and VODAFONE on this market segment and this is a postpaid SIM-alone offer available only on the Web and this is a differentiation versus our competitors and including also a 12 month tenure commitment from the customers which also different from our competitors and which is the reason why we have been able to propose on two of our main postpaid tariff plans more aggressive discount versus competition meaning the Web-alone distribution and this customer commitment. As far as profitability of the fixed business is concerned, we are improving and we are improving basically thanks to our efforts to improve which are based on the growth of our unbundled customer base and we also focused our efforts on quality of service and quality of sales; quality of service enabling to reduce significantly our customer service and customer care costs.

**James BRITTON**

Thank you.

**Conference Coordinator**

We will now take a question from Damien MALTARP from CREDIT SUISSE. Please go-ahead.

**Damien MALTARP**

Thank you very much. I have got two questions. Firstly in terms of EBITDA, could you give us a split at the Q1 stage? Can you give some indications as to which the operations that are doing better or perhaps worse than you have been anticipating? Secondly, French mobile in data growth is clearly doing well there. Has the revenue mix changed in more towards stakes; how should we be thinking about the gross margin changing because I guess, you will have less termination costs, may be you have higher content costs; how should we be thinking about the gross margin shift as data increases? Thanks.

**Gervais PELLISSIER**

Since yourself you said we do not give the EBITDA by segments or by business at this stage, so I will not answer to your question. We have decided not to answer. However to give you probably a few indications, it is clear that the countries which are suffering from a strong revenue decline or a strong revenue pressure have more difficulties even if some

of them are more flexible in terms of costs. So it depends. I would say the mobile only operations have some flexibility; the fixed and mobile operations where they are suffering revenue decline have a little less cost flexibility. So there is an impact clearly where revenue is suffering. This is what we observe even if it is also a diverse situation; I do not think that all geographies have exactly the same situation in terms of EBITDA rate. Regarding France, the situation is a little more complex than you described because clearly we gained in data revenue and it is true that the pure data revenue has no termination rate. However, we have still and we will face a decrease of voice tariff with more unlimited on voice and more unlimited on SMS where there are termination rates. So, the balance between what we gain regarding data in terms of margin rate and what we continue to lose on voice and SMS, is not so clear to be positive I would say in this full year. There is not such a shift that we can achieve a positive balance.

**Damien MALTARP**

Ok, thank you.

**Conference Coordinator**

We will now move to Frederic BOULAN from MORGAN STANLEY. Please go-ahead.

**Frederic BOULAN**

Hi, a couple of questions please. First of all, if you could update us on the mobinil situation, if you are not doing anything on the offer to secure control of the assets and what kind of timing you are thinking about? Secondly, to come back on the margin question, can you come back on the initiatives implemented to address this deterioration and if I understand from your Investor Day in March, you now target around 250 million more CAPEX reduction which I believe is there to offset EBITDA pressure. Thirdly, if you can come back on Spain, very sharp slowdown in Q1. Can you come back on your explanation or your understanding on the company specific slowdown or market dynamics and if you can confirm how you see yourself performing versus competition on the mobile side?

**Gervais PELLISSIER**

I will answer to the second question on the margin and on the CAPEX and leave Jean-Yves LARROUTUROU answers on the Egyptian situation and Jean-Marc from Spain to come back on Spain more precisely. Regarding the margin, I think first of all I will not say I am surprised by your question but, FRANCE TELECOM has been blamed for years for not being able to reduce its labor cost. For once, we are able to achieve labor cost

reduction, let's be pleased with that. At least when I took my job I remember comments from most of you and your incredibility, a lack of faith in our ability to reduce those costs. We are able to reduce them and I think in view to a certain extent to reduce the other lines will not be as difficult. So, I have some hope we will be able to reduce them. What we have just is a question of timing; to reduce cost it takes time. You cannot cut costs from one day to the other and this is why we have launched our ORANGE 2012 transformation where we say we would reduce in average the cost structure of the company by 3 points either CAPEX or OPEX but in terms of running rate. This is what we have promised to you on the long run.

In the interim period before we get the full benefit of those programs, we have to take contingency actions and this is what we have been doing. But even with those contingency actions we know that they will not be sufficient if you want to prepare the future to keep the margin rate at the level where they are today. So, this is why we said if you remember already in March that there would be pressure on the margin rate and honestly, today the pressure is clearly in line with what we have been internally planning. We do not see more pressure; we see more pressure on the revenues that one could think we would have based on the IMF forecast of January as I have explained but we do not see more pressure in terms on margin rates. So, sorry to give this long answer but I think it is important to come back on that; there are contingency actions but it would be very imprudent just to have contingency actions without preparing more structural cuts for the future. Jean-Yves maybe on Egypt?

**Jean-Yves LARROUTUROU**

Yes, just to say with a two-word answer: nothing new in fact. I am sure you read our press releases and you know that we have to strictly comply with the obligation of the CMA to avoid any comment on these things. So, you have all the information in the press releases and any other noise or rumors, declarations is wind and as you know cold or old, wind is wind.

**Frederic BOULAN**

Ok. Thank you.

**Conference Coordinator**

We will now take a question from Nick LYALL from UBS. Please go-ahead.

**Nick LYALL**

I have a couple of questions about the fixed business please, on the French operations; pressure on French mobile churn rose again this quarter. Could you just comment on how you would propose to cut churn back down ? And secondly broadband shares seem a little bit weakening quarterly again. Is this creating more commercial spending? Could you comment on may be the competitor effect firstly and then the actions you might take if you need to cut this effect.

**Gervais PELLISSIER**

May be first, Jean-Marc could you answer to the question that was raised on Spain.

**Jean-Marc VIGNOLLES**

Yes, on Spain, basically obviously as long as our main competitors have not published their official Q1 figures, it is early day to claim that we have over-performed the market but the statement that was made by Gervais is based on two items. On the first one is that over the past 3 quarters of 2008 in terms of revenue evolution, we are still in decline but a decline that was less than our 2 main competitors and so we had relatively over-performed the market and basically we do not see in the available data for Q1, mostly commercial data on top of the operators' data we have the regulator monthly figures about commercial performance; we do not see any indication that the trends have changed. I think we all are affected by the same macroeconomic environment which deteriorating as you know. We are all impacted by the same mobile termination rate decrease and in commercial terms when you look at our performance in particular on contract and our good performance and positive performance on profitability for the first time in three years, we do not see any indication on the underperformance of the market. Louis-Pierre WENES can answer on France, on the French mobile churn and on the broadband market share.

**Louis-Pierre WENES**

On the French mobile churn, yes it has increased a bit. Nevertheless we are still at what we see at very good level, if we compare to our history. We think it is partially due to some disconnect-reconnect which our clients are doing when they are not happy with an existing offer, they switch to another one. They disconnect first and then reconnect and this is accounted within the churn. So, we are investigating why this is happening to bring the churn back to the level we had previously but so far we are not worried with that especially because we are seeing that the trend we had all over 2008 and starting 2009 is continuing, meaning we are leading the market in terms of contract acquisitions

due to the success of the ORIGAMI tariff plans. On the broadband market share, this also is probably a longer story than just Q1 2009. You have to remember that during the first part of 2008, NEUF and SFR were busy merging and during that period, we had market share acquisitions which were in excess sometimes of 55 % a month. Now, since October basically, NEUF is back in the market and of course they have started to compete with us across the board and also in places, in non-dense areas. So, we went down but we have put in place some plans, on promotions and segmented approach so that we are slowly coming back and we think that within the next month, we will probably be again at our normal level.

**Nick LYALL**

Thank you very much.

**Conference Coordinator**

We will now move to Matthew BLOXHAM from DEUTSCHE BANK. Please go-ahead.

**Matthew BLOXHAM**

Good afternoon, a couple of questions on the French business. Firstly, just on wholesale revenues, I think you mentioned that you might see some pressure from regulatory decisions. What you expect to happen on unbundling rates in France; we might get some kind of communication from the regulator. And the second question: it is clear that your French business is over performing in that kind of economic trends in France; I was just wondering what it is about. Does it mean that this business can continue turn and resist so that we can gain economic trends or do you expect that your French businesses will see some kind of more significant revenue pressure from what is happening to the economy?

**Gervais PELLISSIER**

I will answer to your second question and then Jean-Yves LARROUTUROU will comment the regulatory situation with unbundling and wholesale. I think the comments from IMF forecast including for 2010 are slightly better for France than for the average of the European Union. What are the reasons for that, especially for the household consumption? I am not sure I am the best expert to comment that but I can re-observe that there is more resilience in the consumption from the households on the French market than there is in some other western European markets. The second point, I think it has been hugely described and repeated by Louis-Pierre. Our own performance on the market especially on mobile is clearly above probably the overall market performance.

We have our own merits into being slightly better but in terms of resilience, will that last forever? Honestly we do not know. What I can just mention is that the IMF forecasts are slightly better for France. Another indication is that the average level of debt of the French households is much lower than as the Rest of Europe. Which means that the need for saving today is probably lower than the need for the reconstitution of savings we see in some other European countries, like Spain for instance where the level of debt was very high and where people are now because of the crisis creating savings again.

Jean-Yves, the view on the wholesale prices?

**Jean-Yves LARROUTUROU**

Yes, on the wholesale prices, spring is spring. It means it is time for discussing the wholesale prices with regulatory authorities, not only in France. So it is difficult to comment ongoing discussions. What I just want to say and it is not different from what I said during the Investor Day, just to insist on the fact that regarding particularly the unbundling, with the figures we have on the table regarding the audited regulatory accounts, there is no reason to expect any major changes of the prices. As you can see with various decisions, not all the decisions are in the same direction, but the mainstream is rather in favor of upwards pressure on this kind of tariff on the European level. Just be patient on that but do not expect anything major.

**Conference Coordinator**

We will now take a question from Terence SINCLAIR from CITY. Please go ahead.

**Terence SINCLAIR**

Good afternoon. Could you just comment on voice trends in mobile in your principal markets. There have been obviously some declines is that because of some substitution of products or do you just put that to the general trend from customers to the per capita expense? Secondly, I wonder if you could just confirm that there would not be any change in the average borrowing cost, as the result of your investment made in Spain today.

**Gervais PELLISSIER**

Olaf, could you take the first question maybe on the mobile trends for voice across our geographies?

**Olaf SWANTEE**

Yes. On voice first of all the trends are different as Gervais pointed out already at the beginning of the call country by country. In general what we see in the countries where the economic slowdown is happening, a lot of customers are staying within the contract customers of Spain within the bundle when it comes to voice and we are reducing their out of bundle voice activity. Point number one. On the prepaid side, we see again a very general point and different by country but in a country where the economic pressure is mounting we see recharge activities on voice being impacted. Lastly particularly on the international side, when it comes to voice roaming clearly this is a area that is significantly impacted across the footprint.

**Gervais PELLISSIER**

On the borrowing cost of debt in Spain. I have two comments. First of all, the remaining portion of our debt which is linked with the Spanish assets is very small, it is probably less than 5 % of our total debt and we have been progressively replacing for the last three years; local debt by group debt. Why? Because Spain is in Euro and there is no benefit to us to isolate the local debt or to back the debt on the local asset. It is much better for us and especially it will be even better now since we consolidate 100 %; we have 100 % of the asset and not far from 100 % as group debt. The borrowing cost of debt in Spain is not an issue for us. Which will not be the case on assets which are not fully controlled in some other geographies.

**Terrence SINCLAIR**

Thank you very much.

**Conference Coordinator**

We will now take a question from Frédéric DOUSSARD from ODDO SECURITIES. Please go ahead.

**Fédéric DOUSSARD**

Yes. Good afternoon. First, one question: since IMF forecasts have been revised down over the last month, can we say that probably the pro forma turnover will be at best stable? In this context are you confident that EBITDA margin decline will not deteriorate in 2009 compared to Q1? That is the first question.

Second question is: don't you fear restructuring cost to increase in 2009 compared to 2008? If there is a further economic deterioration, where could you do additional

savings?

**Gervais PELLISSIER**

Again we have not been giving any revenue guidance now for the last two years, two years and a half, because we stopped giving any guidance in July 2006. We will not start again especially with ability to forecast which is clearly far below what it was. If I look at my colleagues either in our industry or in other industry, I see more and more people in this position. What we say, and I think we have been saying it, it that we will be clearly above what happens for the GDP. Now based on the current GDP forecast, we think that we can maintain the gap we currently have with the GDP over the period which probably will lead to something you have yourself described.

Regarding the impact on EBITDA, again if we are in this line, there will be more or less also some pressure on EBITDA clearly in the order of magnitude which has already been achieved up to now. This is what we have. If situation is worsening, there is clearly and I think it is different from some other operators who have already introduced their full cuts, we think we have still some margin of maneuver to mitigate further steps of worsening, especially on the CAPEX but possibly also on some OPEX, but I think it is a difference with what have been said or written somewhere; we have not done yet things which are damaging the 2010 and 2011 business. Clearly if things are clearly worsening again and if instead of -2.5 GDP decline for our footprint is 4 % decline, we will have to take additional measures but also for probably some damages on the future. It is not the case today with what we see in our plans.

**Fédéric DOUSSARD**

OK. You mentioned that 10 % of your CAPEX is delayable?

**Gervais PELLISSIER**

Yes.

**Fédéric DOUSSARD**

It is delayable for how long approximately?

**Gervais PELLISSIER**

To answer to that question I think that there are two things we do not master today. First of all, the CAPEX is a question of competition and competitive position. Which means that

if all or most of your peers are also delaying your CAPEX, then there is no impact on your business at least on your relative position. This is what we think. Until I do not know what the other will do country by country, it is a little difficult to answer. My feeling today is that at least for the big players they are also delaying their CAPEX. For the small player, it is even worst because most of them are highly leveraged. So they are doing crazy things in terms of pricing which does not concern immediate cash, at least in their immediate cash standing. They have less revenues but they do not consume so much cash when they decrease their prices. My feeling is that they will not increase their CAPEX. That is one point regarding the CAPEX evolution.

The second point and maybe some of my operational colleagues can complement my answer, what we observed in some geographies is impact on the traffic. The behavior of people is also that they consume less than what we planned in some countries less that what they were consuming. So the investment in capacity can be also delayed. What will happen in 2010, we will see when we will be at the end of the year.

**Fédéric DOUSSARD**

Thank you.

**Conference Coordinator**

We will now take a question from Jerry DELLIS from JP MORGAN. Please go ahead.

**Jerry DELLIS**

Yes. Good afternoon. Two questions please. Firstly on the UK; obviously revenue trends were pretty resilient in the last quarter but for how long do you think the UK business can remain resilient thinking about top line trends. Further recalls said that the UK margin was particularly good in the second half of last year. Just taking you back to Spain, I am just interested in what you think the impact of the new BASICO tariff would be on the profitability of ORANGE in Spain obvious mindful of the fact that escalating off-net traffic seems to be margin dilutive to the French and the UK mobile businesses in the last period. I guess you have some feeling from the commercial activity of TELEFONICA and VODAFONE as to exactly how hard you are going to be pushing this new tariff. So any thought on that would be much appreciated.

**Gervais PELLISSIER**

Olas, if you can answer on the UK question?

**Olaf SWANTEE**

Yes.

**Gervais PELLISSIER**

And then Jean-Marc on the Spanish question.

**Olaf SWANTEE**

On the UK, as Gervais has pointed out, the environment is challenging of course. The economic situation is very tough and we are seeing a mixed impact on our business with both pros and cons on the top line. I mean what is certainly having an impact on the top line is the fact that an increasing amount of customers are searching for lower tariffs, that roaming is of course under significant pressure and that we see a tremendous amount of customers moving to SIM only propositions. On the other hand, there are continuous positive trends in the market in particular related to non-voice. We now have non-voice non-SMS being 8 % of our revenue up from about 7pts last year. We see a continuous very strong appetite for non-voice products and services. We see a continuous movement from prepaid to postpaid which is positive and we see that customers already, we see that in particular with the offers that we have put out over the last couple of months, are having a stronger appetite for a longer tenure, for longer contracts which is positive on churn and tenure in the long run. That is really the global situation. We feel that ORANGE is continuing to execute well and we understand the current environment and we are taking advantage in particular when it comes to: One try to drive up a tenure offer to our customers. Two: driving towards some more controlled channel environment which in the current market situation is positive and is possible. Three: increasing efforts around customer retention and loyalty.

**Jean-Marc VIGNOLLES**

Regarding our offer in Spain, once again we do not have any issue or concern regarding the payback of a SIM-alone, Web-alone offer, once again as far as the share, this offer is going to take in the market, this is a reactive offer versus the move made by our main competitors last week. This is still unknown but what I can mention is that on the prepaid market, we are leading the SIM-alone market and this has enabled us to sustain a sound growth of the business. As far as interconnect costs are concerned, we are improving our interconnect performance based on one hand, on improvement of on-net traffic pattern but also benefiting from the mobile termination rate decreases and here I will point out that with the last mobile termination rate decrease implemented in April, we have ended the glidepath which gave us an asymmetric position versus competitors which means

that any other MTR decrease now will have a more useful and positive impact on our profitability in the future.

**Jerry DELLIS**

Thank you very much. Could I come back on the UK, just taking up on the comment that the economic environment is very tough. I guess one way of kind of eliminating cost maybe regaining some pricing power and improving visibility, would be to engage in a market consolidation. Concerning one competitor that you have got which looks notably weaker now than it was may be the case this time last week; so I just wondered whether you would completely rule out any sort of in-market consolidation activity?

**Gervais PELLISSIER**

We have already commented that on several occasions on the UK. Everybody says that there are too many players. It is true that now there is probably more differentiation of performance between a certain group players and another group of players. However, again one of the difficulties on the UK market which remains in spite of the effort we do to repatriate distribution internally, is the huge share of indirect distribution. The risk you have by having consolidation that 1+1 is not equal to 2 but is below 2. I think that it is probably one of the obstacles to this consolidation on the market.

**Jerry DELLIS**

Thank you very much.

**Conference Coordinator**

We will now take our last question for today from Hugh Mc CAFFREY from GOLDMAN SACHS. Please go ahead.

**Hugh Mc CAFFREY**

Good afternoon. I just have two questions. Firstly has the competition starting selling the iPhone in France, what kind of impact does that have on the business for the rest of the year? Secondly with the content in France, do you see this as kind of structurally lowering the margin in the French business or is this something that you can absorb over time? Thanks.

**Gervais PELLISSIER**

Sorry to ask you to repeat your first question because I think we have not understood your first question.

**Hughes Mc CAFFREY**

The first one was just on the iPhone and the impact that the competition is going to be able to sell it in France? What kind of impact do you think this will have on the business?

**Gervais PELLISSIER**

Louis-Pierre if you can comment the iPhone competition in France?

**Louis-Pierre WENES**

I think we are very happy because we are still selling at a very sustained rate higher than what we expected. Our sales, everybody knows that the exclusivity is over, went down only 20 % to 25 % while our market share is around 50 %. We should sell far less than we currently do. We are very happy with that.

**Gervais PELLISSIER**

On the content when we have decided to invest in content distribution last year we have sized our plans based on what we could afford and what we thought was necessary to perform the right level of business. The beauty of the content business model is that is relatively huge minimum fixed cost in terms of content rights. It is a constraint but we have planned to take it fully with a relatively low number of subscribers. I just remind you again that in the Pay TV business generally it takes at least five years to become positive in terms of cash flow when you make such an investment. It is fully taken into account. We are now at the highest level of content spending. If there were additional content costs, this would mean that we are performing at the very higher level in terms of subscribers which unfortunately is not yet the case even if the performance is good up to now.

**Hugh Mc CAFFREY**

Thank you.

**Gervais PELLISSIER**

Thank you very much to all of you for participating to this conference and we will see you and with my colleagues Vincent and his team, we will continue to have contact with you. We will probably see you in the next days or weeks. Thank you very much.

**Conference Coordinator**

This concludes our today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.