

Condensed interim consolidated Financial Statements

DISCLAIMER

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Six months ended June 30,2010



(en blanc)

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Interim Consolidated Income Statement

Amounts in millions of euros (except for per share data)	Note	Period ended June, 2010	Period ended June, 2009 ⁽¹⁾
Revenues		22,144	22,418
External purchases		(9,162)	(9,246)
Other operating Income		276	314
Other operating expense		(1,080)	(1,081)
Labour expenses		(4,379)	(4,251)
Gain (losses) on disposal and other gains (losses)		2	(17)
Restructuring costs		(56)	(98)
Depreciation and amortization		(3,042)	(3,092)
Impairment of goodwill	3	-	-
Impairment of fixed assets		(1)	(14)
Share of profits (losses) of associates	5	12	81
Operating Income		4,714	5,014
Cost of gross financial debt		(1,002)	(1,134)
Income and expense on net debt assets		72	73
Foreign exchange gains (losses)		(10)	(1)
Other financial Income and expense		(28)	(30)
Finance costs, net		(968)	(1,092)
Income tax	4	(911)	(1,256)
Consolidated net income after tax of continuing operations		2,835	2,666
Consolidated net income after tax of discontinued operations	2	1,130	98
Consolidated net income after tax		3,965	2,764
Net income attributable to owners of the parent		3,725	2,561
Non-controlling interests	8	240	203
Earnings per shares (in euros)	8		
Net income of continuing operations attributable to owners of France Telecom S.A.			
- basic		0.98	0.93
- diluted		0.98	0.93
Net income of discontinued operations attributable to owners of France Telecom S.A.			
- basic		0.43	0.04
- diluted		0.43	0.04
Net income attributable to owners of France Telecom S.A.			
- basic		1.41	0.97
- diluted		1.41	0.97

(1) See note 1.5 for effects of the changes in accounting principles applied from January 1, 2010
the accompanying notes are an integral part of the consolidated financial statements

Interim Consolidated Statement of Comprehensive Income

Amounts in millions of euros	Note	Period ended June, 2010	Period ended June, 2009 ⁽¹⁾
Consolidated net income after tax		3,965	2,764
Actuarial gains and losses on defined benefit plans	6	(89)	(23)
Gains (losses) on available-for-sale financial assets	6	(5)	10
Gains (losses) on cash flow hedge	6	108	(133)
Gains (losses) on net investment hedges	6	(50)	11
Exchange differences on translating foreign operations	6	1,199	(303)
Share of other comprehensive Income in associates	6	(11)	-
Income tax relating to components of other comprehensive income	6	18	48
Other comprehensive income for the year, net of tax of continuing operations		1,170	(390)
Gains (losses) on cash flow hedge		1	(53)
Exchange differences on translating foreign operations		1,023	388
Other comprehensive income for the year, net of tax of discontinued operations		1,024	335
Consolidated other comprehensive income for the year, net of tax of discontinued operations		2,194	(55)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		6,159	2,709
Total comprehensive income attributable to owners of the parent		5,893	2,586
Non-controlling interests		266	123

(1) See note 1.5 for effects of the changes in accounting principles applied from January 1, 2010
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Interim Consolidated Statement of Financial Position

	Note	Period ended June, 2010	Period ended December, 2009 ⁽¹⁾
ASSETS			
Goodwill		27,960	27,797
Other Intangible assets		9,920	9,953
Property, plant and equipment		23,305	23,547
Interests in associates	5	8,822	937
Assets available for sale		138	220
Non-current loans and receivables	7	1,539	2,554
Non-current financial assets at fair value through profit or loss		75	199
Non-current hedging derivatives assets	7	812	180
Other non-current assets		12	32
Deferred tax assets	4	3,028	3,775
Total non-current assets		75,611	69,194
Inventories		562	617
Trade receivables		5,289	5,451
Current loans and other receivables	7	141	1,093
Current financial assets at fair value through profit or loss, excluding cash equivalents		935	91
Current hedging derivatives assets	7	105	18
Other current assets		1,871	1,828
Current tax assets	4	87	142
Prepaid expenses		510	407
Cash equivalents	7	6,414	2,911
Cash	7	1,081	894
Total current assets		16,995	13,452
Assets held for sale	2	-	8,264
TOTAL ASSETS		92,606	90,910

(1) See note 1.5 for effects of the changes in accounting principles applied from January 1, 2010

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	Note	Period ended June, 2010	Period ended December, 2009 ⁽¹⁾
EQUITY AND LIABILITIES			
Share capital		10,595	10,595
Additional paid-in capital		15,730	15,730
Retained earnings		4,230	539
Equity attributable to the owners of the parent		30,555	26,864
Non controlling interest		2,382	2,713
Total equity	8	32,937	29,577
Non-current trade payables		400	411
Non-current financial liabilities at amortized cost, excluding trade payables		30,644	30,502
Non-current financial liabilities at fair value through profit or loss		259	614
Non-current hedging derivatives liabilities		179	693
Non-current employee benefits		1,349	1,223
Non-current provisions		764	1,009
Other non-current liabilities		546	565
Deferred tax liabilities	4	1,000	1,043
Total non-current liabilities		35,141	36,060
Current trade payables		7,378	7,531
Current financial liabilities at amortized cost, excluding trade payables		9,041	6,230
Current financial liabilities at fair value through profit or loss		240	73
Current hedging derivatives liabilities		341	1
Current employee benefits		1,511	1,687
Current provisions		975	1,217
Other current liabilities		2,220	2,629
Current tax payables	4	369	282
Deferred income		2,453	2,443
Total current liabilities		24,528	22,093
Liabilities related to assets held for sale	2	-	3,180
TOTAL EQUITY AND LIABILITIES		92,606	90,910

(1) See note 1.5 for effects of the changes in accounting principles applied from January 1, 2010

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Interim Consolidated Statement of Changes in Shareholders' Equity

(amounts in millions of euros)	Note	Attributable to owners of France Telecom S.A.						Attributable to non-controlling interests			Total equity
		Number of shares in issues	Share capital	Additional paid in capital	Reserves	Other comprehensive income	Total	Reserves	Other comprehensive income	Total	
Balance at January 1, 2009		2,614,991,236	10,460	15,325	988	317	27,090	3,360	238	3,598	30,688
Impact of change in accounting for interests in jointly controlled entities	1							(71)	(2)	(73)	(73)
Impact of change in accounting for recognition of actuarial gains and losses	1				4	(62)	(58)		(14)	(14)	(72)
Balance at January 1, 2009 after impacts of changes in accounting methods		2,614,991,236	10,460	15,325	992	255	27,032	3,289	222	3,511	30,543
Consolidated comprehensive income					2,561	25	2,586	203	(80)	123	2,709
Capital increase		33,625,804	134	404			538				538
Share-based compensation					23		23	1		1	24
Purchase of treasury shares					(21)		(21)				(21)
Dividends					(2,091)		(2,091)	(556)		(556)	(2,647)
Changes in ownership interest with no gain / loss of control					(2)		(2)	(662)		(662)	(664)
Other movements					(112)		(112)	(7)		(7)	(119)
Balance at June 30, 2009		2,648,617,040	10,594	15,729	1,350	280	27,953	2,268	142	2,410	30,363
Consolidated comprehensive income					457	(32)	425	181	79	260	685
Capital increase		92,734	1	1			2				2
Share-based compensation					14		14	2		2	16
Purchase of treasury shares					(16)		(16)				(16)
Dividends					(1,588)		(1,588)	(15)		(15)	(1,603)
Changes in ownership interest with no gain / loss of control					2		2	3		3	5
Other movements					72		72	53		53	125
Balance at December 31, 2009		2,648,709,774	10,595	15,730	291	248	26,864	2,492	221	2,713	29,577
Consolidated comprehensive income					3,725	2,168	5,893	240	26	266	6,159
Capital increase	8	56,999					0				0
Share-based compensation	8				5		5	1		1	6
Purchase of treasury shares	8				(36)		(36)				(36)
Dividends	8				(2,117)		(2,117)	(598)		(598)	(2,715)
Changes in ownership interest with no gain / loss of control					(36)		(36)	(6)		(6)	(42)
Other movements					(18)		(18)	6		6	(12)
Balance at June 30, 2010		2,648,766,773	10,595	15,730	1,814	2,416	30,555	2,135	247	2,382	32,937

The accompanying notes are an integral part of the consolidated financial statements

Other comprehensive income variation

Note	Attributable to owners of France Telecom S.A.							Attributable to non-controlling interests					Total other comprehensive income
	Assets available for sale	Hedging instruments	Translation adjustments	Actuarial gains and losses	Share of other comprehensive income of associates	Deferred taxes	Total	Hedging instruments	Translation adjustments	Actuarial gains and losses	Deferred taxes	Total	
Balance at January 1, 2009	26	645	(135)			(219)	317	(5)	243			238	555
Impact of change in accounting for interests in jointly controlled entities									(2)			(2)	(2)
Impact of change in accounting for recognition of actuarial gains and losses				(90)	(4)	32	(62)		1	(19)	4	(14)	(76)
Balance at January 1, 2009 after impacts of changes in accounting	26	645	(135)	(90)	(4)	(187)	255	(5)	242	(19)	4	222	477
Variation	6	10	(179)	172	(28)	50	25	4	(87)	5	(2)	(80)	(55)
Balance at June 30, 2009	36	466	37	(118)	(4)	(137)	280	(1)	155	(14)	2	142	422
Variation	22	(54)	0	(24)	0	24	(32)	2	90	(17)	4	79	47
Balance at December 31, 2009	58	412	37	(142)	(4)	(113)	248	1	245	(31)	6	221	469
Variation	6	(5)	57	2,185	(71)	(11)	13	2	37	(18)	5	26	2,194
Balance at June 30, 2010	53	469	2,222	(213)	(15)	(100)	2,416	3	282	(49)	11	247	2,663

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Interim Consolidated Statement of Cash Flows

(amounts in millions of euros)	Note	Period ended June 30, 2010	Period ended June 30, 2009 ⁽¹⁾
OPERATING ACTIVITIES			
Consolidated net income		3,965	2,764
<i>Adjustments to reconcile net income to cash provided by operating activities</i>			
Depreciation and amortization		3,042	3,504
Impairment of non-current assets		3	14
Everything Everywhere net income effect	2	(1,060)	-
Gains (losses) on disposals of assets		(1)	18
Change in other provisions		(392)	(262)
Share of profits (losses) of associates	5	(12)	(81)
Income tax	4	974	1,240
Finance costs net		969	1,097
Operational net foreign exchange and derivatives		(9)	96
Share-based compensation		7	24
<i>Change in inventories, trade receivables and trade payables</i>			
Decrease (increase) in inventories		113	177
Decrease (increase) in trade receivables		398	221
Increase (decrease) in trade payables		6	(389)
<i>Other changes in working capital requirements</i>			
Decrease (increase) in other receivables		(125)	(106)
Increase (decrease) in other payables		(20)	(222)
General Court of the European Union's ruling of November 30, 2009	9	(964)	-
<i>Other net cash out</i>			
Dividends and interest income received		167	114
Interest paid and interest rates effects on derivatives net		(1,217)	(752)
Income tax paid		(270)	(255)
Net cash provided by operating activities		5,574	7,202
Of which discontinued operations		87	608
INVESTING ACTIVITIES			
<i>Purchases (sales) of property plant and equipment and intangible assets</i>			
Purchases of property plant and equipment and intangible assets		(2,467)	(2,422)
Increase (decrease) in amounts due to fixed asset suppliers		(390)	(769)
Proceeds from sales of property plant and equipment and intangible assets		23	58
Cash paid for investment securities net of cash acquired		(69)	(13)
Proceeds from sales of investment securities net of cash transferred		(54)	3
<i>Decrease (increase) in securities and other financial assets</i>			
Escrow deposit related to the General Court of the European Union's ruling	9	964	-
Treasury bills (OAT)		(303)	(1,216)
Other		331	578
Net cash used in investing activities		(1,965)	(3,781)
Of which discontinued operations		(107)	(221)

(1) See note 1.5 for effects of the changes in accounting principles applied from January 1, 2010

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(amounts in millions of euros)	Note	Period ended June 30, 2010	Period ended June 30, 2009 ⁽¹⁾
FINANCING ACTIVITIES			
<i>Issuances</i>			
Bonds	7	1,838	2,655
Other long-term debt	7	225	391
<i>Redemptions and repayments</i>			
Bonds	7	(525)	(2,252)
Other long-term debt	7	(464)	(937)
Equity portion of hybrid debt		-	(97)
<i>Other changes</i>			
Increase (decrease) of bank overdrafts and short-term borrowings	7	59	737
Decrease (increase) of deposits and other debt-linked financial assets	7	799	(303)
Exchange rates effects on derivatives net	7	531	(137)
Purchase of treasury shares		(24)	(33)
Changes in ownership interests with no gain / loss of control			
Of which FT España		(1)	(1,379)
Of which others		(41)	2
Capital increase (decrease) - owners of the parent company	8	-	2
Capital increase (decrease) - non-controlling interests	8	1	1
Dividends paid to non-controlling interests	8	(290)	(275)
Dividends paid to owners of the parent company	8	(2,117)	(1,553)
Net cash used in financing activities		(9)	(3,178)
Of which discontinued operations		66	(396)
Net change in cash and cash equivalents		3,600	243
Of which discontinued operations		46	(9)
Effect of exchange rates changes on cash and cash equivalents and other non-monetary effects		90	34
Of which discontinued operations		6	8
<i>Cash and cash equivalents at beginning of period</i>		3,805	4,694
Of which cash		894	928
Of which cash equivalents		2,911	3,766
Of which discontinued operations		-	22
Cash and cash equivalents at end of period		7,495	4,971
Of which cash		1,081	1,448
Of which cash equivalents		6,414	3,523
Of which discontinued operations		52	21

(1) See note 1.5 for effects of the changes in accounting principles applied from January 1, 2010

The accompanying notes are an integral part of the consolidated financial statements

Segment Information

CONSOLIDATED INCOME STATEMENT FOR HALF-YEAR ENDED JUNE 30, 2010

(in millions of euros)	France	Spain	Poland	Rest of the World
Revenues	11,590	1,867	1,963	3,663
- External	11,000	1,848	1,943	3,487
- Inter-segment	590	19	20	176
External purchases	(4,320)	(1,301)	(880)	(1,806)
Other operating income	639	23	23	43
Other operating expense	(871)	(135)	(91)	(204)
Labour expenses	(2,342)	(88)	(289)	(332)
Gain (losses) on disposal and other gains (losses)	(3)	(1)	1	(1)
Restructuring costs	(33)	-	(4)	(3)
EBITDA	4,660	365	723	1,360
Depreciation and amortization	(1,074)	(478)	(476)	(541)
Impairment of goodwill	-	-	-	-
Impairment of fixed assets	(1)	(1)	(1)	-
Share of profits (losses) of associates	2	(1)	-	30
Operating income	3,587	(115)	246	849
Finance costs, net	-	-	-	-
Income tax	-	-	-	-
Consolidated net income after tax of continuing operations	-	-	-	-
Consolidated net income after tax of discontinued operations	-	-	-	-
Consolidated net income after tax	-	-	-	-

Investments in property, plant and equipment and

- excluding telecommunications licenses	1,106	164	179	390
- telecommunications licenses	285	-	-	-
- financed through finance leases	-	4	1	-
TOTAL INVESTMENTS ⁽⁴⁾	1,391	168	180	390

(1) Including 2,683 million euros for the revenue of France geographical zone, 120 million euros for the revenue of UK geographical zone, 12 million euros for the revenue of Spain geographical zone, 300 million euros for the revenue of rest of Europe geographical zone and 459 million euros for the revenue of rest of the world geographical zone at June 30, 2010. Including 97 million euros for tangible and intangible assets of France geographical zone, 4 million euros of UK geographical zone, 15 million euros for the revenue of rest of Europe geographical zone and 29 million euros of rest of the world geographical zone at June 30, 2010

(2) Including 726 million euros for the revenue of France geographical zone, 16 million euros for the revenue of UK geographical zone and 38 million euros for the revenue of rest of world geographical zone at June 30, 2010. Including 207 million euros for tangible and intangible assets of France geographical zone at June 30, 2010

(3) Except Everything Everywhere

(4) Including 910 million euros for other intangible assets and 1,575 million euros for other tangible assets at June 30, 2010

Enterprise ⁽¹⁾	International Carrier and Shared Services ⁽²⁾	Eliminations & other items	TOTAL France Telecom	Discontinued operations		Jointly Controlled Entities 100% ⁽³⁾
				United Kingdom	Eliminations & other items	Entities : Egypt / Mauritius / Equatorial Guinea
3,576	780	(1,295)	22,144	1,282	(20)	840
3,344	522	-	22,144	1,275	(13)	840
232	258	(1,295)	-	7	(7)	-
(2,113)	(1,703)	2,961	(9,162)	(920)	22	(367)
78	1,574	(2,104)	276	7	(36)	8
(112)	(105)	438	(1,080)	(78)	34	(70)
(735)	(593)	-	(4,379)	(97)	-	(55)
-	6	-	2	1,059	-	(1)
(8)	(8)	-	(56)	(57)	-	-
686	(49)	-	7,745	1,196	-	355
(165)	(308)	-	(3,042)	-	-	(143)
-	-	-	-	-	-	-
-	2	-	(1)	(2)	-	-
(1)	(18)	-	12	-	-	-
520	(373)	-	4,714	1,194	-	212
-	-	-	(968)	(1)	-	9
-	-	-	(911)	(63)	-	(44)
-	-	-	2,835			177
-	-	-	1,130	1,130		
-	-	-	3,965			
143	132	-	2,114	68	-	141
-	-	-	285	-	-	-
5	76	-	86	4	-	-
148	208	-	2,485	72	-	141

Segment information

CONSOLIDATED INCOME STATEMENT FOR HALF-YEAR ENDED JUNE 30, 2009

(in millions of euros)	France	Spain	Poland	Rest of the World
Revenues	11,846	1,920	1,900	3,564
- External	11,162	1,902	1,882	3,399
- Inter-segment	684	18	18	165
External purchases	(4,434)	(1,373)	(857)	(1,697)
Other operating income	745	24	14	69
Other operating expense	(886)	(128)	(73)	(189)
Labour expenses	(2,296)	(91)	(266)	(324)
Gain (losses) on disposal and other gains (losses)	(6)	(3)	3	-
Restructuring costs	(44)	-	-	(6)
EBITDA	4,925	349	721	1,417
Depreciation and amortization	(1,098)	(523)	(471)	(506)
Impairment of goodwill	-	-	-	-
Impairment of fixed assets	(3)	(1)	2	-
Share of profits (losses) of associates	(12)	-	-	55
Operating income	3,812	(175)	252	966
Finance costs, net	-	-	-	-
Income tax	-	-	-	-
Consolidated net income after tax of continuing operations	-	-	-	-
Consolidated net income after tax of discontinued operations	-	-	-	-
Consolidated net income after tax	-	-	-	-

Investments in property, plant and equipment and

- excluding telecommunications licenses	964	182	201	484
- telecommunications licenses	-	-	-	1
- financed through finance leases	-	-	-	-
TOTAL INVESTMENTS (3)	964	182	201	485

(1) Including 2,872 million euros for the revenue of France geographical zone, 117 million euros for the revenue of UK geographical zone, 8 million euros for the revenue of Spain geographical zone, 315 million euros for the revenue of rest of Europe geographical zone and 511 million euros for the revenue of rest of the world geographical zone at June 30, 2009. Including 96 million euros for tangible and intangible assets of France geographical zone, 7 million euros of UK geographical zone and 42 million euros of rest of the world geographical zone at June 30, 2009

(2) Including 647 million euros for the revenue of France geographical zone and 41 million euros for the revenue of rest of the world geographical zone at June 30, 2009. Including 292 million euros for tangible and intangible assets of France geographical zone at June 30, 2009

(3) Including 617 million euros for other intangible assets and 1,654 million euros for other tangible assets at June 30, 2009

Enterprise (1)	International Carrier and Shared Services (2)	Eliminations & other items	TOTAL France Telecom	Discontinued operations		Jointly Controlled Entities 100%
				United Kingdom	Eliminations & other items	Entities : Egypt / Mauritius / Equatorial Guinea
3,824	688	(1,324)	22,418	2,541	(48)	829
3,585	488	-	22,418	2,523	(30)	829
239	200	(1,324)	-	18	(18)	-
(2,316)	(1,626)	3,057	(9,246)	(1,696)	66	(333)
67	1,589	(2,194)	314	66	(88)	5
(83)	(183)	461	(1,081)	(196)	70	(60)
(697)	(577)	-	(4,251)	(195)	-	(50)
-	(11)	-	(17)	(1)	-	(1)
(15)	(33)	-	(98)	(20)	-	(1)
780	(153)	-	8,039	499	-	389
(177)	(317)	-	(3,092)	(412)	-	(137)
-	-	-	-	-	-	-
(8)	(4)	-	(14)	-	-	-
-	38	-	81	-	-	-
595	(436)	-	5,014	87	-	252
-	-	-	(1,092)	(5)	-	(11)
-	-	-	(1,256)	16	-	(48)
-	-	-	2,666	-	-	193
-	-	-	98	98	-	
-	-	-	2,764			
138	293	-	2,262	159	-	157
-	-	-	1	-	-	-
8	-	-	8	3	-	-
146	293	-	2,271	162	-	157

Segment Information

STATEMENT OF FINANCIAL POSITION FOR HALF-YEAR ENDED JUNE 30, 2010

(in millions of euros)	France	Spain	Poland	Rest of the World
Goodwill	15,305	4,723	1,770	5,678
Other Intangible Assets	2,300	1,468	815	1,051
Property, plant and equipment	10,165	2,032	3,996	4,579
Interests in associates	53	1	1	754
Other	-	-	-	6
Total Non-current assets	27,823	8,224	6,582	12,068
Inventories	249	68	46	128
Trade receivables	2,657	490	387	1,199
Prepaid expenses	103	58	30	91
Other	1,835	32	34	282
Total Current Assets	4,844	648	497	1,700
TOTAL ASSETS	32,667	8,872	7,079	13,768
Equity				
Non-current trade payables	188	14	198	-
Non-current employee benefits	697	10	72	138
Non-current provisions	401	143	49	92
Other	518	-	-	-
Total Non-current liabilities	1,804	167	319	230
Current trade payables	3,777	1,017	517	1,612
Current employee benefits	759	25	74	107
Current provisions	496	24	281	82
Deferred income	1,683	93	153	276
Other	1,272	55	528	572
Total Current liabilities	7,987	1,214	1,553	2,649
TOTAL EQUITY AND LIABILITIES	9,791	1,381	1,872	2,879

(1) Some trade receivables generated by the Enterprise segment (approximately 201 million euros) are included in the France segment, which is responsible for their collection.

Including for other intangible assets and property, plant and equipment, 316 million euros of the France geographical zone, 13 million euros of the UK geographical zone and 458 million euros of rest of the world geographical zone.

(2) Some trade receivables generated by the ICSS segment (approximately 27 million euros at June 30, 2010) are included in the France segment, which is responsible for their collection.

Including for other intangible assets and property, plant and equipment, 2,834 million euros of the France geographical zone, 3,144 million euros of the UK geographical zone and 48 million euros of rest of the world geographical zone.

(3) Except Everything Everywhere

**Jointly Controlled
Entities 100% ⁽³⁾**

Enterprise ⁽¹⁾	International Carrier and Shared Services ⁽²⁾	Eliminations and unallocated items	France Telecom TOTAL	Other entities : Egypt / Mauritius / Equatorial Guinea
416	68	-	27,960	-
312	3,974	-	9,920	643
477	2,056	-	23,305	1,340
1	8,012	-	8,822	-
5	-	5,593	5,604	50
1,211	14,110	5,593	75,611	2,033
33	38	-	562	30
801	1,427	(1,672)	5,289	143
112	142	(26)	510	67
126	272	8,053	10,634	291
1,072	1,879	6,355	16,995	531
2,283	15,989	11,948	92,606	2,564
		32,937	32,937	688
-	-	-	400	55
127	305	-	1,349	23
24	55	-	764	2
-	29	32,081	32,628	861
151	389	32,081	35,141	941
808	1,319	(1,672)	7,378	435
293	253	-	1,511	21
30	62	-	975	32
192	83	(27)	2,453	78
154	350	9,280	12,211	369
1,477	2,067	7,581	24,528	935
1,628	2,456	72,599	92,606	2,564

Segment Information

STATEMENT OF FINANCIAL POSITION FOR HALF-YEAR ENDED DECEMBER 31, 2009

(in millions of euros)	France	Spain	Poland	Rest of the World
Goodwill	15,305	4,723	1,788	5,511
Other Intangible Assets	2,042	1,662	842	1,043
Property, plant and equipment	10,121	2,144	4,319	4,413
Interests in associates	57	2	1	724
Other	-	-	-	13
Total Non-current assets	27,525	8,531	6,950	11,704
Inventories	292	69	56	134
Trade receivables	2,936	494	359	1,057
Prepaid expenses	96	19	24	49
Other	1,365	32	29	255
Total Current Assets	4,689	614	468	1,495
TOTAL ASSETS	32,214	9,145	7,418	13,199
Assets held for sale				
TOTAL ASSETS				
Equity				
Non-current trade payables	203	15	193	-
Non-current employee benefits	739	7	70	87
Non-current provisions	635	154	52	78
Other	536	-	-	-
Total Non-current liabilities	2,113	176	315	165
Current trade payables	3,836	1,244	603	1,528
Current employee benefits	805	25	74	117
Current provisions	717	29	294	54
Deferred income	1,710	78	155	263
Other	1,082	31	44	269
Total Current liabilities	8,150	1,407	1,170	2,231
TOTAL EQUITY AND LIABILITIES	10,263	1,583	1,485	2,396
Liabilities related to assets held for sale				
TOTAL EQUITY AND LIABILITIES				

(1) Some trade receivables generated by the Enterprise segment (approximately 289 million euros at December 31, 2009) are included in the France segment, which is responsible for their collection. Including for other intangible assets and property, plant and equipment, 325 million euros of the France geographical zone, 12 million euros of the UK geographical zone and 446 million euros of rest of the world geographical zone.

(2) Including for other intangible assets and property, plant and equipment, 2,933 million euros of the France geographical zone, 3,146 million euros of the UK geographical zone and 52 million euros of rest of the world geographical zone.

(3) Excluding the net debt transferred for 1,407 million euros and the cash arising from the operating cash flows of 172 million euros, included in the segment "Eliminations and unallocated items".

Enterprise ⁽¹⁾	International Carrier and Shared Services ⁽²⁾	Eliminations and unallocated items	France Telecom TOTAL	Discontinued operations		Jointly Controlled Entities 100%
				United Kingdom ⁽³⁾	Eliminations and other	Other entities : Egypt / Mauritius / Equatorial Guinea
402	68	-	27,797	1,517	-	-
293	4,071	-	9,953	3,756	-	595
488	2,062	-	23,547	1,795	-	1,172
6	147	-	937	2	-	-
18	-	6,929	6,960	-	1,408	46
1,207	6,348	6,929	69,194	7,070	1,408	1,813
25	41	-	617	123	-	23
773	1,448	(1,616)	5,451	596	48	130
95	153	(29)	407	289	-	24
116	95	5,085	6,977	186	175	300
1,009	1,737	3,440	13,452	1,194	223	477
2,216	8,085	10,369	82,646	8,264	1,631	2,290
		8,264	8,264	8,264		
			90,910			2,290
		29,577	29,577	-	-	670
-	-	-	411	-	-	49
112	208	-	1,223	-	-	18
21	69	-	1,009	98	-	2
-	28	32,853	33,417	1,645	1,407	642
133	305	32,853	36,060	1,743	1,407	711
767	1,169	(1,616)	7,531	914	48	444
284	382	-	1,687	19	-	20
44	79	-	1,217	19	-	38
175	93	(31)	2,443	263	-	67
144	1,122	6,523	9,215	222	176	340
1,414	2,845	4,876	22,093	1,437	224	909
1,547	3,150	67,306	87,730	3,180	1,631	2,290
		3,180	3,180	3,180		
			90,910			2,290

Note 1 – Accounting policies

This note describes the changes in accounting policies which were used by the France Telecom Group (hereafter called “the Group”) to prepare the interim financial statements at June 30, 2010 and which have taken place since publication of the consolidated financial statements for 2009.

1.1 Basis for preparation of the financial statements

The consolidated financial statements and notes were approved by the Board of Directors on July 28, 2010.

In accordance with European regulation n° 1606/2002 dated July 19, 2002, the condensed consolidated financial statements for the first semester of 2010 were prepared in accordance with IAS 34 “Interim Financial Reporting”, as endorsed by the European Union (EU) and published by the IASB.

The interim financial statements were prepared using the same accounting policies as the financial statements for the year ended December 31, 2009, with the exception of the changes described in notes 1.3 and 1.4 and the specific requirements of IAS 34. For the reported periods, the accounting standards and interpretations endorsed by the EU (available on the website: www.ec.europa.eu/internal_market/accounting/ias_fr.htm#adopted.commission) are similar to the compulsory standards and interpretations published by the IASB with the exception of the carve-out of the IAS 39 standard and the standards and interpretations currently being endorsed, which has no effect on Group’s accounts. Consequently, Group’s financial statements are prepared in accordance with the IFRS standards and interpretations, as published by the IASB.

Where a specific transaction is not dealt with any standard or interpretation, management uses its judgment to define and apply an accounting policy that will result in relevant and reliable information, such that the financial statements:

- present fairly the Group’s financial position, financial performance and cash flows;
- reflect the economic substance of the transactions;
- are neutral ;
- are prepared on a prudent basis, and
- are complete in all material respects.

1.2 Uses of estimates and judgment

In preparing the Group’s accounts, France Telecom’s management is required to make estimates insofar as many elements included in the financial statements cannot be measured with precision. The underlying assumptions used for the main estimates are similar to those applied as of December 31, 2009. Group management revises these estimates if the underlying circumstances evolve or in the light of new information or experience. Consequently, estimates made at June 30, 2010 may be changed later on.

In addition, Group management also uses its judgment to define appropriate accounting policies to apply to certain transactions when the current IFRS standards and interpretations do not specifically deal with related accounting issues.

1.3 Changes in IFRS alternatives elected by the Group

The changes in accounting alternatives described hereafter are changes in accounting policies to be accounted for retrospectively in accordance with IAS 8. The main adjustments resulting from these the changes are disclosed in note 1.5.

Change in accounting for interests in jointly controlled entities

In accordance with IAS 31, interests in jointly controlled entities are recognized:

- either using proportionate consolidation which is the method applied by the Group until December 31,2009 ;
- or using the equity method.

In the perspective of the publication by the IASB of the standard Joint Arrangements expected over the second semester of 2010 and given the IASB's intention to remove the proportionate consolidation method, the Group has decided to account for its interests in jointly controlled entities using the equity method from January 1, 2010. This change in accounting policy results in the financial statements providing more relevant and comparative information since the main competitors of the Group apply this method.

Change in accounting for recognition of actuarial gains and losses related to post-employment defined benefit plans

In accordance with IAS 19, the actuarial gains and losses are recognized:

- in profit or loss either for their total amount or up to a portion using the corridor method which is the method applied by the Group until December 31,2009;
- or in the other comprehensive income for their total amount.

The exposure draft published by the IASB in April 2010 relating to the amendment to IAS 19 makes provision for the removal of the corridor method and proposes the immediate recognition of actuarial gains and losses in other comprehensive income, with no recycling to profit or loss.

Following this publication, the Group has decided to account for post-employment defined benefit plans actuarial gains and losses in other comprehensive income from January 1, 2010. This change in accounting policy results in the financial statements providing more relevant and comparative information since the main competitors of the Group apply this method.

1.4 New standards and interpretations

Standards and interpretations applied in 2010 which imply a change for the Group

The main adjustments of the changes are disclosed note 1.5.

Standard / Interpretation	Consequences for the Group
IFRS 3 (revised in 2008) Business Combinations and IAS 27 (revised in 2008) Consolidated and Separate Financial Statements	<p>The concept of control is now the key-criterion in accounting for Group's investments.</p> <p>Changes in a parent's ownership interest in a subsidiary that do not result in a change of control are accounted for as changes in equity, with no effect on the net income and the other comprehensive income.</p> <p>Step-acquisitions, as well as changes in ownership interests that result in a change of control, lead to the remeasurement at fair value in operating income of the residual interest ownership held.</p> <p>IFRS 3R allows for each takeover with interest ownership below 100% to account for goodwill either on a 100% basis or on the acquired interest ownership percentage (without any subsequent change in case of additional purchase of non-controlling interests).</p> <p>Acquisition related costs are now directly recognized in operating income.</p> <p>The application of these revised standards is prospective from January 1, 2010. Their application to the first six months 2010 transactions is described in note 2.</p>
IAS 7 Statement of Cash Flows amended by IAS 27R	<p>Cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control are now classified retrospectively as cash flows arising from financing activities instead of cash flows arising from investing activities.</p>

Other standards and interpretations applied in 2010 with no consequences on the Group

Among the other standards and interpretations applicable from January 1, 2010, some are not applicable to the Group whereas other ones have been analyzed as presented hereafter:

Standard/Interpretation	Consequences for the Group
Improvements to IFRSs	The application of these improvements has no effect on the reported periods.
Amendment to IFRS 2	This amendment clarifies the accounting for share-based payment transactions among group entities, in its individual financial statements. This amendment also supersedes IFRIC 8 and IFRIC 11. The application of this amendment has no effect on the reported periods.
Amendment to IAS 39 Eligible Hedged Items	This amendment confirms in particular the principle applied by the Group which states that time value should not be considered in a hedging relationship. It states that inflation can only be designated as a hedged item in certain conditions. This amendment has no effect on the accounting treatment of the hedge relating to the loan indexed inflation contracted by the Group in 2008.
IFRIC 17 Distributions of Non-cash Assets to Owners	This interpretation deals with the accounting treatment of the distributions of non-cash assets to owners (excluding distributions between entities under common control). It states that the fair value of the distributed assets has to be recognized as a debt when the decision to distribute is made and any difference with the net book value of the distributed assets has to be recorded through profit or loss on the distribution date. The application of this interpretation is prospective.

Standards and interpretations compulsory after June 30, 2010 with no early application decided by the Group

Among these standards and interpretations, those which could affect the Group's future consolidated financial statements are:

Standard / Interpretation (application date for the Group)	Consequences for the Group
IFRS 9 Financial instruments (applicable for annual periods beginning on or after January 1, 2013)	The standard is the first part of the three-part project that will supersede IAS 39 « Financial Instruments: Recognition and Measurement”. This first part deals with the classification and the measurement of financial assets. The effects of its application cannot be analyzed separately from the two other parts not yet published and which should respectively address the impairment methodology for financial assets and hedge accounting.

1.5 Main effects of the changes in accounting principles applied from January 1, 2010 on the Group's financial statements

	June 30, 2009						
	Reclassification of disposed assets			Impact of IAS 31 ⁽¹⁾ alternative	Impact of IAS 19 ⁽²⁾ alternative	Impact of IAS 7 ⁽³⁾ amended by IAS 27R	Restated
	Published	United Kingdom	Subtotal				
<i>(in millions of euros)</i>							
Consolidated income statement							
Revenues	25,458	(2,492)	22,966	(548)	-	-	22,418
Share of profits (losses) of associates	22	-	22	59	-	-	81
Operating income	5,209	(87)	5,122	(112)	4	-	5,014
Finance costs, net	(1,137)	5	(1,132)	40	-	-	(1,092)
Income tax	(1,269)	(16)	(1,285)	30	(1)	-	(1,256)
Consolidated net income after tax of continuing operations	2,803	(98)	2,705	(42)	3	-	2,666
Consolidated net income after tax of discontinued operations	-	98	98	-	-	-	98
Consolidated net income after tax	2,803	-	2,803	(42)	3	-	2,764
Statement of comprehensive income							
Consolidated net income after tax	2,803	-	2,803	(42)	3	-	2,764
Consolidated other comprehensive income for the year, net of tax, of discontinued operations	(37)	-	(37)	5	(23)	-	(55)
Total comprehensive income for the year	2,766	-	2,766	(37)	(20)	-	2,709
Consolidated statement of cash flows							
Net cash provided by operating activities	7,358	-	7,358	(156)	-	-	7,202
Net cash used in investing activities	(5,286)	-	(5,286)	128	-	1,377	(3,781)
Net cash used in financing activities	(1,850)	-	(1,850)	49	-	(1,377)	(3,178)
Cash and cash equivalents at beginning of period	4,800	-	4,800	(106)	-	-	4,694
Cash and cash equivalents at end of period	5,054	-	5,054	(83)	-	-	4,971

⁽¹⁾ The proportionate consolidation method used to account for interests in jointly controlled entities (in particular MobiNil, ECMS, Mauritius Telecom and Getesa) is replaced by the equity method.

⁽²⁾ The corridor method used for to account for the defined benefit plan actuarial gains and losses is replaced by immediate recognition in the other comprehensive income.

⁽³⁾ Cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control are classified as cash flows from financing activities instead of cash flows from investing activities (mainly relating to the purchase of the FT España non-controlling interests).

December 31, 2009

<i>(in millions of euros)</i>	Published	Impact of IAS 31 ⁽¹⁾ alternative	Impact of IAS 19 ⁽²⁾ alternative	Restated
Consolidated statement of financial position				
Goodwill	28,173	(376)	-	27,797
Interests in associates	292	649	(4)	937
Total non-current assets	70,088	(938)	44	69,194
Total current assets	13,692	(240)	-	13,452
Assets held for sale	8 264	-	-	8 264
Total assets	92,044	(1,174)	40	90,910
Total equity	28,748	943	(114)	29,577
Total non-current liabilities	36,372	(466)	154	36,060
Total current liabilities	23,744	(1,651)	-	22,093
Liabilities related to assets held for sale	3,180	-	-	3,180
Total equity and liabilities	92,044	(1,174)	40	90,910

⁽¹⁾ The proportionate consolidation method used to account for interests in jointly controlled entities (in particular MobiNil, ECMS, Mauritius Telecom and Getesa) is replaced by the equity method.

⁽²⁾ The corridor method used for to account for the defined benefit plan actuarial gains and losses is replaced by immediate recognition in the other comprehensive income.

The restated Group net financial debt as at December 31, 2009 amounts to 32,534 million euros (against 33,941 million euros published) as a result of the change in accounting for interests in jointly controlled entities.

Note 2 – Main acquisitions, disposals of companies and changes in scope of consolidation

Joint Venture Everything Everywhere (Orange in the United Kingdom – T Mobile UK)

On November 5, 2009, France Telecom and Deutsche Telekom entered into an agreement to combine their activities in the United Kingdom into a 50/50 joint venture. The closing date of that agreement is April 1st, 2010, following the approval from the European Union competition authorities.

The mobile and internet Orange entities in the United Kingdom concerned by the agreement are those of the former operating segment, mainly composed of Orange Personal Communication Services Ltd, Orange Retail Ltd and Orange Home UK.

The main accounting effects of the transaction are set forth below :

- Until April 1st, 2010 :
 - assets and liabilities of the relevant entities have been presented separately from other assets and liabilities in the consolidated statement of financial position, respectively entitled « Assets held for sale » and « Liabilities related to assets held for sale » ;
 - the net result of these entities have been reported on a separate line item in the income statement, « Consolidated net income of discontinued operations » ;
 - any cash flow item remains reported in the consolidated statement of cash flows.
- Since April 1st, 2010, France Telecom has lost the control of Orange in the United Kingdom and owns a 50% interest in the joint venture Everything Everywhere, made up of the ownership interest retained in Orange in the United Kingdom and the ownership interest acquired in T Mobile UK. As at April 1st, 2010, the result is :
 - derecognition of all assets and liabilities of the relevant entities ;
 - recognition at fair value of the 50% stake in the joint venture Everything Everywhere, for an amount of 7,254 million euros in the asset line item « Interests in associates », regarding to the ownership interest in the enterprise value of 13.7 billion pounds sterling (15.4 billion euros) less a net debt of 0.8 billion pounds sterling (0.9 billion euros). The fair value was based on the present value of the future cash flows, by reference to generally accepted methods such as those based on revenues or costs ;
 - recognition of a gain on disposal amounting to 1,060 million euros which comprises :
 - 2,091 million euros allocated to the gain resulting from the disposal of the ownership interest in Orange in the United Kingdom for 1,045 million euros and the gain resulting from the remeasurement at fair value of the ownership interest retained in Orange in the United Kingdom for 1,045 million euros ;
 - (1,031) million euros resulting from the reclassification to net income of the loss previously recognised in other comprehensive income (mainly cumulative translation adjustments).

The cash flows of the joint venture are not presented in the consolidated statement of cash flows, as the joint venture is accounted for under the equity method.

The main accounting consequences of the transaction are set forth below :

Derecognition of all assets and liabilities of Orange in United Kingdom

(in millions of euros)	April 1 ^{er} , 2010
Goodwill	1,514
Other intangible assets	3,771
Property, plant and equipment	1,844
Other non-current assets	2
Inventories	74
Trade receivables	564
Prepaid expenses	319
Other current assets	385
Total assets held for sale	8,473
Non-current provisions	100
Other non-current liabilities	288
Current trade payables	868
Current employee benefits	40
Current provisions	75
Deferred income	163
Other current liabilities	1,779
Total liabilities related to assets held for sale	3,313

Net income of discontinued operations

(in millions of euros)	June 30, 2010 ⁽¹⁾
Revenues	1,282
Operating income	134
Financial costs, net	(1)
Income tax	(63)
Net income generated by entities in the United Kingdom	70
Gain on disposal of entities in the United Kingdom, before tax	1,060
Tax	-
Gain on disposal of entities in the United Kingdom, after tax	1,060
Net income of discontinued operations	1,130

⁽¹⁾ Corresponds to the net result of the operations of entities in the United Kingdom until April 1st, 2010, date of disposal.

Cash flows from discontinued operations

(in millions of euros)	June 30, 2010 ⁽¹⁾
Cash provided by operating activities	87
Cash used in investing activities	(107)
Cash used in financing activities	66
Net change in cash and cash equivalents	46

⁽¹⁾ Cash flows until April 1st, 2010, date of disposal.

Gain on disposal

<i>(in millions of euros)</i>		April 1^{er}, 2010
Fair value of the share in Everything Everywhere		7,254
Costs to sell		(3)
Net fair value of the share in Everything Everywhere	a	7,251
Book value of Orange in the United Kingdom	b	5,160
Gain on disposal	a-b	2,091
<i>o/w disposal of the ownership interest in Orange in the United Kingdom</i>		<i>1,045</i>
<i>o/w remeasurement at fair value of the retained ownership interest in Orange in the United Kingdom</i>		<i>1,045</i>
Reclassification adjustment of other comprehensive income in net income for the period	c	1,031
Gain of disposal	a-b-c	1,060

Recognition at fair value of the 50% ownership interest in the joint venture Everything Everywhere

The fair value of the 50% ownership interest in Everything Everywhere amounting to 7,254 million euros has been preliminary allocated to assets acquired and liabilities assumed as follows :

<i>(in millions of euros)</i>	Carrying value of contributed assets and liabilities transferred by the two shareholders at 100%	Fair value adjustments at 100%	Joint venture Net assets at fair value at 100%
Goodwill	342	(342)	-
Other intangible assets	6,065	1,137	7,202
<i>o/w licenses</i>	<i>6,055</i>	<i>(1,896)</i>	<i>4,159</i>
<i>o/w subscriber bases</i>	<i>-</i>	<i>2,922</i>	<i>2,922</i>
Property, plant and equipment	3,742	(972)	2,770
Other non-current assets	438	1,180	1,618
Total non-current assets	10,587	1,003	11,590
Inventories	126	-	126
Trade receivables	784	-	784
Prepaid expenses	425	-	425
Cash and cash equivalents	236	-	236
Other current assets	685	-	685
Total current assets	2,255	-	2,255
Non-current provisions	489	77	566
Other non-current liabilities	2,021	853	2,874
Total non-current liabilities	2,510	930	3,440
Current trade payables	1,389	-	1,389
Current employee benefits	17	-	17
Current provisions	63	-	63
Deferred income	318	-	318
Other current liabilities	459	-	459
Total current liabilities	2,246	-	2,246
Net assets acquired	8,087	73	8,160
Net assets acquired – France Telecom share (A)	4,044	37	4,080
Goodwill (B)			3,174
Purchase price consideration (A) + (B)			7,254

Subscriber bases were measured using the future cash flows generated by existing customers at the closing date. They are amortized over four to nine-year useful lives.

Licenses were measured based on the present value of future cash flows for a new entrant onto a new market (Greenfield method). They are amortized over three to eleven-year useful lives.

A deferred tax asset on T Mobile non operating losses was recognized for an amount of 538 million euros.

The 3,174 million euros goodwill corresponds to the amount not allocated to identifiable assets and in particular to commercial costs and network synergies that are expected from combining the two entities.

MobiNil – public tender offer for ECMS

The Egyptian Financial Supervisory Authority's (EFSA) authorization given to the Group on December 10, 2009, to launch a public tender offer on the ECMS shares not held by Mobinil, was annulled on April 10, 2010 by the Cairo Administrative Court. As a consequence, the contractual commitments reflected in the Group's financial statements at December 31, 2009, as unrecognized contractual commitments for an amount of 436 million euros and as financial debt for 1,082 million euros (before the change in accounting for interests in jointly controlled entities), were extinguished in 2010.

The new agreements with Orascom Telecom are described in note 11.

Orange in Switzerland

On April 22, 2010, the Swiss competition authority announced its decision to prohibit the proposed combination of France Telecom's and TDC's subsidiaries in Switzerland, Orange and Sunrise. France Telecom and TDC, who had entered into definitive agreements related to the merger, conducted an analysis of their available options. The conclusions of this analysis led the two groups to announce on June 3, 2010 the termination of their combination project.

Note 3 - Impairment

3.1 Goodwill

The main values of goodwill and of intangible assets with an indefinite useful life appear below :

(in millions of euros)

At June 30, 2010	Goodwill		Intangible assets with an indefinite useful life ⁽¹⁾
	net book value	o/w impairment loss	
France	15,305	(13)	
Poland	1,770	(1,294)	192
Spain	4,723	(114)	
Rest of the World :			
Romania	1,806		
Belgium	1,006		
Slovakia	806		
Switzerland	751		
Ivory Coast	375	(42)	
Jordan	208	(51)	
Others	726	(141)	5
Enterprise	416	(643)	
International Carriers and Shared Services	68		3,133
Total	27,960	(2,298)	3,330

⁽¹⁾ Intangible assets with an indefinite useful life mainly comprise the Orange and TP brands.

3.2 Sensitivity of recoverable amounts

Impairment tests are carried out annually and when there is any indication that assets may be impaired.

The economic and financial climate, varying levels of resilience of the telecommunications markets to the decline of local economic environments, evolutions of the value of telecommunications companies as measured by their market capitalizations, and changes in the economic performances in relation to expectations represent potential indications for impairment.

As of June 30, 2010, the review of potential indications for impairment mainly concerned the assets which were disclosed as at December 31, 2009 as being the most sensitive to the revision of their recoverable amounts key assumptions, namely Spain and Poland. As the preparation of pluri-annual plans is carried out at year-end and without any internal indication, the growth rates to perpetuity have been maintained, while a reassessment of discount rates was performed to factor the evolution of Sovereign debt in Poland and Spain. This reassessment did not lead France Telecom to impair its assets values as at June 30, 2010.

3.3 Impairment, net of reversals

(in millions of euros)

	June 30, 2010		
	Goodwill	Assets with a finite useful life	Assets with an indefinite useful life
Spain	-	(1)	-
Others	-	0	-
TOTAL	-	(1)	-

Note 4 – Income tax

The income tax recognized in profit & loss is as follows :

(in millions of euros)	June 30, 2010	June 30, 2009
French tax group	(237)	(935)
- Current tax	(3)	-
- Deferred tax	(234)	(935)
Other subsidiaries	(674)	(321)
- Current tax	(317)	(343)
- Deferred tax	(357)	22
Tax charge for continuing operations	(911)	(1,256)
- Current tax	(320)	(343)
- Deferred tax	(591)	(913)
Tax charge for discontinued operations	(63)	17
- Current tax	(16)	(3)
- Deferred tax	(47)	20

The French tax group deferred tax charge has decreased over the comparative period, as a consequence of new deferred tax assets generated by an internal reorganization. The deferred tax charge of the other entities mainly comprises the reversal of deferred tax assets pertaining to a non business company for which IAS 12 recognition criteria are no longer met.

With respect to the tax audits relating to FY 2000-2005 and for those notifications that were not accepted by France Telecom, further discussions were held with the French tax authorities during the first semester 2010. These disputed notifications are currently subject to recourse and may, in accordance with the rules of procedure, lead France Telecom to provide bank guarantees.

With respect to the notification that was submitted to the « *Commission Nationale des Impôts Directs* » (CNID), the Commission issued its advisory opinion in May 2010. The Commission indicated that in this particular case, the tax basis have to be similar to the accounting basis thereby giving its assessment of the tax amount at 1.7 billion euros. However, the Commission also emphasized legal issues that are raised by the notification, among which the opposability to the tax authorities of the statute of limitation; in accordance with its area of competence, the Commission did not give a ruling on these issues.

France Telecom considers that it has serious grounds for its defence in view of the points raised by the CNID, notably the opposability of management decisions and of the statute of limitation. The tax audit already secured the date of payment of income tax in France at the earliest in 2012.

The likely confirmation of its position by the tax authorities will lead to the issuance of a collection notice ; France Telecom will then both refer to the administrative court and provide a bank guarantee until the decision of the administrative court. Based on the usual length of time to arrive at a sentence, this decision could occur in 2013-2014 at the earliest. A possible unfavourable decision would lead France Telecom to pay the principal plus accrued interests pending the outcome of appeals.

In order to preclude any prejudice to its position, France Telecom does not disclose at this stage whether a provision has been accounted for nor its possible amount.

Note 5 – Interests in associates

Interests in associates include from now on interests in jointly controlled entities (see note 1), and particularly joint-venture Everything Everywhere from April 1st, 2010 (see note 2).

The net book values of France Telecom's investments in associates are as follows :

(in millions of euros)		% interest		December 31,
Société	Principales activités	June 30, 2010	June 30, 2010	2009
Main jointly controlled entities				
Everything Everywhere and its subsidiaries	Telecommunications operator in United Kingdom	50%	7,860	-
MobiNil and its subsidiaries	Telecommunications operator in Egypt	36,36%	575	535
Mauritius Telecom and its subsidiaries	Telecommunications operator in Mauritius	40%	84	70
Getesa	Telecommunications operator in Equatorial Guinea	40%	18	27
Main entities under significant influence				
Sonaecom	Telecommunications operator in Portugal	20%	138	134
Orange Austria subgroup (ex-One)	Telecommunications operator in Austria	35%	-	-
Compagnie Européenne de Téléphonie	Distributor	61,37%	50	51
Orange Tunisie	Telecommunications operator in Tunisia	49%	77	91
Other		-	20	29
Total			8,822	937

(in millions of euros)	Interests in associates	o/w main jointly controlled entities
Balance at January 1st, 2010	937	632
Dividends	(91)	(84)
Share of profits (losses)	12	25
Impairment	-	-
Acquisitions ⁽¹⁾	7,254	7,254
Disposal of investments	-	-
Other impact of changes in scope of consolidation	(3)	-
Translation adjustments	724	721
Other comprehensive income variation	(11)	(11)
Reclassification to assets held for sale	-	-
Balance at June 30, 2010	8,822	8,537

⁽¹⁾ Correspond to the fair value of the share of Everything Everywhere (see note 2).

The share of profits (losses) of associates is as follows :

<u>(in millions of euros)</u>	June 30, 2010	June 30, 2009
Main jointly controlled entities	25	56
Main entities under significant influence	(13)	24
Other	-	1
Total	12	81

Note 6 – Other components of the comprehensive income

6.1 Actuarial gains/losses on post-employment plans

(in millions of euros)	June 30, 2010	June 30, 2009
Gain/(loss) recognized in other comprehensive income during the period	(89)	(23)
Total	(89)	(23)

The actuarial loss of 89 million euros occurred during the first half-year 2010 is mainly due to the decrease of the discount rates in Kenya (52 million euros) and in France (29 million euros).

At the end of June 2009, the actuarial loss of 23 million euros is explained principally by the cumulated effect in the United Kingdom of a decrease of the discount rate and an increase of the long term inflation rate (18 million euros).

6.2 Assets available for sale

(in millions of euros)	June 30, 2010	June 30, 2009
Gain/(loss) recognized in other comprehensive income during the period	6	11
Reclassification adjustments to profit or loss	(11)	(1)
Total	(5)	10

6.3 Cash flow and net investment hedges

Cash flow hedges

The interest rate impact of derivatives used to hedge cash flows on bonds and the foreign exchange impact of derivatives used to hedge operating cash flows in foreign currencies of the subsidiaries of the France Telecom group are recognized in other comprehensive income.

(in millions of euros)	June 30, 2010	June 30, 2009
Gain/(loss) recognized in other comprehensive income during the period	155	(141)
Reclassification adjustment in net income for the period	(46)	5
Reclassification adjustment in initial carrying amount of hedged item	(1)	3
Total	108	(133)

Furthermore, the foreign exchange impact of derivatives used to hedge foreign-currency denominated bonds generated an unrealized foreign exchange gain of 518 millions euros, which is recognized directly in foreign exchange gain in net finance costs, thereby offsetting exposure arising from the revaluation of these bonds at the closing exchange rate, recognized in the same section.

Net investment hedges

(in millions of euros)	June 30, 2010	June 30, 2009
Gain/(loss) recognized in other comprehensive income during the period	(50)	11
Reclassification adjustment in net income for the period	-	-
Total	(50)	11

6.4 Cumulative translation adjustment

(in millions of euros)	June 30, 2010	June 30, 2009
Gain (loss) recognized in other comprehensive income during the period	1,199	(304)
Reclassification adjustments to profit or loss	-	1
Total	1,199	(303)

Cumulative translation adjustment variation accounted for in other comprehensive income from January 1, 2010 to June 30, 2010 (closing rate) was due to Sterling Pound rising for 753 millions euros and to Swiss Franc rising for 111 millions euros.

6.5 Income tax relating to components of other comprehensive income

(in millions of euros)	June 30, 2010			June 30, 2009		
	Gross value	Income tax	Net value	Gross value	Income tax	Net value
Actuarial gain/(loss) on post-employment plans	(89)	25	(64)	23	-	23
Assets available for sale	(5)	3	(2)	10	1	11
Cash flow hedges	108	(40)	68	(133)	47	(86)
Net investment hedges	(50)	30	(20)	11	-	11
Translation adjustments	1,199	-	1,199	(303)	-	(303)
Total	1,163	18	1,181	(392)	48	(344)

Note 7 – Financial assets and liabilities

7.1 Loans and receivables

(in millions of euros)	June 30, 2010	December 31, 2009
Non-current loans and receivables	1,539	2,554
Current loans and other receivables	141	1,093
Trade receivables	5,289	5,451
Cash	1,081	894
Loans and receivables	8,050	9,992

The change in non-current loans and receivables is mainly due to the decrease in cash collateral related to derivative instruments for an amount of 403 million euros and to the partial redemption of the loan granted to joint venture Everything Everywhere for 625 million of pounds sterling.

The change in current loans and other receivables is mainly due to the settlement of the deposit related to ECFI dispute for 964 million euros.

7.2 Net financial debt

Net financial debt as defined and used by France Telecom corresponds (A) to financial liabilities excluding operating payables (translated at closing rate), less (B) : (i) all derivatives instruments carried in assets, (ii) cash collateral paid on derivatives instruments, (iii) certain deposits paid in connection with financing, (iv) cash, cash equivalents and financial assets at fair value and, since 2010, (v) the loan granted by the Group to joint venture Everything Everywhere.

Derivatives qualifying as cash flow hedge and net investment hedge are set up to hedge items that are not included in net financial debt (future cash flows, net investments in foreign currencies). However, the market value of these derivatives is included in the calculation. The "effective portion of cash flow hedges" and the "unrealized gain or loss on net investment hedges" (C) are added to net financial debt to offset this temporary difference.

Analysis of net financial debt

(in millions of euros)	June 30, 2010	December 31, 2009
TDIRA	1,573	1,631
Bonds, excluding TDIRA ⁽¹⁾	33,830	31,094
Bank loans	1,543	1,543
Finance lease liabilities	506	664
Securitization debt	792	807
Cash collateral received	350	-
Commercial papers	80	300
Bank overdrafts	95	96
Other financial liabilities	719	243
Financial debt at amortized cost	39,488	36,378
Other commitments to purchase non-controlling interest	29	23
Derivatives (liabilities) ⁽¹⁾	990	1,359
Derivatives (assets) ⁽¹⁾	(1,244)	(482)
Gross financial debt after derivatives (A)	39,263	37,278
Deposits related to QTE leases and similar items (assets available for sale)	-	87
Cash collateral paid	355	758
Deposits related to securitization	80	73
Other deposits in connection with financing	10	11
Loan granted to joint venture Everything Everywhere	765	-
Other financial assets at fair value, excluding derivatives	684	6
Cash equivalents	6,414	2,911
Cash	1,081	894
Assets included in the calculation of net financial debt, excluding derivatives (B)	9,389 ⁽²⁾	4,740
Effective portion of cash flow hedges (C)	94	23
Unrealized gain (loss) on net investment hedges (C)	(76)	(27)
Net financial debt (A)-(B)+(C)	29,892	32,534

⁽¹⁾ The increase in bonds is mainly due to foreign exchange impact, resulting in particular from the appreciation of the dollar during the period. This increase is balanced by the opposite change in fair value of the derivatives hedging these bonds.

⁽²⁾ This amount is significant at the end of June 2010 because of (i) the important amount of redemptions occurring during the second half-year 2010 and the first quarter 2011, (ii) the dividend payment by TP S.A. on July 2, 2010 amounting to 2 billion zlotys and (iii) the issuance of the loan to joint venture Everything Everywhere for 625 million pounds sterling.

7.3 Main debt issues and redemptions

- During the first half-year of 2010, France Telecom S.A. issued the following **bonds**:
 - in January 2010, 100 million euros maturing on January 2015 and bearing interest at variable rate Euribor 3M + 62 bp, 100 million euros maturing on January 2015 and bearing interest at variable rate Euribor 3M + 63 bp ;
 - in February 2010, 500 million Hong Kong dollars maturing on February 2015 and bearing interest at 2.95%, 70 million euros maturing on February 2015 and bearing interest at variable rate Euribor 3M + 62 bp and two private issuances for 25 million euros each maturing on February 2020;
 - in April 2010, 1 billion euros maturing on April 2020 and bearing interest at 3.875%;

- in June 2010, 46.1 billion Japanese yens maturing on June 2015 and bearing interest at 1.230%, 6.2 billion Japanese yens maturing on June 2015 and bearing interest at variable rate JPY-Libor 3M + 67 bp.

In June 2010, France Telecom S.A. redeemed at maturity a 300 million euro bond bearing interest at variable rate Euribor 3M + 25 bp.

In addition, during the first half-year of 2010, France Telecom S.A. redeemed partially some of its bonds for a total nominal amount of 226 million euros.

- During the first half-year of 2010, France Telecom made the main following issues and redemptions of **bank loans**:
 - redemption by TP Group on its credit lines for an amount of 28 million euros, net of drawdowns;
 - in January 2010, additional drawdown by FT España of 200 million euros on the bank loan subscribed in June 2009 with the European Investment Bank, and redemption of its credit line for an amount of 192 million euros.

On June 14, 2010, the conversion ratio of TDIRA in new France Telecom shares was adjusted in accordance with the issue agreement. The ratio is now 484.2542 shares for one TDIRA for the Bank Tranche (i.e. conversion price of 29.117 euros) and 390.2361 shares for one TDIRA for the Supplier Tranche (i.e. conversion price of 36.132 euros).

7.4 Main changes in credit lines

A new syndicated credit line was negotiated by TP Group on January 25, 2010, for an amount of 400 million euros, maturing on April 2013. As at June 30, 2010, this credit line is not drawn.

7.5 France Telecom's debt ratings

At June 30, 2010, as at December 31, 2009, France Telecom's debt ratings are as follows:

	Standard & Poor's	Moody's	Fitch IBCA
Long-term debt	A-	A3	A-
Outlook	Stable	Stable	Stable
Short-term debt	A2	P2	F2

7.6 Management of covenants

In respect of its 2010 bank financing contract, TP group must comply with the following ratio:

- The net debt to EBITDA ratio must be equal or less than 3.5 (net debt and EBITDA as defined in the contracts with the banks).

At June 30, 2010, the Group covenants with regard to financial ratios are met.

Note 8 - Equity

At June 30, 2010, France Telecom S.A.'s share capital, based on the number of issued shares on this date, amounted to 10,595,067,092 euros, comprising 2,648,766,773 ordinary shares with a par value of 4 euros each.

At June 30, 2010, the French State and FSI (the *Fonds Stratégique d'Investissement*) jointly owned 26.97% of France Telecom S.A.'s share capital and 26.99% of the voting rights.

8.1 Changes in share capital

Since the Board of Directors recorded the amount of the share capital on February, 24, 2010, France Telecom S.A. issued 56,999 new shares upon exercise of stock options, including:

- 22,578 shares in respect of plans granted by Wanadoo between 2000 and 2003, then transferred to France Telecom S.A. when the merger with Wanadoo occurred; and
- 34,421 shares in respect of plans granted by Orange between 2001 and 2003 and for which the holders received options liquidity instruments.

The issuance of these new shares will be duly recorded no later than the date of the first Board of Directors meeting held after December 31, 2010.

During the period ended June 30, 2010, the weighted average number of ordinary shares outstanding was 2,647,023,128 and the weighted average number of ordinary and dilutive shares outstanding was 2,648,281,233.

8.2 Treasury shares

During the first half of 2010, under the program authorized by the Shareholders' meeting of May 26, 2009, France Telecom bought back 135,000 shares and delivered 2,173,227 shares to unwind part of the International free share award plan.

Pursuant to the authorization granted by the Shareholders' meeting of June 9, 2010, the Board of Directors implemented a new share buyback program (hereafter named "the 2010 Share Buyback Program"). This program was described in the France Telecom registration document filed with AMF (the French Securities Regulator) on April 28, 2010.

During the first half of 2010, France Telecom did not buy back any shares under the 2010 Share Buyback Program, excluding shares bought back under the liquidity contract.

The liquidity contract entered into on May 9, 2007 with an investment services provider, in accordance with the program authorized by the Shareholders' meeting of May 21, 2007, has since been renewed every year on its anniversary date for a period of one year and has continued to be implemented under the 2010 Buyback Program. An amount of 100 million euros has been allocated to the liquidity account for purposes of implementing the contract.

At June 30, 2010, France Telecom held 2,054,609 of its own shares (including 2,050,000 shares as part of the liquidity contract), compared with 2,042,836 at December 31, 2009 (and no shares as part of the liquidity contract). Treasury shares are recorded as a reduction in equity.

8.3 Share-based payments and equivalent

No new plan was granted during the first half of 2010.

8.4 Dividends

At the June 9, 2010 Annual Shareholders' meeting, France Telecom shareholders decided on the payment of a dividend of 1.40 euros per share in respect of 2009. Given the 0.60 euro per share interim dividend paid on September 2, 2009 for a total amount of 1,588 million euros, the balance of dividend to be paid on June 17, 2010 was 0.80 euro per share, for a total amount of 2,117 million euros.

8.5 Non controlling interests

<i>(in millions of euros)</i>	June 30, 2010	June 30, 2009
Share of net income attributable to non controlling interests	240	203
o/w TP Group	77	81
o/w Sonatel Group	87	78
o/w Mobistar	63	62
Share of comprehensive income attributable to non controlling interests	266	123
o/w TP Group	73	5
o/w Sonatel Group	88	78
o/w Mobistar	63	62
Dividends paid out to minority shareholders	598	556
o/w TP Group	252	225
o/w Sonatel Group	143	122
o/w Mobistar	129	129

<i>(in millions of euros)</i>	June 30, 2010	June 30, 2009
Capitaux propres attribuables aux participations ne donnant pas le contrôle	2,382	2,713
o/w TP Group	1,431	1,610
o/w Sonatel Group	455	502
o/w Mobistar	155	221

Note 9 – Litigation and unrecognized contractual commitments

9.1 Litigation

This note describes any new governmental, judicial or arbitration proceedings and any developments in existing litigation since the publication of the financial statements for the year ended December 31, 2009, which may have or which have had during the past six months any significant effects on the financial situation or the profitability of the Group. As at June 30, 2010, France Telecom accrued for 484 million euros to cover all the litigation proceedings in which it is involved (524 million euros as at December 31, 2009). France Telecom does not provide details on the provisions, as it believes that their disclosure on a case-by-case basis could seriously prejudice the Group.

Litigation related to competition law

■ State aid

- On May 20, 2008, the European Commission launched a formal investigation into financing of the retirement pensions for State employees working for France Telecom and the compliance with European regulations on State aid of the reform provided by the French law of July 26, 1996 when France Telecom was transformed into a *Société Anonyme*. This step followed a complaint by Bouygues Telecom in 2002. France Telecom made observations as a third party interested in the proceedings.

The reform of 1996 provided for the end of the derogatory regime to which France Telecom had been submitted since the French law of July 2, 1990 on the organization of the postal and telecommunication public service, and the payment by France Telecom to the French State of an exceptional lump sum of 5.7 billion euros in 1997 and annual contributions in full discharge of its liabilities since then. These annual contributions aim at equalizing the level of mandatory taxes and social charges based on salaries to be paid by France Telecom and its competitors for risks that are common to private employees and civil servants, but do not include payment by France Telecom of contributions linked to so-called “non-common risks”, i.e. contributions for unemployment risk and for risk of non payment of salaries in case of company’s bankruptcy.

In its decision regarding the opening of the formal investigation, the European Commission indicated that the end of the derogatory regime created by the 1990 law constitutes State aid in favor of France Telecom since the company was freed from paying charges that it should have normally borne under this regime.

France Telecom and the French State believe that the sole effect of the pension plan system established in 1996 is to release the company from a structural disadvantage and that this reform does not constitute State aid under European law.

The 1996 reform of the arrangements for financing the retirement pensions for State employees working for France Telecom is in all respects similar to the one implemented for La Poste in 2002. The latter was validated by the European Commission in 2007 as State aid compatible with European law, provided La Poste was submitted to payment of contributions linked to non-common risks. The Commission agreed to regard the exceptional lump sum also paid by La Poste at the time of the reform (2 billion euros) as a down payment on the contributions linked to non-common risks and accepted the commitment made by the French State that the level of contributions to be paid by La Poste under the law be increased when this amount is fully used.

Based on this precedent, France Telecom and the French State therefore also argue that the non-payment of contributions linked to non-common risks is in any case offset by the 5.7 billion lump sum that France Telecom paid at the time the reform was adopted, until the end of the contribution regime provided for by the law of July 26, 1996.

The Commission may render a decision during the third or the fourth quarter of 2010. France Telecom cannot at this stage foresee the outcome of these proceedings. The risk linked to these proceedings depends on the date at which the lump sum could be considered as fully used.

- Following the rejection by the General Court of the European Union on November 30, 2009 of the appeals of the French State and France Telecom against the 2004 European Commission decision which had held that the special French business tax (*taxe professionnelle*) regime benefiting to France Telecom from 1991 to 2002 constituted State aid, France Telecom transferred to the French State on January 7, 2010 the amount of 964 million euros which had been placed in an escrow account in 2007 and 2008

together with 53 million euros of interest on the amount as of November 30, 2009, not recognized as income, representing a total amount of 1,017 million euros. France Telecom filed an appeal with the European Court of Justice.

- On May 21, 2010, the General Court of the European Union annulled the 2004 decision of the European Commission in which it had determined that the public statement by the French State on December 4, 2002 in favor of France Telecom, in which the French State discussed a proposal for a shareholder loan it was considering making to France Telecom, constituted State aid incompatible with European Law. The General Court held that although such statement and other statements of a similar supportive nature conferred a financial advantage on France Telecom, they did not commit any State resources and cannot be classified as State aid.

■ Broadband

- As part of the formal investigation proceedings initiated in April 2009 after an inspection carried out in September 2008 in the offices of TP S.A. and of its subsidiary PTK Centertel, the European Commission notified on March 3, 2010 to TP S.A. a Statement of Objections for abuse of dominant position on the broadband Internet access market in Poland. The Commission alleges that TP engaged in practices which aim at preventing alternative operators from effectively accessing certain wholesale offers. TP responded to the Statement of Objections on June 2. The oral procedure before the Commission is scheduled on September 10, 2010. France Telecom cannot at this stage foresee the outcome of these proceedings and the risk is classified as a contingent liability as defined by IAS 37 "Provisions, Contingent Assets and Contingent Liabilities".
- On July 23, 2010, the European Commission informed France Telecom that it rejected the complaint submitted in March 2009 by Vivendi and Iliad alleging abuse of dominant market position, in reference to France Telecom's market practices regarding wholesale access to local loop and broadband internet access in France. Following a letter sent by the Commission to the plaintiffs in early March announcing its intention to reject the complaint, Vivendi announced its intention to pursue the procedure, if necessary before the General Court of the European Union, while Iliad withdrew its complaint on June 29, 2010.
- On July 13, 2010, the French Supreme Court dismissed the appeals of SFR and Free against the Paris Court of appeal decision of May 14, 2009 overturning the judgment of the Commercial Court dated February 23, 2009, which had ordered France Telecom, subject to a financial penalty, to cease conditioning the linear TV broadcast of the Orange Sport service on the purchase of an Orange broadband access subscription. This ruling puts an end to the proceedings.
- Free brought an action against France Telecom in December 2006, accusing France Telecom of having implemented from 2000 to 2005 a strategy that prevented it from deploying ADSL and then hampered its development in this market. Free asked the court to order France Telecom to pay a provisional sum of 500 million euros and had filed an economic report speaking of theoretical damages of 1.9 billion euros. However, the disputes over these issues between France Telecom and Free have been settled between the parties during the first six months of 2010.

■ Mobiles

- On April 7, 2010, the French Supreme Court partially overturned the March 11, 2009 Court of appeal decision that upheld the December 1, 2005 decision of the French Competition Council which had fined Orange 256 million euros for colluding with SFR and Bouygues Telecom in seeking to limit competition on the French mobile telephony market. Orange France will refer the case to the Court of appeal which will hear the case on remand.
- On April 6, 2010, the Paris Court of appeal declared inadmissible France Telecom's appeal of the decision reached in May 2009 by the French Competition Authority which reopened, in order to determine a possible discrimination between operators, the examination of Bouygues Telecom's complaint concerning some practices by Orange and SFR on the mobile telephony market in metropolitan France. Orange filed an appeal before the French Supreme Court against this decision. This appeal is not suspensive. The initial statement of objections of the Competition Authority pointed to the existence from June 2005 to July 2007 of a price squeeze between the mobile call termination rate and the retail price of certain offers for consumers which included unlimited on-net service on Orange and SFR networks. Based on the Court of appeal decision, the procedure of the Competition Authority continues and could result in further objections being stated against Orange.

Other litigation

- Commercial proceedings
 - On April 13, 2010, the French Supreme Court overturned the November 26, 2008 Paris Court of appeal decision which had held invalid the appeal brought by Suberdine's voluntary liquidator against the March 2006 judgment of the Paris Commercial Court. The case will be reexamined, for the first time on the merits, by the Paris Court of appeal. Orange believes Suberdine's claims, amounting to 778 million euros, to be unfounded. In 2006, the Paris Commercial Court had ordered Orange to pay Suberdine 12 million euros as damages. Orange paid this amount in 2008.
- International litigation
 - On April 10, 2010, the Administrative Court of Cairo annulled the approval by the Egyptian Financial Supervisory Authority of a public tender offer launched by France Telecom on the 49 million ECMS shares not held by Mobinil at a price of 245 Egyptian pounds per share. France Telecom did not file an appeal against this decision (see note 2 "Main acquisitions, disposals of companies and changes in scope of consolidation" and note 11 "Subsequent events").
 - As part of the ongoing arbitration procedure between TP S.A. and the Danish company DPTG over the sharing of the revenues produced by a fiber optical transmission system, known as NSL, TP S.A. submitted on March 11, 2010 the final quantification of its position as requested by the tribunal. TP S.A. now awaits the decision of the tribunal. The Tribunal having decided to split the case into two periods, this award will settle DPTG's rights for the period from 1994 to June 2004 but not for the subsequent period.
- Administrative litigation
 - In March 2010, the French Administrative Supreme Court (*Conseil d'Etat*) declared admissible the SNCF's appeal against the ruling of the Paris Administrative Court of May 2007, which had declared its claims inadmissible. This decision allowed adversary proceedings to commence before the Administrative Supreme Court. The SNCF is claiming approximately 488 million euros in damages from France Telecom for the use of its railway infrastructure between 1992 and 1996. France Telecom does not contest the fact that a payment of 3.5 million euros could be due for the period since July 29, 1996, until December 31, 1996, but believes that the action is unfounded for the prior period. Standard fees have been paid regularly since 1997.

There are no other governmental, judicial or arbitration proceedings, including any proceedings of which France Telecom is aware, either pending or threatened, and either new or having evolved since the date the consolidated financial statements at December 31, 2009 were published, which may have or which have had in the past six months any significant effects on the financial position or the profitability of the Group.

9.2 Unrecognized contractual commitments

The main changes in the contractual obligations reflected in the statement of financial position at June 30, 2010 are related to changes in net financial debt as described in Note 7. The main events which occurred during the first half of 2010 affecting unrecognized contractual commitments are presented below:

- Within the framework of the merger of France Telecom's and Deutsche Telekom's activities in the United Kingdom, which took effect on April 1, 2010, France Telecom counter-guaranteed Deutsche Telekom up to 375 million pounds sterling representing 50% of the guarantee granted by the latter to Hutchison 3G in December 2007 to cover capital expenditures to which its subsidiary T-Mobile (UK) had committed itself towards the joint venture formed with H3G as part of a 3G network sharing agreement.
- On June 5, 2010, France Telecom committed itself, within the framework of a cooperation agreement signed with several other operators as well as with two sovereign African states, to invest 228 million dollars over 15 years in the construction of the Africa Coast to Europe (ACE) submarine cable, on a total of 689 million dollars to be invested by the consortium's members over the same time period. ACE is to stretch from South Africa to France and will have 20 landing points.

Note 10 – Related party transactions

Related party transactions with the new joint venture Everything Everywhere

The group France Telecom has entered into a brand licensing agreement with the joint venture Everything Everywhere as well as a service agreement. These agreements were entered into on an arm's-length basis.

In addition, The group France Telecom, as the other venturer Deutsche Telekom, has granted in proportion of its interests a loan of 625 million Pounds Sterling to the joint venture Everything Everywhere. France Telecom S.A. also centralizes the cash of the joint venture in proportion to its interests.

Transactions with other related parties

No other transaction with related parties took place in the first six months of 2010, which materially affected the Group's financial position or performance during that period.

Note 11 – Subsequent events

Egypt – Agreement with Orascom Telecom in relation with MobiNil

- Commitments entered into within the framework of the agreements

Pursuant to the agreements which took effect on July 13, 2010 and put an end to their disputes relating to their investment into MobiNil, France Telecom granted to Orascom Telecom a put option on its shares in (unlisted) MobiNil as well as its shares in (listed) ECMS. This option can be exercised (i) between September 15, and November 15, 2012, then (ii) between September 15 and November 15, 2013, as well as (iii) at any moment until November 15, 2013 in the case of the occurrence of deadlock situations concerning a limited number of significant decisions and provided certain conditions are met. In case of exercise of the put option, the agreed strike price for each ECMS share will rise over time from 223.6 Egyptian pounds on the date the shareholders agreement took effect to 248.5 Egyptian pounds at the end of 2013. This price will be paid to Orascom Telecom in euros on the basis of a constant exchange rate contractually fixed at 7.53 Egyptian pounds for 1 euro, i. e. a strike price ranging from 29.69 to 33 euros. The strike price for each MobiNil share will be equal to the strike price of the put option on ECMS shares for each ECMS share multiplied by the total number of ECMS shares held by MobiNil and divided by the total number of MobiNil shares.

Based on Egyptian securities law as confirmed by the decision of the Egyptian Financial Supervisory Authority (EFSA) published on May 3, 2010, the exercise of the put option granted to Orascom Telecom will furthermore trigger the obligation for France Telecom to launch a public tender offer on the ECMS shares held by the minority shareholders. The bid will be submitted for approval to the EFSA at the price per share contractually agreed in Egyptian pounds for the ECMS shares held by Orascom Telecom.

Furthermore, in the case of a change of control of a party, the other party will be granted a call option on its MobiNil shares at a price calculated based on their market value.

In consideration for the undertakings and obligations of Orascom Telecom under the agreements, the termination of the original shareholders agreement and the execution of the amended and restated shareholders agreement, France Telecom committed to pay Orascom Telecom 300 million dollars. This amount was paid on July 13, 2010.

Orascom Telecom and France Telecom will each continue to receive a management fee amounting to 0.75% of the revenues of ECMS under the general service agreements entered into between each of them and ECMS, as ratified by the general meeting of ECMS. Should Orascom Telecom sell its shares, it will assign to France Telecom its rights to the management fee and enter into a transition services agreement to the benefit of ECMS enabling ECMS, at its sole option, to continue or terminate the various services and/or technical assistance agreements entered into with Orascom Telecom, all being subject to applicable laws and to the approval of the competent corporate bodies of ECMS. In consideration for the assignment referred to above and the entering into of the transition agreement, France Telecom shall pay to Orascom Telecom a fee of 110 million euros.

The agreements furthermore provide for the acquisition by ECMS of the companies Link Dot Net S.A.R. and Link Egypt S.A.E., Internet service provider on the Egyptian market, for a total price calculated on the basis of a total enterprise value of 130 million dollars. The acquisition contract was signed on July 4, 2010 and the acquisition will be completed upon receipt of the required approvals.

- Main accounting consequences of the agreements

Until July 13, 2010, the Group accounts for its investment in MobiNil and ECMS using the equity method, and the commitments resulting from the agreements qualify for unrecognized contractual commitments. This accounting treatment results from the change in accounting policy described in note 1.3 (accounting for interests in jointly controlled entities using the equity method since January 1, 2010).

Following the closing of the transaction, the amendment and the restatement of the shareholders' agreement between France Telecom and Orascom Telecom relating to MobiNil lead to the full consolidation of the Group's investment in MobiNil and ECMS. The result will be:

- an operating gain of circa 300 million euros recognized as a result of remeasuring to fair value the equity interest in MobiNil held by the Group;
- accounting for the 300 million dollars consideration paid as Group's investment in MobiNil;
- accounting for non-controlling interests at fair value, in accordance with the option provided by IFRS 3R;
- the reclassification mainly of non-controlling interests in financial debt for 1,935 million euros as a result of the option granted to Orascom Telecom to put its shares in MobiNil and ECMS and of resulting public tender offer according to the Egyptian financial regulation. This amount is calculated :
 - for the Orascom Telecom shares, on the basis of the put option price between July 1 and September 30, 2010 of 223.6 Egyptian pounds set at 29.69 euros per share, and
 - for the floating shares, on the basis of the same amount Egyptian pounds so as to ensure a fair treatment of all shareholders.

The determination of the individual fair value of the identifiable assets and liabilities of MobiNil and ECMS, among of which subscriber bases, will be performed in the Group's financial statements as at December 31, 2010.

France Telecom S.A. : distribution of an interim dividend

On July 28, 2010, the Board of Directors decided the distribution of an interim dividend. This interim dividend will amount to 0.6 euro per share, representing an estimated total amount of 1.59 billion euros based on the number of shares outstanding as at June 30, 2010. The interim dividend will be paid on September 2, 2010. France Telecom S.A.'s total of net income for the period and retained earnings amounted to 7,362.8 million euros.