



**FRANCE TELECOM**  
**1H09 Results**  
**30th July 2009**

**Conference Coordinator**

Ladies and gentlemen, you were currently on hold for the FRANCE TELECOM 2009 half year results conference call. As usual, in order to ask a question, please press \*1 on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you are using a speaker phone, please pick up your handset to ask your question.

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 \*2. Again, please \*1 to ask your question. Thank you for your patience and please continue to hold.

Good afternoon ladies and gentlemen and welcome to the FRANCE TELECOM 2009 half year results conference call. For your information, this conference is being recorded. The call will be hosted by Didier LOMBARD, CEO and Chairman of FRANCE TELECOM and Gervais PELISSIER, Deputy CEO and CFO, with members of FT's executive committee for the Q&A session that will start after the presentation. Thank you and let me hand over to Didier LOMBARD.

**Didier LOMBARD**

Thank you. Hello to everybody. Just a few words of introduction before I hand over to our CFO, Gervais PELISSIER. A few points: first point, I would like to highlight our commercial performance. Our position in the first half has remained solid despite the continuing deterioration of the macroeconomic environment and the impact of regulatory measures. Our revenues have decreased compared to the first half of last year by 0.5% but they remain more dynamic than the GDP of the economies in which we operate. I also want to highlight that the increase in our customer base of 6.6% in a year takes our

total number of customers to 186 million worldwide. This has allowed the Group to hold its position even though the competitive environment is intensifying.

This shows our capacity to adapt to the economic crisis and its consequences. I know that we cannot continue without acquiring new customers with the same marketing approach we had two years ago and so we have adapted to the new situation. Since the start of the crisis, the direction I have given to the Group has been one of simpler, lower cost services like the big phone, the terminal HELLO, the second hand telephones, discounts and offers and so on.

Second point: an improvement in our operating margin. After a shrinkage in the first quarter, our EBITDA margin has improved in the second quarter by 0.2 points at 35.4%. This revival of our margin is the natural result of mastering your costs, particularly general expenses and commercial expenses. Third point: the strict management for our investment. Our level of investment is at 9.9 % of revenues for the first half. That is 2.5 billion euros which is less than last year. This reduction is due to the optimization of our investments particularly in the context of the current climate. I have asked that we put in place a thorough review process for our investments being careful to protect investments that are critical for our future performance particularly compared to the competition; of course this is a key point.

Fourth point: overall we are at this point of the year on track for our main financial objective: to generate 8 billion euros of organic cash flow in 2009; an objective that I confirm today. This is for me a real point of satisfaction even if we need to keep up our efforts for the second half of the year. Of course, we want our shareholders to continue benefiting from the good health confirmed by FRANCE TELECOM for the first half and that is why the Board of Directors has again decided to make an interim dividend payment. This will be 60 cents per share and paid on the 2<sup>nd</sup> of September.

To finish, I would like to say a few words about the rest of the year. As you know, the macroeconomic environment of the second half is likely to be comparable to that of the first. Moreover the impact of regulatory measures is likely to intensify. In this context, the rest of the year will not be easy but I think we remain prepared to continue adapting. That is what I wanted to say to get us started. Now I hand over to Gervais who will explain the details of our results. Thank you very much. Gervais.

### **Gervais PELLISSIER**

Thank you Mr. Chairman. So, you have in front of you, I guess most of you have the presentation and the slides, I will go directly to slide 5 because I think the words of Didier LOMBARD have summarized our main KPIs as they appear on slide 4. Just to start

with our revenue evolution and you have on slide 5 what has happened for the last quarters with the gap between our revenue performance and the GDP for the same period and also our revenue performance before regulatory impact; so excluding the regulatory impact and you see that after the slow-down we have been recording each quarter since Q2 2008, GDP is continuing to deteriorate and has deteriorated in the second quarter compared to the first quarter. Our revenue maintains a strong gap, a strong differential, revenue evolution maintains a strong differential with the GDP evolution especially in Q2 where GDP evolution is -3.2%; we have our revenue evolution -1.3. If we look at it excluding the regulatory impact, you see that even in this last quarter you would have still posted 0.4% positive growth. Within our footprint, we will come back on that later on, France, Africa, Middle East remain very resilient whereas Poland, Spain, UK, Eastern European countries are suffering from the economic environment and of a termination rate cuts in this first half.

On page 6 you see the situation for the main regions and what we can just say that we have first a Forex impact on our revenue line; we report our figures in euros whereas we have some businesses and especially two big businesses in Poland, in Zloty, and in the UK, in British Pounds and there is a strong impact of the erosion of those two currencies against the euro: 755 million euros in this first half. Then if you look at the different geographies, France, Africa, Middle East have been growing as well as the international carrier business, whereas all the other regions are declining on the semester. What we can mention on those regions which are declining, decline would have been much less if we had not to take into account termination rate cuts which have happened in most of those countries.

Another way to look at the revenue is to look at the revenue for the mobile component and for the fixed line or home division and you see it on page 7 where global revenue is declining by 1.3 as we reported but with different situations. In France performance continues to be quite good with 1% revenue growth driven by mobile with 5.5% revenue growth in Q2 whereas in the UK revenue for mobile is declining by 4% whereas because of what we do on the fixed to fix the profitability, the cash consumption is aligning us to continue to decrease the customer base and to have a relatively strong revenue impact. In Spain the revenue evolution is -5.5% out of which more or less the same rate for mobile and fixed which is completely linked with the economic environment because if you look at our mobile performance compared to our competitors, we are ahead or at least at par, with our main competitors and our relative performance in Spain has clearly improved against competition especially against those competitors who were considered as leading the market including in terms of market growth for the last years. In Poland, situation is more difficult for us with a 7% decline especially driven by mobile and where we have been facing a difficult first half as reported by the way by TPSA when they

reported their figures yesterday morning where the mobile market is difficult, relatively strong termination rate cuts but on top of that, the arrival of a fourth player late last year with a relatively strong disruptive pricing policy for prepaid which has created some trouble on the market as a whole and has impacted both our revenues and margins. We are taking both marketing actions to recover from that but also strong actions to adjust the cost structure of TP in the second half of the year.

Rest of the world is contrasted between Africa Middle East still growing at a very good rate, 6% in the second quarter of the year whereas Eastern countries continue to be strongly impacted by the economic crisis especially in Romania. The situation is relatively better in Moldavia, Slovakia but also in Western Europe in countries like Belgium and Switzerland.

For Orange business services, after some very slight growth in the first quarter of the year, the economic impact of the crisis has come and revenue has been declining even if and in a context where we have kept however and even increased the profitability level of the business. To come on profitability, as it is on page 8, you see that in the first quarter, the little increase of the revenue was not coming with a small increase of Opex and Opex has been increasing because we had to adjust to the activity level which was to a certain extent unexpected at this level of decline and in the second half, we have been able to recover, to adjust our cost structure even if we are also facing some additional costs that were not, let's say, fully justified in our view, especially the French TV tax as well as some Chatel Law impact for about 50 million euros. If we look at the EBITDA margin and at the cost structure by main regions, you see that the margin evolution is also quite different from one area to the other. A very good protection of the margin for the enterprise division which is slightly increasing, also in the UK where thanks to the improvement in the mobile division, the total margin rate is more or less stable. Also a very good protection of the margin in France in spite of some negative impacts and taking into account the content cost that we did not have a year ago, whereas Spain is able to increase its margin by nearly five points which is strong improvement for the total margin of the country. The rest of the world is also supporting some decrease which is also linked with a very high margin we are facing in this region and unfortunately Poland with a six points decline mainly linked with what I have said before to which one should add the currency exposure where Poland is facing a huge part of its purchases in euro and with deteriorated local currency.

In terms of cost structure on page 10, a few comments; first of all the regulatory impacts on our cost structure and on our profitability. You see that because of regulatory decisions we have had 383 million euros less revenue than we could have had. At the same time, regulatory prices have been also positively impacting our cost structure with

a cost decrease of 229 million euros. But one should add to this, the impact of legal or tax measures which are not Telecom pricing regulations especially the French TV tax and the Chatel Law for 81 million euros which means that in total if we add all the regulatory measures which had a direct cost of financial impact on our P&L, it is a net negative impact of 235 million euros in this first half of the year. If you look at the other lines of costs, they are clearly under control with the containment of the labor cost thanks to the headcount reduction we did in the previous years. Other ITN costs are also under control, GNA has been decreasing even more than what it appears if we take into account the TV tax and Chatel Law impact. Our commercial costs have also been contained; this also to take into consideration the fact that we are now taking the full effect of our investment in content which represents 156 million euros more than a year ago.

Net income is stable even slightly better in comparable terms than a year ago with a few elements of difference. So lower EBITDA but lower depreciation because we have less investment to depreciate but also some positive currency effects on the depreciation. Lower financial expense, this is on the financial result line, on page 11, lower income tax because in some countries especially Poland because of the pressure of the results, there is less income tax to be paid and a very little exceptional items between the net income as published and on comparable terms but which show some slight increase, a 2% increase compared to a year ago.

As regards to our investment, our Capex, there are many questions on Capex spending in our industry, including ourselves; what is shown on page 12 is that the real reduction we have been operating on our Capex, is 13%. Because last year we spent if you remember an extra spending of more than 160 million to repurchase some technical buildings in France which are useful to us but which are not generally in our Capex plans, we generally do not spend money on buildings and real estate and especially to purchase building and real estate. So, if you want to compare apples to apples, the net reduction is 378 million euro compared to a year ago, out of which a reduction has been spread on several areas but keeping in mind two main priorities. One is to preserve the ability of the Group to keep or increase its market shares against its competitors. This is what we have been trying to do in most of the countries where we are and second point which was a recalled by Didier LOMBARD a minute ago is to preserve the innovation capacity of the Group. This explains why for instance we have continued to invest into the back-bone and back-hole and why regarding 3G, ADSL and services platform, reduction has been highly prioritized. One should also notice that we have been invested quite much in the previous years because if you remember, we have been investing more or less one point more than planned between 2006 and 2008, when we announced the NEXT plan in 2005 and we are targeting a Capex to sales ratio of 12; in reality we have spent around 13% a year for the last three years. Thanks to this, the first level of operation cash flow

which is the EBITDA minus Capex has increased by 5% and is above 2008 in real terms, in historical terms even if we have to take into account a strong Forex impact on 140 million euro.

Our cash and this is on page 14: Our organic cash flow has increased by 12% compared to the first half of 2008 which represents more or less 500 million euros increase. It looks big and it requires some explanations. The first part is the direct operational effect of the activity. First EBITDA minus Capex, so there is some increase, 137 million more; Two, the reduction of the income tax we have to pay, minus 167 euros which is an additional cash for the company on the period. Third, lower interests paid, 96 million euros and then a few items among them much lower level of 3G licenses, less cash to pay the pre-retirement we had implemented in the Group and a few other things of that type for 152 million euros. At the same time, the phasing of spending in first half 2009 has been quite different from what it was in first half 2008 and we evaluate to around 160 million euros this difference of phasing where in fact we have paid more to our suppliers that we did for the same level of activity on the period. A few items are considered as exceptional: a strong positive item, a strong cash flow coming from the restructuring of some of our debt and financial instruments. On one hand, currency swaps have been unwound .and we have repurchased some TDIRAs for about 2 billion euros and at a relatively good discount.

At the same time, we have had also some additional negative effects which are clearly linked with the 2009 year. Maybe some of you remember but France has implemented the so-called *Loi de Modernisation de l'Economie* which imposed to shorten the payment terms to the suppliers and which is a law which has been implemented since January the 1<sup>st</sup> and we have been trying to adapt. We were and we are like most of the big companies in France relatively slow payers and so we have been progressively adjusting on the required payment terms and it has a relatively strong cost this year. On top of that there is a lower revenue and Opex decrease which have also a negative impact on the working capital and lower Capex also implies that we have less credit from the Capex suppliers. These items are clearly linked to this 2009 first half specific situation. All this gives the 4.1 billion euros of cash flow you see but we look at what is extraordinary, what is ordinary, what is seasonal, we confirm our guidance for the year of 8 billion, not more, not less.

So what has been the use of the cash flow for this first half? Balanced dividend payment, dividend payment to the minorities, repurchase of the minority shareholders in Spain and all this being used; after that we have been able to reduce our debt by a little more than one billion over the period. If you come on page 16, you can see that we

have continued to manage very carefully our liquidity and that position trying to optimize the debt, trying to increase the liquidity but also trying to reduce the costs. We have been able to raise a 4.8 billion euros bonds in this first half of the year at 4.9% average cost which is probably the best rate achieved within the sector and amongst European players in telecommunications. A good diversification with 56% of our first half issues in other currencies than Euros and we have put back 1.4 billion euros of TDIRAs which will eliminate 1.5% of future dilution. Regarding our liquidity, we are ensuring now 16 billion euros of liquidity position out of which more than 6 billion euros of cash.

I will look quite quickly on the performance by country, you have different slides on each of them and maybe to help you to raise more questions. Starting with France, on page 18 with mobile business in French just to say that we are quite happy with our revenue growth of 6.4% in this first half mainly due to the increase of the customer base but also to the development of the data business. If you look at the slide; these are the two main drivers for the revenue growth on this period which has implied on top of what we do on the cost structure a slight improvement of the profitability on the period. If you look at the operational KPIs on page 19, our market share has been maintained even coming not far from the level of Q3 2008, at 46.7%. We have also increased the share of the MVNOs which are now representing 2 million customers and 24% of the service revenues are non-voice revenues whereas the mix between contract and prepaid customers is still improving in favor of contract customers and whereas the ARPU is continuing to increase, mainly linked to the data business.

Regarding home, revenue evolution is -1.5 as I said but a strong regulatory impact mainly because of the decisions to decrease the unbundling wholesale price to our competitors and this has had a direct impact on the EBITDA whereas we are quite happy that retail revenues have slightly increased because for the second consecutive semester retail internet revenues are superceeding PSTN revenue decline. Regarding the operational KPIs, we are quite happy with the broadband ARPU increase which is to a huge extent linked with the additional services including content, including pay TV, we are developing for customers. We have reached 400 000 PAY-TV subscriptions at the end of June 2009 but the market is more challenging and our conquest share has been reduced to 26% over the period which also demonstrates that the price premium which we are obliged to keep because of the regulatory framework in France is putting us into a more challenging situation. This is why and it is on page 22 among the main priorities for the French market on top of all what we do in terms of marketing and to improve the offers, there are two main axes; one is to continue on cost reduction, to improve the cost structure to be able to have more appealing retail prices but at the same time, we think that it is now more than time to put more pressure on the regulatory system to be able to adjust the market in France on a regulatory playing field where the level of

competition is at the right level and with no privilege for competitors who may have been small in the past but who are now as strong acquisition engines as us either in terms of number of shops or in terms of resources.

Regarding the UK, not many comments just to say that we are in the middle, not as good as the best and clearly better of than the 2 worst on this market, so in mobile with a market which is difficult, remains challenging, low margins even if we have improved the EBITDA. We are still in a market which is challenging and regarding the broadband business in the UK, our strategy is to focus on where we have invested at the risk which happens by the way, to lose some customers especially when they are not in the unbundled areas where we have invested.

Regarding Spain on page 26, just to mention that mobile revenue has been decreasing as I said by 5.5% but margins are increasing by more than two points and if we go on page 27, we see that there is still a good acquisition engine even if we have observed for the last quarter some shifts between prepaid and postpaid. Until the beginning of the year, crisis had no effect and by the way it is partly true for the UK, had no real effect on the move we have been observing on our market on prepaid to postpaid. It is less the case at the end of this first half where we see some revival of the prepaid business mainly for cost reasons for the customers and with especially the development of SIM-ONLY offers on those markets. Regarding home in Spain on page 28, just to mention that the profitability has strongly improved even if the revenue is not so strong but we are continuing to develop the business especially with Voice-over-IP, concentration of our customers on local loop unbundling where we have invested and including also development of tripple play.

Regarding Poland, I mentioned the main issues on page 30 and I mentioned the main issues on mobile whereas if we go on page 31 the situation for fixed is slightly better even it is not so easy because there is still some cannibalisation of fixed business by mobile on the Polish market but our situation in terms of market share for broadband in spite of the very difficult regulatory environment, we have been able to better maintain our market share.

If I go on page 34 to look very rapidly at the rest of the world, as I mentioned we are quite happy with Africa and Middle East growth +6% whereas the European countries have been declining by about 4%. Africa, Middle East are clearly strong, we will come back on that with a double-digit growth in Egypt, Mali and Botswana and most of the country operations are also growing with one exception which is Madagascar because of the political climate.

In other European countries, situation is average with relatively stable and maintained performance in Western Europe, Belgium and Switzerland as well as in Slovakia and clearly more difficulties in Romania where revenue has been dropping by 15% because of the economic crisis and its impact on the purchasing power of people. In terms of KPIs for the rest of the world on page 35, you see that the customer base has continued to increase by 20% in mobile and by more than 66 % for the DSL customer base and one should notice that we have increased the African DSL customer base by 100 000 more customers which we are quite proud of when we look at those figures.

For enterprise, difficult revenue evolution in the second quarter with an impact on the legacy business; impact linked with traffic and usage: less travel, less usage, enterprises are reducing their consumption mainly for voice, it is a little less for the data business and even if the advanced business network and the services are continuing to grow, their pace of growth is lower than what it was. So no longer big enough to face the decline in the legacy business but in spite of that, the division has been able to control its cost structure and to accommodate with some new regulatory impacts, especially of their share TV tax and LME and able to keep the margin even slightly better than it was before in margin rate.

I suggest to go now on the outlook on page 40 and to come to some of the points about how we see the market and how we consider what could be happen in the next months. On the market itself, it is sure that even if we are resilient against the GDP, it does means that we are immune. We have some impact of the economic downturn, positive for few of them but also some negatives. First of all, we observe that this market segmentation is evolving with low-end and high-end segments gaining importance. The middle-range is decreasing at the expense of the extremes. People are either spending much less or spending more because they are attracted by innovation, by new technologies, by Smartphones. This is by the way the fact that we continue to observe the strong demands for new technology. When you look at the global figures for Smartphone especially for the iPhone, not only in our territories, you see that there is still a strong appetite to use new technologies, mobile broadband, VOD etc.

The third point is that there is much less roaming traffic both for enterprise but also for consumers. People are travelling less and when they travel, they spend less. Then, there is a slower handset renewal. The pace of the timing to renew handset and by the way it could be quite an advantage for us this is why we have introduced on the French market but also to extend to other markets, two offers. One is to give some money to people who accept to keep their terminal one more year and we have started the sale of refurbished terminals on the French market.

We observe, but not in all geographies, some price pressure of the price war entertained by competitors; it is specifically the case in Poland and Romania. We see most of our customers including Orange optimizing the usage and being careful not to spend over the bundle and business customers more and more inclined to renegotiate even if they are not at the end of the period of the contract. What do we do? I will not comment too long on that but you can ask questions to my colleagues but first of all we are clearly improving and prioritizing our marketing approach in terms of segmentation to be more and more adapted to the customer needs by customer segments. At the same time we kept contracts, SIM-ONLY offers. In terms of tariff, we try to take care of the consumption patterns of the people, the way they would like to spend their money and at the same time to give them more unlimited offers. We know that if you want to keep and to develop our customers, they need some bundles especially in terms of SMS, data but also in terms of voice.

Didier LOMBARD announced that the beginning of the year that we are putting a strong emphasis on our innovation resources to go to more simplicity, to more low-costs solutions. We think that they are what is needed on the market today and we have developed a few offers around that: HELLO for the French market, LiveBox 2 but also Orange Money. We are on the customer-facing part developing the Orange Care program with as I said, cash in exchange of keeping your terminal for more time and also the first mobile offer for the unemployed people in France at 10 euros a month. In the enterprise division, we are not waiting that the customers come to us saying: "I want to stop the contract". We are taking a proactive approach to adapt also to their specific situations because we know that some of them are in difficult situations.

The business trends for the second half: regarding revenue, we expect more pressure on the revenue in the second half and what we had in the first half. Why? Because the economic climate in our view will not be better. IMF projections in terms of GDP evolution are more or less at the same level than what has happened in the first half. But the Regulatory impact is stronger for us. You saw that in the first half we had a little less than 400 million impact on our revenues. We think that it will be more or less two times this in the second half when we look at all the termination rate cuts and roaming price-cut decisions that are applicable as of July 1<sup>st</sup>. Which means that if we take all this into account our revenue will be slightly negative before those termination rate cuts which means again that if we take them into account – which will be unfortunately the reality – revenue will be down in second half. This is why we are continuing to work and to protect our margin by working strongly on our cost structure. I will say few words on the Orange 2012 transformation plan afterwards in order to be able to limit the erosion of the EBITDA in this second half and to continue to tightly manage the Capex. We have more Capex spending in second half mainly linked with the seasonality of our plans. We

will spend however more or less with the same reduction rate compared to second half rates and what we did in first half. Regarding the cost structure and what we do to transform the company, it is on page 42, we announced that on the March the 5<sup>th</sup>. We have launched the Orange 2012 transformation plan to be able to achieve about 1.5 billion euro saving on the running rates either on the Capex or on the Opex side. This is what we announced. We have now put this program in place but with a very dynamic approach where in most of the entities, most of the countries, we are working on projects to improve the cost structure, or the Capex structure and to generate the group portfolio which is followed at group level and where we measure the savings. The situation of the program appears on page 43, with a portfolio of actions of around 1.7 billion euros which is not sufficient yet to achieve about 1.5 billion euros savings a year. We know that but it was much less a few months ago and we continue to increase it. We will report on it at the end of the year. Within this portfolio you see more or less how it is split. It is split among the geographies but it is also split with some strong savings expected from our network cost or network Capex. This is also linked with network sharing programs we are putting in place. We have also some savings from our IT system, from our customers facing processes but also from the product range where you remember we said that we would like to simplify our products and to go to pruning of the offers. These are all the measures and out of those 1.7 million euros 80% are of the Opex line.

To conclude with the outlook for the second half on page 44; to confirm again the level of organic cash flow at 8 billion, comparable to what it was a year ago, the first spectrum acquisition, we are less concerned by the risk of spending money on spectrum this year to a very large extent than what we were at the beginning of the year. We do not that it will not attend but it is less likely. Capex to sales ratio: slightly below 12, as we said at end of April. The Board has agreed as Mr. LOMBARD announced, to distribute an interim dividend of 0.6 euro per share on September the 2<sup>nd</sup>. In 2010, the board will decide upon the dividend but no change on the dividend policies that was announced which is 45% of the organic cash flow. Net debt is still a focus for us and we want to keep our net-debt-to-EBITDA ratio below 2 and continuing to improve the quality of our finance. Thank you very much.

### **Conference Coordinator**

Thank you. In order to ask a question, please press the \* key followed by the digit 1 on your telephone key pad. Please ensure the mute function on your telephone is switched off to allow your signal to 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 questions has

been answered, you may remove yourself from the queue by pressing \* 2. Again please press \* 1 to ask a question. Our first question comes from Damien MALTARP from CREDIT SUISSE. Please go ahead.

**Damien MALTARP**

Thank you very much. I have got a couple of questions: firstly there seems to be some comments about some potential interests in some of ZAIN's assets. Perhaps you could just clarify what your thinking is there? Secondly in terms of your gearing, I wonder if you were looking at some of ZAIN's assets, I guess you would go above two times. Are you happy to go above or do you need to worry about the dividend in that case? Thanks.

**Gervais PELLISSIER**

I see in your question in fact two questions. Regarding ZAIN, we are not interested in buying a stake into the ZAIN Group, neither minority nor majority nor whatever. It has been very clear. As soon as we got the first rumors, we have made clear statements on that. What we have always said however, that we are interested in two African assets on self-standing, stand-alone African assets either small, medium as we did in the past. If by any chance the ZAIN Group decides to sell some or one of its assets, we may look at it. This is what we said; which means that taking this into consideration, your second question has relatively little chance to be answered, or to need an answer because we will remain into the two lines given both the dividend distribution and the debt ratio.

**Damien MALTARP**

Okay thanks.

**Conference Coordinator**

Our next question comes from Frederic POULAIN from MORGAN STANLEY. Please go ahead.

**Frederic Boulan**

Good afternoon. Two quick questions please. First of all on the cost side, you managed to grow margins in Q2 with a very solid cost-control across the board and a notable low level of restructuring cost, with a current focus of management on costs plus content cost analyzing what is driving the deterioration in margins that you expect for the second

half? Secondly if you could share your thinking on shareholder remuneration, should we expect dividend to continue to grow if the Group executes on the 8 billion free cash commitment and should we see your proposal to pay half the final dividend in shares as a recurring practice which was more linked to last year's macro situation? Thanks a lot.

**Gervais PELLISSIER**

On the cost control, we still have some negative impacts in terms of comparison in second half compared to second half last year especially on the content part. Remember we started our content business progressively in the second half with a start of the soccer in August but a start of Orange Cinema Series only in November. Now we have to take the full impact of that and this is part of the difference. On top of that we will have the full effect of the audiovisual so-called Copé tax. The Copé tax started only in March so we had more or less only 3 months and a half of tax in this first half. We will have the full semester of tax in this second half. However, including this, what we say is that we will not increase the erosion of the EBIDTA compared to what has been done in first half. This is more or less the message. On the dividend payments I think if we confirm what have been said, a cash flow of 8 billion, a distribution of 45% and if the Board has chosen to keep the interim dividend stable is more or less the idea of stable dividends. It is not the decision of stable dividends but I think there are some clues to explain that we are in a situation and with a yearly performance with a stable dividend. If by any chance we have a fabulous cash flow and 1 billion more, we would be so happy that decisions would be made on that date. But I do not believe this will be the case.

Regarding the payment in shares, it will be discussed shortly.

**Frederic Boulan**

Ok, thank you.

**Conference Coordinator**

Our next question comes from Antoine PRADAYROL from EXANE, please go ahead.

**Antoine PRADAYROL**

Good afternoon everybody. I have two clarification questions please. The first one on revenues: what you're saying is that excluding regulation - there was a growth of 1% in H1 which will become negative in H2. Then you also say that regulation impact will double in H2 compared to H1; it was minus 1.5% in H1, so minus 3% in H2. Should I

understand that the H2 revenue decline would be somewhere between 3 and 4%?

**Gervais PELLISSIER**

I think you have understood the elements we have given you well. You might however be a little too pessimistic with the figures.

**Antoine PRADAYROL**

Ok, why? Is there something else we are forgetting?

**Gervais PELLISSIER**

Take everything I give you and then go to the figures you have.

**Antoine PRADAYROL**

Ok, that makes sense.

The second question is on free cash flow: you keep your €8 billion of guidance for the year but the H1 figure includes 560 million euros in currency swap, TDIRA etc. Is the 560 million euros now included in the guidance or should we add this on?

**Gervais PELLISSIER**

Unfortunately it is not to be added to the guidance. In that case, the previous question regarding the dividend would have been answered differently. To face the 500 million you mentioned of positive cash, we have a few negatives that we consider will not replicate. LME implementation for example is in one year, I don't think we will have a second LME reducing, even more, the payment terms next year.

**Antoine PRADAYROL**

But you already said the LME would have an impact so I think some people were expecting a negative impact and so it might have been already in the models whereas the plus 500 million was not.

**Gervais PELLISSIER**

But again I think there are two points to mention here:

- It is true that if your question is: do you have less operating cash than you

initially thought? Yes because we have less revenue than expected for 2009. Revenue evolution is more negative than what everyone expected at the beginning of the year.

- However, if you look at the ability to continue to generate 8 billion in cash, if we take some of the negative and some of the positive of the 8 billion this year and keep a level of activity which is comparable the year after, we should be able to generate more or less the same cash flow.

**Antoine PRADAYROL**

Ok, I understand. I have a follow-up question on the cost in Spain: the margin in Spain is very strong and if I calculate the Opex it seems to be down roughly 100 million euros year-on-year. Does this involve any one-offs or is it sustainable?

**Gervais PELLISSIER**

There are no one-offs but mainly the fact that this is a market where most of the players have decreased their commercial expense. If you totalize commercial expense in Spain it is decreasing.

**Antoine PRADAYROL**

Do you think this will continue into H2 at least?

**Gervais PELLISSIER**

Our view is that it will continue but maybe not at the same level.

**Antoine PRADAYROL**

Thank you very much.

**Conference Coordinator**

Our next question comes from Nicolas COTE-COLISSON from HSBC, please go ahead.

**Nicolas COTE-COLISSON**

Thank you. I have two questions, the first one: I am trying to better understand what H2 Opex could be, and I am wondering what kind of impact the Orange 2012

transformation action plan could have on things such as IT or general properties expenses.

My second question is on your pay-TV strategy after the recent comments from the authorities regarding auto-distribution.

**Gervais PELLISSIER**

I will answer your first question and Jean-Yves LARROUTUROU will answer your second question. We are not commenting on the detailed impact of the Orange action plan because in this first year of the Orange transformation plan there has been a mixture of contingencies such as cost cuts and a mixture of more structural savings. At the end of the year we will report on what we are doing but we want to keep the flexibility. Because of some of the structural actions I have been describing we are not yet sure of the full effect this year. What we commit to will be in line with what we say.

Jean-Yves will answer your other question.

**Jean-Yves LARROUTUROU**

As you know this paper from the *Autorités de la Concurrence* gives various kinds of indications but some parts depend on the CSA (Regulation Authority) policy, another part depends on the possible new bill on all these matters, particularly regarding the regulation of the pay-to-view in France. I think there are very interesting things in this paper regarding the analysis of the pay-TV situation. I think we share the view of the *Autorités de la Concurrence*. At this stage it is difficult to understand what the legal framework could be for all these operations in the coming months or even years. We are analyzing that and we are also trying to understand what the response from the government and parliament could be on this subject. We need these indications before we can decide what kind of adaptation we need to have regarding our business. We hope it will be clear, at least partly, in the coming months and that before the end of this semester we can decide what kind of changes are needed, useful or adequate.

**Nicolas COTE-COLISSON**

Ok, thank you.

**Conference Coordinator**

Our next question comes from James BRITAIN from Nomura, please go ahead.

**James BRITAIN**

Thank you very much. I have two questions. Firstly on regulation: you seem to have become victims of tougher regulatory styles in France whereas in other European markets regulators have been holding back a little, in a bid to encourage more investment. Can you outline what you see as the most critical regulatory decisions for the group over the next twelve months or so? Would you expect the negative impact on profits to be any greater beyond this year?

The second question is on your M&A policy: the TELCO credit seems to be getting a lot stronger in recent months so when does it make sense for FRANCE TELECOM to open a door again to transformational activity, given that you have a medium term objective of increasing the scale, and the valuations are at historically cheap levels?

**Jean-Yves LARROUTUROU**

Regarding the regulation I think the figures given earlier concerning the negative impact on regulatory decisions on our performance in the second half are not at all new, but it is clear that this impact is huge; double than that in the first half of the year. Particularly regarding the MTR cuts, the decision taken at a European level or in every country we are present is absolutely clear. The impact of that, especially in the current economic situation, has to be pointed out.

Regarding the perspective, I think there are several possibilities:

All debates related to the new generation access network at union level, as well as in certain countries such as France - these debates are crucial for the future but not for the coming months, semesters or years. There is a problem with the investment to be made in the coming years in fact and will possibly impact on our performance over the decade. The last draft recommendation from the outset is quite different from the previous text and we are analyzing that. We hope to be in a position, given this text to be worked out by assent but also given the debate within the French parliament, to analyze the situation before the end of this year to see how we could invest, maybe just as a follower or as part of an investment plan. That all has to be clarified in the coming months.

Regarding the MTRs, as I said during the investor day, we are more or less at the end of this process with many decisions taken regarding MTR cuts. There is also a decision taken by the French State Council regarding the end of the asymmetrical privilege given to BOUYGUES. I think that is a very positive decision from our point of view - not the case for BOUYGUES - and also for the future regarding a possible fourth entrant in the mobile market in France.

The third main field is related to wholesale price and I'm sure you are aware that from the offset we obtained a definitive decision regarding our wholesale price for 2009, as well as the securisation of the wholesale price for previous years. This debate is now at an open level but with a very solid decision taken by the French Authority. This is a very positive decision in terms of this debate and the contestation put forward by Vivendi for example. We are not in a black or white situation; there is a huge impact, most of them are already decided and are well-known, with some possibilities for clarification regarding the regulatory framework for the next generation investment.

**Gervais PELLISSIER**

Concerning the M&A policy we remain on the safe side of this which means that we will definitely not go for big deals and we would prefer to be in a situation where the value is defined by us and not by the price. We are not back in the field of big deals; we are trying to buy licenses to create activities from scratch, we want to do the job ourselves in order to avoid buying expensive assets. There is no way for us to go for big deals right now.

**James BRITAIN**

Thank you.

**Conference Coordinator**

Our next question comes from Matthew BLOXHAM from DEUTSCHE BANK, please go ahead.

**Matthew BLOXHAM**

Good afternoon. I have one question on the margin and one on cash flow. On the EBITDA margin I would like to clarify a comment you made: that we should think about your focus on managing the EBITDA ratio in the second half. That's EBITDA margin so we shouldn't be expecting the ratio to be any greater than the first half.

Secondly, concerning the cash flow I was wondering to what extent you get a positive swing-back in the second half from either working capital or the supplier variation which was obviously quite negative in the first half.

**Gervais PELLISSIER**

Regarding the EBITDA, generally speaking it is lower in the second half than in the first half in rate, because there is a strong impact from commercial expense in the last quarter of the year. The sales activity is generally the biggest in December but also in October and November it is the most active commercial part of our business. If you look at the past figures for previous years you will see that commercial expenses as a whole represents more than 15% of our revenues in total which is much more in the mobile business alone. In terms of seasonality this is quite strong and so even if we are careful with these expenses, the comparison quarter-on-quarter or half-on-half is proof of this. The margin should be lower in the second half than the first half.

When we speak about margin erosion we compare to the second half of last year. The comparison tells us that we should not erode more than we did in the first half and when we look at our cost structure, not forgetting the Orange transformation begins and other factors, we should be able to keep the erosion at the level we have set.

Regarding cash flow, I did not completely understand your question. For me when we talk of seasonal changes it is true that it should be expected to reverse positively, there will be some effect because payment terms have changed between the first and second half. There are also other effects which explain that at the end cash flow is probably lower in the second half this year than the second half last year. If we have over 500 million more in the first half making a total of 8 billion, this means that cash flow is lower in the second half; it is purely down to mathematics. We have a few explanations for that: payment terms, following the impact of the LME in the second half and more Capex spending in the second half.

**Matthew BLOXHAM**

Thank you.

**Conference Coordinator**

Our next question comes from Jerry DELLIS from JP MORGAN, please go ahead.

**Jerry DELLIS**

Good afternoon. I have two questions: firstly thinking about Capex trends into the second half you mentioned that on an underlying basis, Capex was 13% down year-on-year in H1. Is that 13% decline in absolute terms a reasonable benchmark for H2? That would potentially take us down to 11% Capex sales for the full year. Would you be

comfortable with that?

Secondly, a question on French mobile: obviously growth is still strong with a trend of just over 5%; much stronger than other markets. It seems to be principally driven by data, are you comfortable that the rate of data growth is sustainable? At what point do you think voice tariffs come under a little more pressure in preparation for the fourth entrant?

**Gervais PELLISSIER**

Concerning the Capex I see your calculation is not far from what we expect; we said we should have more or less 13% reduction and that for the full year we have Capex to sales guidance of between 11 and 12% which is very close to what you said.

Regarding the mobile business in France and the tariff situation in preparation for the fourth entrant...

**Louis-Pierre Wenes**

I think it's a bit premature to talk about the fourth entrant, it is at least a year away and I think we will follow the natural trend up to the end of this year. There is no real tariff decrease on the voice part. You can see there are more unlimited offers coming to the market but people taking up these offers are usually paying a higher ARPU in their contract, so I think this will continue.

In terms of the data, we see a very strong push currently; you have seen our figures. We do not believe this will slow down and from that perspective the iPhone was a catalyser for what is happening now. I think we will continue more or less on the current H1 trend.

**Jerry DELLIS**

Thank you.

**Conference Coordinator**

Our next question comes from Thierry COTA from SOCIETE GENERALE, please go ahead.

**Thierry COTA**

Good afternoon, I have two questions. First on broadband: the 26% was low; it's not

the first quarter with a lack of good news. Can you elaborate on the reasons for this and what you will work on to improve the performance going forward?

Secondly, to further the questions on French mobile you had good net adds: can you tell us of any impact from the loss of iPhone exclusivity in the French market? Could we get a sense of the proportion of iPhone customers in those two one three thousand net adds?

Lastly on the fourth license which was just mentioned, any news on the launch of the tender?

### **Louis-Pierre Wenes**

I will begin with the French mobile question: I understand your question was on the influence of the loss of the exclusivity on the iPhone, of course we are now selling a bit less than previously because there are now three of us selling them. From the figures, it looks like we are selling a bit more than our normal market share and surveys we made showed that in the mind of French people, APPLE is more related to Orange than to our other two competitors. This might explain the first part of it.

On the broadband, two things are happening: the first is that the crisis has made people more sensitive to what they spend. You know that we have a premium which is basically unavailable because of the regulation constraints. The second reason is that one of our competitors has finished a merger; they were in very poor shape last year and have now come back in the market, able to sell within a physical retail network which was not the case before. Of course we will react, starting as early as the end of August with a more segmented approach. We will also make sure that all the policies applied by our customers, mainly crossing their customer bases between mobile and broadband, which is still forbidden for us at the moment. We will be able to do this in the future or they will have to stop so that we are treated in the same way as them.

### **Thierry COTA**

Do you get a sense that the content spending you have been making over the last quarters and the offers you have made make a difference? Would it have been much worse without your exclusive offers?

### **Louis-Pierre Wenes**

I think it's hard to say if it would be much better or much worse but we had very interesting feedback. We had some customer forums where we invited the people from Orange and other competitors and asked them "what is the differentiator for Orange

versus the competitors?" Their answers were: service; which is something of course we know and we have always focused on, but very strongly the second point was contents. They clearly defined this as a differentiator. Now, as we said we are happy with the fact we are growing our base to 400,000 clients within a few months but it's only the beginning and unfortunately this doesn't yet show enough in the figures.

**Thierry COTA**

And in terms of the fourth license?

**Jean-Yves LARROUTUROU**

Without any specific insider information or crystal ball, the only information we have is that there are 32 remaining hours to bet that it could be launched before the end of July.

**Thierry COTA**

Ok, thank you.

**Conference Coordinator**

Our next question comes from Dimitri Kallianiotis from CITI, please go ahead.

**Dimitri Kallianiotis**

Good afternoon, I have two questions. The first one is on regulation, particularly fiber: if you know the ARCEP's view in terms of regulating fiber based on the draft published. Would you just delay your spending on fiber or would you be prepared not to spend on fiber and be a follower?

My second question is on the top line: as you said you are expecting the decline to start accelerating, what initiatives are you implementing to try to improve the growth rate? Do you now feel the need to go for some inorganic growth?

**Gervais PELLISSIER**

I will begin with your second question and my colleagues will answer the questions on the fiber situation.

Regarding revenue evolution, you will see in the presentation either globally or by

country, we say what we want to do to improve or maintain or protect the top line. Now, there are a few situations where even if this is done, when customers are spending less and when the market is declining, if the only possibility is to acquire market share from competitors then for example if we take the prepay mobile market we know that the low cost portion of this market is very volatile, so you could take the risk to spend a lot of money acquiring customers and therefore increase market share, and then lose this market share as quickly as it was acquired. This has been observed in the past, especially in highly competitive markets such as the UK and so we do not think this is the right thing to do. If we consider the price, we could continue to sell equipment, switchboards with no margin or even negative margins and revenues will still increase, so I am not sure if this is exactly what we should do in this environment.

Regarding your second question on inorganic growth, we are doing two or three things in this area. First of all we are continuing to develop this business in the adjacent areas; we have not mentioned it but we have new growth activities such as content, audience, health. We are continuing to grow in these fields. There is unfortunately a little less growth in web advertising because this is not the greatest year for advertising spending, globally. We continue to look at adjacent businesses either through organic means or very small acquisitions to complement the few million Euro size companies as we did in the services business for Orange Business Services to continue to grow. Then there are the M&A policies that Mr. LOMBARD commented on earlier where we said we are looking at targets to develop the business. Again, we think that we have to increase the value-added based on our capital employed today. If we want to use more capital for development it should bring at least the same capacity.

### **Jean-Yves LARROUTOUROU**

Regarding the FTTH I think things are clear and relatively comfortable so the next steps are that the Competition Authority has to give its opinion on the new draft recommendation from the ARCEP, after that the recommendation would change in order to have the opinion of the European Commission. In parallel there will be a debate at French parliament. This means we should have all the elements before the end of the year in order to see what tactics and strategies we should adopt regarding the investment. What could the situation look like in order to have a normal, reasonable investment return rate on such investments in the coming years? It is a normal situation, it means that there will not be any impact in the second half of the year; it could be just in the latter part of 2010. It is not possible to say whether we will be in something with a clear ambition or just as a follower.

Regarding the roll-out of FTTH, this is in the hands of the ARCEP and the parliament.

**Dimitri Kallianiotis**

Thank you very much.

**Didier Lombard**

I think you have to keep in mind that fiber is only interesting if you can develop services which are not accommodated by the normal network. For the time being this is not available so we need to work on that because we will not invest if we are not sure to differentiate from our competitors. It is therefore obvious that there will be no impact this year.

**Conference Coordinator**

Our final question comes from Carl MURDOCH SMITH from CAZENOVE, please go ahead.

**Carl MURDOCH SMITH**

Thank you very much. I have two questions. Firstly, just an update on the current discussions with MOBINIL and the ownership, what are your current thoughts and plans?

Secondly, when you talk about regulatory impact of 383 in H1 and that doubling in H2, is that strictly the regulatory impact? What are your thoughts on the results in competitive action that may also occur?

**Unidentified Speaker**

Regarding your first question, Egypt, I think the situation is clear and relatively comfortable for half, maybe not so comfortable for the other part, particularly the Egyptian authorities. As mentioned, the operational situation is good and as you have seen, the results for the first semester are brilliant. It is the most important point because we have double digit growth and this is our most important asset in the emerging countries.

The second point is the situation regarding these assets; it is clear that compared with the situation prevailing one year or two years ago, we are now clearly in a better position and there is no danger for our assets and there is a possibility for an up-side. The results of the arbitration process triggered by our friend and partner Naguib Sawiris. The results weren't exactly what he had in mind but it strengthened our contour on these

operations. It is difficult to have these rights concretised given the legal difficulties with the administrative authority in Egypt which is why we have all these episodes, but at the end of the day I don't know whether this is possible in July this year or 2012 or 2013, we will see. I'm sure that we will have the results of this arbitration or compensation in proportion with that. It means that we clearly prefer to have positive results within the Egyptian legal system and so it means we prefer to avoid triggering any international arbitration against the Arab Republic of Egypt. If this was not the case we would consider this possibility.

The most important point is what I said earlier; the very good operational performance and the comfort we have with our assets.

**Gervais PELLISSIER**

Regarding the regulatory impact in the second half compared to the first half, in terms of revenues we said it was double in the second half, the first half being 380 million euro revenue impact.

Thank you very much.

**Conference Coordinator**

That concludes today's conference call, thank you for your participation, you may now disconnect.