



INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2005

SUPPLEMENTAL DISCLOSURES

The following information has been prepared to present supplemental disclosures under US GAAP and SEC regulations applicable to France Telecom.

Convenience translation

The financial information expressed in U.S. dollars is presented solely for the convenience of the reader and is translated from the euro which was €0.8266 for each U.S. dollar at June 30, 2005. This rate is the noon buying rate in New York City for cable transfers in euro as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the euro amounts could have been, or could be, converted to U.S. dollars at that rate on June 30, 2005 or at any other rate.

Computation of gross operating margin and net debt

Gross operating margin corresponds to operating income before employee profit sharing, share based compensation, depreciation and amortization expense, impairments of goodwill and other assets, gains and losses on asset disposals, restructuring costs, and income from associates. Net debt is computed as gross financial debt, less certain financial assets (mainly cash and cash equivalents). Gross operating margin and net debt are not measurements of operating performance or liquidity calculated in accordance with US GAAP, and should not be considered a substitute for gross margin, operating income, net income, cash flows from operating activities or any other statement of income or cash flow statement data prepared in accordance with US GAAP, or a measure of profitability or liquidity. Gross operating margin and net debt may not be indicative of the historical operating results of France Telecom; nor is it meant to be predictive of potential results. Because all companies do not calculate gross operating margin or net debt identically, the presentation of gross operating margin and net debt contained in these financial statements of France Telecom may not be comparable to similarly entitled measures of other companies in accordance with US GAAP.

A – SIGNIFICANT DIFFERENCES BETWEEN IFRS AND US GAAP

France Telecom adopted International Financial Reporting Standards (“IFRS”) as of January 1, 2004. France Telecom’s interim consolidated financial statements, presented elsewhere in this document, have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union (“IFRS”), which differ in certain significant ways from US generally accepted accounting principles (“US GAAP”). The interim consolidated financial statements are compliant with IAS 34 requirements. Application of US GAAP would have affected the results of operations for each of the six months ended June 30, 2005 and June 30, 2004 and the balance sheets as of June 30, 2005 and December 31, 2004. The principal differences between IFRS and US GAAP as they relate to France Telecom are discussed in further detail below.

As permitted by release N°33-8567 — First-time application of International Financial Reporting Standards — issued by the U.S. Securities and Exchange Commission (the “SEC”), France Telecom will file their first year of reporting under IFRS in their Annual Report on Form 20-F for the fiscal year ending December 31, 2005 and will present two years rather than three years of statements of income, changes in shareholders’ equity and cash flows prepared in accordance with IFRS, with appropriate related disclosure required by this SEC release.

Reconciliation of net income and comprehensive income to US GAAP

In accordance with SFAS 130, *Reporting Comprehensive Income*, France Telecom reports comprehensive income in the reconciliation table of net income from IFRS to US GAAP and in the components of shareholders’ equity for US GAAP purposes. The following is a reconciliation of net income (loss) as reported under the IFRS consolidated statement of income to net income (loss) and comprehensive income as adjusted for the approximate effects of the application of US GAAP for the six months ended June 30, 2005 and 2004:

Reconciliation to US GAAP net income

| | | Six months ended June 30, | | |
|--|------------------|---------------------------|--------------|--------------|
| | | 2005 | 2005 | 2004 |
| (in millions, except per share data) | | \$ | € | € |
| <i>Notes</i> | | | | |
| Net income as reported in the consolidated statement of income under IFRS | | 4,069 | 3,363 | 1,042 |
| <i>Adjustments to conform to US GAAP</i> | | | | |
| Accounting for the impairment of goodwill | <i>B</i> | - | - | 534 |
| Fair value of tangible assets | <i>C</i> | 4 | 3 | 11 |
| Impairment and amortization of intangible assets | <i>F</i> | (439) | (363) | (82) |
| Sale and leaseback of real estate | <i>G</i> | 33 | 27 | 28 |
| Adjustments relating to the 1996 quasi reorganization and change of status | <i>H</i> | 31 | 26 | 12 |
| Share based payment | <i>I</i> | (10) | (8) | 2 |
| Accounting for bonds redeemable into shares of France Telecom | <i>J</i> | 12 | 10 | 6 |
| Derivative instruments and hedging activities | <i>K</i> | (40) | (33) | (7) |
| Valuation of marketable securities and investment securities | <i>M</i> | - | - | 8 |
| Sale of investments | <i>N</i> | (121) | (100) | - |
| Development cost capitalization | <i>O</i> | (51) | (42) | (11) |
| Capitalization of interest costs | <i>P</i> | (8) | (7) | 61 |
| Pension obligations and other employee benefits | <i>Q</i> | (11) | (9) | (135) |
| FIN 46R | <i>R</i> | - | - | (647) |
| Sale of TDF | <i>S</i> | 709 | 586 | - |
| Revenue recognition | <i>T</i> | (1,324) | (1,094) | 90 |
| Other | | (28) | (23) | 15 |
| Deferred taxes (including effect on the above adjustments) | <i>U</i> | 661 | 546 | (3) |
| Net income as adjusted for US GAAP | | 3,487 | 2,882 | 924 |
| Net income as adjusted for US GAAP before discontinued operations and cumulative effect of change in accounting principle, after tax | | 3,206 | 2,650 | 1,558 |
| Discontinued operations, after tax | <i>S</i> | 1,165 | 963 | 13 |
| Cumulative effect of change in accounting principle, after tax | <i>R & T</i> | (884) | (731) | (647) |
| Net income as adjusted for US GAAP | | 3,487 | 2,882 | 924 |
| Earnings per share as adjusted for US GAAP before discontinued operations and cumulative effect of change in accounting principle, after tax | | | | |
| — Basic | <i>V</i> | 1.30 | 1.07 | 0.64 |
| — Diluted | <i>V</i> | 1.25 | 1.04 | 0.64 |
| Earnings per share as adjusted for US GAAP after discontinued operations and cumulative effect of change in accounting principle, after tax | | | | |
| — Basic | <i>V</i> | 1.41 | 1.16 | 0.38 |
| — Diluted | <i>V</i> | 1.36 | 1.12 | 0.38 |

Comprehensive Income under US GAAP
Reconciliation of shareholders' equity to US GAAP

| | Six months ended June 30, | | |
|---|---------------------------|--------------|--------------|
| | 2005 | 2005 | 2004 |
| (in millions) | \$ | € | € |
| Net income as adjusted for US GAAP | 3,487 | 2,882 | 924 |
| <i>Other Comprehensive Income:</i> | | | |
| Unrealized gains (losses) on securities (net of related taxes) | 42 | 35 | (14) |
| Unrealized losses on derivative instruments and hedging activities (net of related taxes) | 2 | 2 | (3) |
| Minimum pension liability adjustment (net of related taxes) | (1) | (1) | 8 |
| Foreign currency translation adjustment (net of related taxes) | 1,411 | 1,166 | 1,294 |
| Comprehensive income (loss) | 4,941 | 4,084 | 2,209 |

The following is a reconciliation of shareholders' equity as reported in the IFRS consolidated balance sheet as adjusted for the approximate effects of the application of US GAAP as of June 30, 2005 and December 31, 2004:

| | | June 30, | | December 31, |
|---|--------------|---------------|---------------|---------------|
| | | 2005 | 2005 | 2004 |
| (In millions) | | \$ | € | € |
| | <i>Notes</i> | | | |
| Shareholders' equity as reported in the consolidated balance sheet under IFRS | | 22,072 | 18,244 | 14,451 |
| <i>Adjustments to conform to US GAAP</i> | | | | |
| Historical business combinations | A | 6,153 | 5,086 | 4,776 |
| Accounting for goodwill – non amortization and impairments | B | (19,888) | (16,439) | (15,609) |
| Fair value of tangible assets | C | (149) | (123) | (125) |
| Other business combinations | D | 438 | 362 | 406 |
| Step acquisition of equity method investees | E | 144 | 119 | 118 |
| Impairment and amortization of intangible assets | F | (1,211) | (1,001) | (671) |
| Sale and leaseback of real estate | G | (544) | (450) | (477) |
| Adjustments relating to the 1996 quasi reorganization and change of status | H | (98) | (81) | (106) |
| Share based payment | I | 0 | 0 | 129 |
| Accounting for bonds redeemable into shares of France Telecom | J | (1,154) | (954) | (964) |
| Derivative instruments and hedging activities | K | 335 | 277 | 327 |
| Written put options | L | 490 | 405 | 422 |
| Valuation of marketable securities and investment securities | M | (82) | (68) | (79) |
| Sale of investments | N | 62 | 51 | 120 |
| Development cost capitalization | O | (224) | (185) | (142) |
| Capitalization of interest costs | P | 1,520 | 1,256 | 1,212 |
| Pension obligations and other employee benefits | Q | 166 | 137 | 135 |
| FIN 46R | R | - | - | (889) |
| Sale of TDF | S | - | - | 310 |
| Revenue recognition | T | 457 | 378 | 1,472 |
| Other | | (2) | (2) | 19 |
| Deferred taxes (including effect on the above adjustments) | U | (146) | (121) | (806) |
| Shareholders' equity as adjusted for US GAAP | | 8,337 | 6,891 | 4,029 |

Description of US GAAP adjustments

Historical business combinations (A)

France Telecom has entered into various business combinations prior to the January 1, 2004 date of adoption of IFRS (“Historical Business Combinations”). Under IFRS, these business combinations have not been restated to conform with IFRS 3 “Business combinations” requirements, as permitted by the exemption provided by IFRS 1, which France Telecom elected to apply. As a result of the accounting treatment for such transactions under IFRS and US GAAP, and more significantly, due to the transitional provisions of IFRS 1, historical adjustments are reflected in the reconciliation to US GAAP.

Adjustment on Orange plc acquisition cost: Following the transitional provisions of IFRS 1, no adjustment has been made to the historical treatment under French GAAP of the settlement of the put and call arrangement with Vodafone. Under French GAAP, the settlement of the put and call in 2001 has been reflected as contingent consideration and the purchase price has been adjusted accordingly. Under US GAAP, the settlement of the put and call arrangement with Vodafone was considered as an equity transaction and accordingly, there is no subsequent adjustment to the purchase price of Orange plc.

Purchase of additional Orange shares held by E.On: Following the transitional provisions of IFRS 1, no adjustment has been made to the historical treatment under French GAAP of the settlement of the E.On put option on shares of Orange SA. Under this treatment, France Telecom recorded the additional investment in Orange at the amount of consideration paid to the counterparty. Under US GAAP, the additional investment in Orange SA was recorded at market value upon settlement of the E.On put option. The put option had been accounted for at fair value under SFAS 133.

Acquisition of Equant: Following the transitional provisions of IFRS 1, no adjustment has been made to the historical treatment under French GAAP of the valuation of the Equant Acquisition. Under French GAAP, securities issued as consideration are measured at their fair value at the date of exchange. Under US GAAP, securities issued as consideration are measured at their average fair value over a reasonable period of time around the transaction announcement date.

Equant – Contingent Value Right (“CVR”): Following the transitional provisions of IFRS 1, no adjustment has been made to the historical treatment under French GAAP of the determination of the Equant purchase consideration. In 2001, due to movements in the CVR’s market value, France Telecom recorded a provision for the maximum payment of the CVR. Under US GAAP, the value ascribed to the CVR is part of the purchase consideration and was determined at the date the agreement was signed using an option-pricing model. Subsequent changes to the value of the CVR have been reflected in earnings. The CVR payment was settled on July 8, 2004 for €2,015 million.

The historical business combinations noted above result in the following differences in net equity between IFRS and US GAAP:

| Historical Business Combinations | June 30, 2005 | December 31, 2004 |
|--|----------------------|--------------------------|
| Adjustment on Orange plc acquisition cost | 3,318 | 3,174 |
| Purchase of additional shares held by E.On | (359) | (359) |
| Acquisition of Equant | 1,131 | 1,004 |
| Equant - Contingent Value Right (“CVR”) | 893 | 793 |
| Other | 103 | 164 |
| Total | 5,086 | 4,776 |

Accounting for goodwill—non amortization and impairment (B)

Prior to the adoption of IFRS on January 1, 2004, France Telecom amortized goodwill in accordance with French GAAP. Under US GAAP, goodwill is not amortized, but tested for impairment on an annual basis. Therefore, the reconciliation to US GAAP reflects equity adjustments of approximately €9.5 billion and €8.8 billion as of June 30, 2005 and December 31, 2004, respectively.

Under US GAAP, France Telecom has recorded significant goodwill impairments prior to January 1, 2004, due to downturns in the market place. In accordance with the transitional provisions of IFRS 1, France Telecom has tested goodwill for impairment as of the adoption date, and no adjustments to the historical French GAAP goodwill amounts were necessary. As such, the US GAAP accounts reflect historical goodwill impairments of approximately €25.9 billion and €24.4 billion as of June 30, 2005 and December 31, 2004, respectively, relating primarily to the Orange reporting unit in 2002.

For the year ended December 31, 2004, under IFRS, France Telecom recorded a goodwill impairment charge totaling €34 million relating to Equant’s goodwill. Consequently, for reconciliation purposes to US GAAP,

France Telecom reversed the impairment charge, as the Equant goodwill had already been fully written-off under US GAAP.

No additional goodwill impairments have been recognized under IFRS or US GAAP for the six month period ended June 30, 2005.

Fair value of tangible assets (C)

Under IFRS, as allowed under IFRS 1, France Telecom has recorded certain tangible assets at fair value.

Under US GAAP, tangible assets are carried at cost, less accumulated depreciation, unless they are considered impaired, at which time they are written down to fair value. It is prohibited to recognize increases in the value of tangible assets.

Cumulative translation differences

Under IFRS, the opening cumulative translation differences existing under French GAAP have been transferred to retained earnings on January 1, 2004, the date of transition to IFRS. This adjustment has no impact on the opening shareholders equity as of that date. The gain or loss on any subsequent disposals of any foreign operations will exclude translation differences that arose before the date of transition to IFRS, but will include later translation differences.

Other business combinations (D)

The IFRS accounting for business combinations is described in Note 1, which refers to the policy as described in Note 3 of the "Transition to IFRS" document.

The following describes the main differences between IFRS and US GAAP in relation to business combinations: (i) a different measurement date used in valuing the securities issued in purchase transactions: typically under US GAAP the date of the signed agreement, or public announcement, and under IFRS the date of exchange, (ii) a different treatment in purchase accounting of certain identifiable assets and liabilities, (iii) the treatment of contingent consideration in the cost of the business combination, (iv) the measurement of goodwill impairment, and (v) the accounting for acquired minority interests of consolidated subsidiaries. The adjustments result primarily from the following:

2005 Acquisition of Equant minority interest: As discussed in Note 2 to these consolidated financial statements, France Telecom acquired the remaining minority interest in Equant.

Under IFRS, and previously French GAAP, France Telecom recognizes goodwill for the difference between the purchase price and book value of the net assets acquired. Under US GAAP, France Telecom is required to allocate the cost of the acquired remaining interest to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition.

France Telecom is in the process of determining the fair value of the assets acquired and liabilities assumed, in accordance with FAS 141. Due to the complexity of valuation of certain identifiable intangible assets, the purchase price allocation has not been finalized as of June 30, 2005.

2005 Acquisition of additional interest in Orange Romania: As discussed in Note 2 to these consolidated financial statements, France Telecom acquired an additional interest in Orange Romania.

Under IFRS, and previously French GAAP, France Telecom recognizes goodwill for the difference between the purchase price and book value of the net assets acquired. Under US GAAP, France Telecom is required to allocate the cost of the acquired remaining interest to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition.

France Telecom is in the process of determining the fair value of the assets acquired and liabilities assumed, in accordance with FAS 141. Due to complexity of valuation of certain identifiable intangible assets, the purchase price allocation has not been finalized as of June 30, 2005.

2004 Acquisition of Wanadoo SA minority interest: Under IFRS, and previously French GAAP, securities issued as consideration are measured at their fair value at the date of exchange. Under US GAAP, securities issued as consideration are measured at their average fair value over a reasonable period of time around the transaction announcement date. This difference in measurement resulted in a IFRS and US GAAP difference of €107 million.

2004 and 2003 Acquisition of Orange SA minority interest: Under IFRS, and previously French GAAP, securities issued as consideration are measured at their fair value at the date of exchange. Under US GAAP, securities issued as consideration are measured at their average fair value over a reasonable period of time around the transaction announcement date. This difference in measurement resulted in a IFRS and US GAAP difference of €328 million.

Step acquisitions of equity method investees (E)

Under IFRS, as applied by France Telecom, the acquisition of an additional interest in an equity method investee triggers a revaluation of the historical investment, excluding goodwill, prior to the acquisition of this additional interest on the basis of the fair value of the net assets of the equity investee at the time the additional interest is acquired. This revaluation is recorded through equity.

Under US GAAP, the interest's historical carrying value prior to the acquisition of the additional interest remains unchanged.

Impairment and amortization of intangible assets (F)

Under both IFRS and US GAAP, intangible assets with indefinite lives are not amortized, but tested for impairment on at least an annual basis. Other intangible assets are amortized over their estimated useful lives.

Under US GAAP, certain assets have been impaired during the periods ended June 30, 2005 and 2004 for approximately €193 million and €77 million, respectively. The impairments were due to revisions in France Telecom's business plans and outlooks. Under IFRS, the respective assets did not exist, or had a different carrying value.

Due to differences in the accounting treatment and valuation of business combinations under IFRS and US GAAP, certain differences have arisen in the balances of definite lived intangible assets, which results in a difference in the amortization expense recognized each period. The impact of such adjustments has reduced US GAAP net income for the periods ended June 30, 2005 and 2004 by approximately €170 million and €5 million, respectively.

Sale and leaseback of real estate (G)

Under IFRS, no adjustments have been made for certain historical sales and leasebacks under operating leases of real estate properties (mainly office and technical buildings) which have been reflected as disposals, with a related net gain recorded in prior periods.

Under US GAAP, the transactions not qualifying for sale-leaseback accounting were recorded as financings, and when the sale was recorded the resulting gains were deferred and amortized over the remaining lease terms.

Adjustments relating to the 1996 quasi-reorganization and change of status (H)

Under IFRS, no adjustment has been made to the historical French GAAP treatment of the quasi-reorganization.

Under US GAAP, effective December 31, 1996, France Telecom effected a quasi-reorganization for financial reporting purposes, which resulted in the write-down of certain property, plant and equipment, as well as identifiable intangible assets, and the increase in the book value of debt instruments to fair value. In addition, France Telecom recorded provisions for the early retirement plan and for post-retirement benefits. Those adjustments were recorded directly against additional paid-in capital. Differences remaining related to the net assets continue to be reflected as a reconciling item on the reconciliation of shareholders' equity.

Share based payment (I)

France Telecom subsidiaries have various share based compensation plans. The IFRS accounting for stock based compensation is disclosed in Note 1, which is the same as the policy described in Note 3 of the "Transition to IFRS" document.

Under US GAAP, France Telecom adopted the provisions of SFAS 123R, *Share Based Payment* (revised 2004) ("SFAS 123R"), as of January 1, 2005, and accounted for stock option plans under SFAS 123, *Stock Based Compensation* ("SFAS 123"), prior to January 1, 2005. Under SFAS 123R, France Telecom elected the "Modified Prospective Application" transition method. Under this method, SFAS 123R was applied to new awards and to any awards modified, repurchased, or cancelled after the date of adoption. Awards that were outstanding as of the date of adoption of this standard, continued to be amortized as the respective service was rendered, and the cost of such awards continued to be based on the grant date fair value as measured previously under SFAS 123.

Upon the adoption of SFAS 123R, France Telecom began to base initial accruals of compensation cost on the number of awards estimated at the grant date for which the requisite service is expected to be rendered and revised the estimated number of awards for which the requisite service is expected to be rendered if information indicates that the actual number of awards is likely to differ from initial estimates. The adoption of FAS 123R resulted in additional expenses under US GAAP of approximately €8 million, which has been recognized in the share based payment line item during the period ended June 30, 2005.

Liquidity contracts

During the periods ending June 30, 2004 and December 31, 2004, the liability recognized under the cash settled option plans was measured using the fair value method under IFRS 2 and the intrinsic value method under FAS 123. Upon the adoption of FAS 123R, the valuation of the liability for the cash settled plan under both IFRS and US GAAP was measured under the fair value method.

Financial instruments

Accounting for bonds redeemable into shares of France Telecom and other obligations (J)

The IFRS accounting policy for compound financial instruments is disclosed in Note 1, which refers to the policy as described in Note 3 of the “Transition to IFRS” document. Under IFRS, the TDIRA and OCEANE bonds are determined to be compound financial instruments, and are therefore separated into a liability component and an equity component.

Under US GAAP, the TDIRA and OCEANE are reflected as debt at their nominal value at the issuance date. The related return owed to their holders is recorded as interest expense through the income statement. If the non-detachable embedded conversion feature is subsequently modified, and the debt has not been determined to be extinguished under US GAAP, the change in the fair value of the conversion feature is recognized as a discount or premium, with a corresponding increase or decrease in equity.

Due to the split accounting under IFRS, the effective interest rate is higher under IFRS than under US GAAP. This difference resulted in an equity adjustment of €104 million and €70 million at June 30, 2005 and December 31, 2004, respectively, and increased US GAAP net income by €36 million and €32 million for the periods ended June 30, 2005 and 2004, respectively.

The TDIRA was repackaged during the year ended December 31, 2003. IFRS 1 allowed France Telecom to not apply the IAS 39 provisions to the repackaged debt. Under US GAAP, the terms of the repackaged TDIRA were not considered substantially different than those of the original instrument. Accordingly, the €438 million fee paid by France Telecom is recognized as an addition to the carrying amount of the TDIRA. This fee is amortized to interest expense over a period of seven years using the effective interest rate method. The impact for the six month periods ended June 30, 2005 and 2004 has reduced US GAAP income by €26 million. This impact is reduced by the adjustment relating to the amortized cost from the split accounting under IFRS.

France Telecom repurchased portions of the TDIRA during previous years. The corresponding additional carrying amount, related to the repurchased TDIRA was immediately recognized as interest expense in the statement of income.

The US GAAP adjustments relating to the bonds redeemable into shares of France Telecom noted above had the following impact on France Telecom’s equity as of June 30, 2005 and December 31, 2004:

| Accounting for bonds redeemable into shares of France Telecom | June 30, 2005 | December 31, 2004 |
|--|----------------------|--------------------------|
| Amortized costs due to split accounting | 106 | 70 |
| Repackaging of the TDIRA | 272 | 298 |
| Reversal of split due to the compound financial instruments | (1,332) | (1,332) |
| Total | (954) | (964) |

Derivative Instruments and Hedging Activities (K)

The IFRS accounting policy for derivative and hedging instruments is disclosed in Note 1, which refers to the policy as described in Note 3 of the “Transition to IFRS” document.

The IFRS opening balance sheet at January 1, 2004 required that all hedge relationships that existed under French GAAP be recognized. Certain derivatives, which would have been qualified as fair value hedges under IFRS, were terminated prior to January 1, 2004. These derivatives had an impact on the value of debt in the opening IFRS balance sheet which has been amortized following the amortized cost method.

Under IFRS, certain hedge relationships have been reassessed since the January 1, 2004 first time application of IFRS, which has resulted in certain derivatives which were previously classified as fair value hedges being

classified as trading derivatives, consistent with the US GAAP classification. In such cases, any adjusted carrying amount of the hedged items has been amortized over the remaining life of the debt.

Furthermore, some derivatives which were previously qualified as fair value hedges or cash flow hedges under US GAAP, were qualified as trading derivatives since January 1, 2004. The cumulative effect on OCI relating to those previous cash flow hedge relationships, and the adjustment on the debt instrument relating to fair value hedge, are being amortized on a straight-line basis over the remaining life of the debt.

Under US GAAP, certain derivatives were qualified as trading derivatives. Following the adoption of IFRS, these derivatives have been reassessed and have been qualified as fair value hedges, consistent with the IFRS classification, during 2004. This led to a timing difference relating to the date of hedge qualification, between IFRS and US GAAP.

In addition, certain derivative instruments may have been classified as cash flow hedges under IFRS and as trading derivatives under US GAAP. This difference in classification results in amounts having to be reversed from the IFRS equity reserves, with the counterpart recorded through earnings, for US GAAP.

The above differences between IFRS and US GAAP, mainly due to the IFRS transition timing effects on hedge qualifications, led to an adjustment from the IFRS accounts to the US GAAP accounts, including an increase in equity of €277 million and €327 million at June 30, 2005 and December 31, 2004, respectively, and reduced US GAAP net income by €33 million and €7 million for the six months ended June 30, 2005 and 2004, respectively.

Written put options on minority interests (L)

The IFRS accounting policy for written put options is disclosed in Note 1 to these consolidated financial statements, and is the same as described in Note 3 of the "Transition to IFRS" document. Such instruments are recognized as financial debt based on the present value of the obligation under IFRS, with a corresponding reduction in minority interests and equity.

Under US GAAP (SFAS 150), free standing written put options are recognized as liabilities on the balance sheet, at the fair value of such instruments, with any changes in the fair value recognized through the income statement. In addition, if an instrument is only exercisable upon the occurrence of an event solely within the control of France Telecom, and it is not probable that the event will occur, subsequent adjustments to the value of the instrument are not made after issuance of the instrument, until it is probable that the instrument will become exercisable.

Valuation of marketable securities and investment securities (M)

The IFRS accounting policy for marketable securities is disclosed in Note 1, which refers to the policy as described in Note 3 of the "Transition to IFRS" document. Under IFRS non-exchange listed securities are marked-to-market, using an estimated fair value measure determined according to the most appropriate financial criteria.

Under US GAAP (SFAS 115), France Telecom does not mark-to-market securities that are not exchange listed, however, if such securities are considered impaired, they are written down to an estimated fair value.

Sale of investments (N)

Under IFRS and US GAAP, when some but not all of a business included in a cash generating unit, or a reporting unit, is to be disposed of, a portion of the cash generating unit's, or the reporting unit's, goodwill should be allocated to the business based on the relative fair values of that business and the fair value of the cash generating unit, or reporting unit, to be retained in determining the gain or loss on disposal.

Due to the differences in the carrying value of goodwill under IFRS and US GAAP, different amounts of goodwill may be allocated to investments disposed of under IFRS and US GAAP, which affects the gain or loss recognized.

Also, due to potential differences in the valuation and other adjustments of certain investments, discussed elsewhere in this document, the gains or losses recognized on the sale of such investments may differ under IFRS and US GAAP.

Development costs (O)

The IFRS accounting policy for development costs is disclosed in Note 1, which refers to the policy as described in Note 3 of the "Transition to IFRS" document. Under IFRS, development costs are recognized as assets if certain criteria are met, and are otherwise, expensed as incurred.

Under US GAAP, capitalization of development costs is prohibited, unless they pertain to specific elements of internally generated computer software.

Capitalization of interest costs (P)

Under IFRS, France Telecom has elected to not capitalize any interest costs.

Under US GAAP, interest costs incurred on qualifying capital expenditures, which require a period of time in order for such assets to be ready for their intended use, are capitalized. Consequently, once the assets are operational, the capitalized interest associated with the asset is depreciated accordingly.

Pension obligations and other employee benefits (Q)

The IFRS accounting policy for pensions obligations and other employee benefits is disclosed in Note 1, which refers to the policy as described in Note 3 of the “Transition to IFRS” document.

Under IFRS, following the transitional provisions of IFRS 1, France Telecom recognized € 325 million of unrecognized actuarial gains and losses against shareholders equity as of January 1, 2004, net of tax. Under US GAAP, this impact on shareholders equity was reversed, and the actuarial gains and losses, as of such date, continue to be amortized over the employee’s remaining service period.

Under IFRS, the early retirement plan in France is treated as a termination benefit and changes in actuarial assumption are fully charged to the income statement. Under US GAAP, the early retirement plan in France does not qualify for termination benefit accounting treatment and consistent with past practice is accounted for as a post-employment benefit with actuarial gains and losses recognized over the remaining service period (ending in 2006).

Under US GAAP, an additional minimum pension liability should be charged to other comprehensive income when the accumulated benefit obligation (“ABO”) exceeds the fair value of the plan assets. The minimum pension liability is approximately € 104million (€71 million, net of tax) as of June 30, 2005. Under IFRS, an additional minimum pension liability is not required to be recognized.

Variable interest entities and related transactions

FIN 46R (R)

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51* (“FIN 46”). The primary objectives of FIN 46 were to provide guidance on the identification of entities for which control is achieved through means other than through voting rights and how to determine when and which business enterprise should consolidate the variable interest entity (“VIE”).

In December 2003, the FASB published a revision to FIN 46 (“FIN 46R”), in part to clarify certain of its provisions. Among other things, FIN 46R deferred the effective date for VIEs created prior to February 1, 2003 to the end of the first reporting period that ends after March 15, 2004. For France Telecom, the effective date to account for VIEs created prior to February 1, 2003 is the six-month period ended June 30, 2004 (from January 1, 2004 for VIEs qualifying as Special Purpose Entities under previous guidance and from June 30, 2004 for other VIEs). FIN 46R requires consolidation of VIEs by business enterprises considered to be the primary beneficiary of the VIE. The primary beneficiary of a VIE is the party that absorbs a majority of the entity’s expected losses, receives a majority of its expected residual returns, or both, as a result of holding variable interests, which are ownership, contractual, or other pecuniary interests in an entity. The primary beneficiary is required to consolidate the assets, liabilities, and results of the activities of the VIE. FIN 46R requires additional disclosures relating to transactions involving VIEs to be made by primary beneficiaries and enterprises holding significant variable interests in VIEs.

France Telecom has determined that its interest in Ypso Holding (“Ypso”), an entity formed by co-investors in 2005 to manage certain cable activities, is a VIE. However, due to France Telecom’s limited financial investment compared to co-investors, France Telecom is not the primary beneficiary of Ypso. Under US GAAP and IFRS, the equity method is used to account for France Telecom’s interest in YPSO as of June 30, 2005.

France Telecom consolidated Tele-Invest and Tele-Invest II beginning January 1, 2004, under both IFRS and US GAAP. Under US GAAP, because they are both VIEs for which France Telecom holds the majority of expected losses, France Telecom was the primary beneficiary. Due to differences between the treatment of the first time consolidation of the entity under IFRS and US GAAP, a €(107) million adjustment was included in the cumulative effect of a change in accounting principle in the statement of operations. As of June 30, 2005, as the options held by Tele-Invest and Tele-Invest II have been exercised and the interest has been directly acquired by France Telecom, these entities no longer exist under IFRS and US GAAP.

In addition, France Telecom has determined that the Tower Participation SAS (“Tower”), an entity formed with co-investors to hold a 100% interest in TDF, is a VIE. France Telecom, as the holder of the larger interest in

Tower, was determined to be the primary beneficiary of Tower, and consolidated Tower during 2004 under US GAAP. Under IFRS, Tower was not consolidated. With the application of FIN46R, the initial gain on the sale of TDF, recognized in December 2002 under both SAB Topic 5-U and EITF 01-02 (see Note S), was reversed and included in the cumulative effect of a change in accounting principle. As a consequence, the impact of the first consolidation under FIN46R of Tower was (i) to increase France Telecom's consolidated assets and liabilities by approximately €1.1 billion, including an increase in France Telecom's consolidated debt by approximately €1.7 billion, and to (ii) decrease France Telecom's consolidated net income by €0.5 billion for the year ended December 31, 2004. As of December 2004, France Telecom has classified Tower as held for sale in accordance with SFAS 144, *Accounting for the impairment and disposal of long-lived Assets*, ("SFAS 144"), and has determined that it meets the definition of a disposal group as defined by SFAS 144. As discussed in Note 2 to these consolidated financial statements, Tower was disposed of during the period ended June 30, 2005, and as such, France Telecom no longer holds an interest in Tower. Consequently the gain on the sale was recognized through discontinued operations during the period ended June 30, 2005.

Due to the adoption of FIN 46R in 2004, a charge was recorded as a cumulative effect of a change in accounting principle for €(0.6) billion in the statement of operations in accordance with US GAAP.

Sale of TDF (S)

Under IFRS, no adjustment has been made to the 36.2% gain deferral on the sale of TDF, which took place in 2002, as a result of the simultaneous investment by France Telecom in Tower Participation SAS ("Tower"), TDF's new parent company.

Under US GAAP in 2002, per SAB Topic 5-U and EITF 01-02, a €495 million pre-tax gain, net of fee, was recognized representing the portion of the gain related to third parties, whereas to the extent of the sale to CDC, a party under common control with France Telecom, a €350 million gain was recognized through equity as additional paid-in capital, and the related investment in Tower Participation SAS was carried over from TDF's historical carrying value. As mentioned in Note S, this gain has been reversed and included in the cumulative effect of change in accounting principle during 2004 in conjunction with the FIN 46R analysis.

As of December 2004, France Telecom has classified Tower as held for sale in accordance with SFAS 144, *Accounting for the impairment and disposal of long-lived Assets*, ("SFAS 144"), and has determined that it meets the definition of a disposal group as defined by SFAS 144. As discussed in Note 2 to these consolidated financial statements, Tower was disposed of during the period ended June 30, 2005. Consequently the gain on the sale was recognized through discontinued operations during the period ended June 30, 2005.

Revenue recognition (T)

The IFRS accounting policy for revenue recognition is disclosed in Note 1, which refers to the policy as described in Note 3 of the "Transition to IFRS" document.

Until January 1, 2005, under US GAAP, activation fees and certain other one-time charges are deferred and recognized over the average life of the related customer relationship period. In addition, under US GAAP, related direct incremental costs, up to the amount of revenues, are also deferred and subsequently amortized in accordance with the election provided in SAB Topic 13.

As of January 1, 2005, France Telecom has changed their accounting policy for such deferred incremental costs, to expensing them as incurred. The change was made to align France Telecom's accounting policy with other European competitors and to align the US GAAP accounting policy to the IFRS policy as described in 1, which refers to the policy as described in Note 3 of the "Transition to IFRS" document. For these reasons, the change in the US GAAP accounting policy was preferable for France Telecom. This change in accounting treatment under US GAAP resulted in a decrease in net income of €731 million after-tax, or a €0.30 and a €0.28 decrease per basic and diluted earnings per share, respectively, which has been recorded as a cumulative effect of change in accounting policy for the period ended June 30, 2005.

As described in Note 1 to these consolidated financial statements, France Telecom accounts for certain sales incentives, both with and without renewal obligations, in accordance with the interpretation made by the French standard setter (CNC). Under US GAAP, France Telecom accounts for certain sales incentives given to customers with renewal obligations in accordance with EITF 01-09, *Accounting for Consideration Given by a Vendor to a Customer*, and thereby recognizes such sales incentives upon the renewal of the customer. For the six months ended June 30, 2005 and 2004, this adjustment has increased US GAAP equity by €378 million and €380 million, respectively.

Deferred taxes (U)

Due to the accounting adjustments between IFRS and US GAAP, deferred tax differences of approximately €121 million and €806 million have been recognized under US GAAP as of June 30, 2005 and December 31, 2004, respectively.

In addition, upon the transition to IFRS, the deferred taxes recognized on certain business combinations within the opening IFRS balance sheet have been recognized as a direct reduction to French equity for approximately €1.2 billion as permitted under IFRS. Under US GAAP, such adjustments have been recorded against goodwill.

In 2003, in connection with the acquisition of the remaining minority interest in Orange SA, approximately €2.4 billion of previously unrecognized deferred tax assets of France Telecom were recognized by a release of the respective valuation allowance because France Telecom expects to use the future taxable income of Orange in the France Telecom consolidated tax group. Under US GAAP, a part of the release was recognized as a reduction of goodwill.

Earnings per share (V)

The prior year amounts have been adjusted for the discontinued operations presentation during the current year.

Consolidation methods

The principles covering the scope of consolidation under IFRS are set forth in Note 1, which refers to the policy as described in Note 3 of the "Transition to IFRS" document.

For US GAAP purposes, majority-owned companies, based on voting rights directly or indirectly held, or companies that are controlled, based on voting or other rights directly or indirectly held, are fully consolidated, and less than majority-owned companies over which France Telecom exercises significant influence (generally 20% or more owned), including those companies accounted for using the proportionate consolidation method under IFRS, are included in the consolidated financial statements using the equity method.

In addition, as discussed in Note S to these consolidated financial statements, under US GAAP, FIN 46R prescribes that certain variable interest entities ("VIE") are to be consolidated since France Telecom is the primary beneficiary and exposed to the majority of the expected losses and expected residual returns associated with such investments.

For the six months ended June 30, 2005, France Telecom applied the equity method of consolidation under US GAAP for investments which have been consolidated under the proportional method under IFRS. This difference in accounting treatment has no effect on either net income or shareholders' equity with respect to investments accounted for under the proportionate consolidation method for IFRS. However, it does have an effect on the presentation of certain balance sheet items between IFRS and US GAAP.

Under IFRS, there may be instances where France Telecom does not hold a majority of voting rights of an entity, but is deemed to control the financial and operating policies of the company, so as to obtain benefits, and therefore consolidates the respective entity. Under US GAAP, less than majority owned companies where France Telecom has significant influence are accounted for under the equity method, unless they are determined to be VIE's and France Telecom is deemed the primary beneficiary.

TP Group

Under IFRS, the TP Group (TP S.A. and its subsidiaries, or TPSA) is fully consolidated in the France Telecom's IFRS financial statements.

Under US GAAP, France Telecom's investment in TPSA (representing approximately 47.5% of TPSA's voting common stock) is accounted for as an equity investment under APB 18. France Telecom also holds a 34% investment directly in PTK, an entity held at 66% by TPSA and consolidated by TPSA.

B – RECENT US GAAP ACCOUNTING PRONOUNCEMENTS

SFAS 154 – Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FAS 3

In June 2005, the Financial Accounting Standards Board issued SFAS 154, *Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FAS 3* (“SFAS 154”). This Statement replaces Opinion 20 and FAS 3, and changes the requirements for the accounting for and reporting of a change in accounting principle. APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 requires retrospective application to prior periods’ financial statements of changes in accounting principle. SFAS 154 is effective for France Telecom for the period beginning January 1, 2006. France Telecom is currently reviewing this issue to measure the potential impact on the consolidated results of operations, financial position, and cash flows.

FSP No. FAS 150-5 – Issuer’s Accounting under FASB Statement No. 150 for Freestanding Warrants and Other Similar Instruments on Shares that are Redeemable

In June 2005, the Financial Accounting Standards Board issued this FASB Staff Position (FSP) to address whether freestanding warrants and other similar instruments on shares that are redeemable (either puttable or mandatorily redeemable) would be subject to the requirements of FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, regardless of the timing of the redemption feature or the redemption price. The FSP indicates that warrants for shares that are puttable and warrants for mandatorily redeemable shares are classified as liabilities under paragraph 11 of Statement 150. The FSP also clarifies that Paragraph 11 of Statement 150 applies to freestanding warrants and other similar instruments on shares that are either puttable or mandatorily redeemable regardless of the timing of the redemption feature or the redemption price because those instruments embody obligations to transfer assets. The guidance in this FSP is effective for France Telecom in the first reporting period beginning after June 30, 2005. If the guidance in this FSP results in changes to previously reported information, the cumulative effect shall be reported according to the transition provisions of Statement 150 in the first reporting period beginning after June 30, 2005. France Telecom is currently reviewing this issue to measure the potential impact on the consolidated results of operations, financial position, and cash flows.

FSP No. APB 18-1 – Accounting by an Investor for Its Proportionate Share of Accumulated Other Comprehensive Income of an Investee Accounted for under the Equity Method in Accordance with APB Opinion No. 18 upon a Loss of Significant Influence

In July 2005, the Financial Accounting Standards Board issued this FASB Staff Position (FSP) to provide guidance on how an investor should account for its proportionate share of an investee’s equity adjustments for other comprehensive income (OCI) upon a loss of significant influence. The FSP states that an investor’s proportionate share of an investee’s equity adjustments for OCI should be offset against the carrying value of the investment at the time significant influence is lost. To the extent that the offset results in a carrying value of the investment that is less than zero, an investor should (a) reduce the carrying value of the investment to zero and (b) record the remaining balance in income. The guidance in this FSP is effective for France Telecom as of the first reporting period beginning after July 12, 2005. Upon adoption of this FSP, any amount of an investee’s equity adjustments for OCI recorded in the shareholders’ equity of the investor, relating to an investment for which the reporting entity no longer has an ability to exercise significant influence, should be offset against the carrying value of the investment. The amount that is offset should not include any items of accumulated OCI, relating to unrealized gains and losses recorded in accordance with Statement 115, that are recorded by an investor for an investment that is accounted for as an available-for-sale security in accordance with Statement 115 upon adoption of this FSP. If comparative financial statements are provided for earlier periods, those financial statements shall be retrospectively adjusted to reflect application of the provisions of this FSP. France Telecom is currently reviewing this issue to measure the potential impact on the consolidated results of operations, financial position, and cash flows.

EITF 05-05 - Accounting for Early Retirement or Postemployment Programs with Specific Features (such as Terms Specified in Altersteilzeit Early Retirement Arrangements)

In June 2005, the Emerging Issues Task Force reached a final consensus on issue No. 05-5, *Accounting for Early Retirement or Postemployment Programs with Specific Features (such as Terms Specified in Altersteilzeit Early Retirement Arrangements)*. Altersteilzeit (ATZ) in Germany is an early retirement program designed to create an incentive for employees, within a certain age group, to leave their employers before the legal retirement age. Although established by law, the actual arrangement between employers and employees is negotiated. Although this Issue addresses specific features in ATZ arrangements, the consensus reached in the Issue may apply to other types of arrangements with the same or similar terms. EITF 05-05 is effective for France Telecom for the period beginning January 1, 2006. France Telecom is currently reviewing this issue to measure the potential impact on the consolidated results of operations, financial position, and cash flows

FSP No. FAS 13-1 – Accounting for Rental Costs Incurred during a Construction Period

In October 2005, the Financial Accounting Standards Board issued this FASB Staff Position (FSP) which addresses rental costs incurred during and after a construction period and concluded that such costs are for the right to control the use of a leased asset during and after construction of a lessee asset. The Staff noted that there is no distinction between the right to use a leased asset during the construction period and the right to use that asset after the construction period. Therefore, rental costs associated with ground or building operating leases that are incurred during a construction period shall be recognized as rental expense. FSP FAS 13-1 is effective for France Telecom for the period beginning January 1, 2006. France Telecom is currently reviewing this issue to measure the potential impact on the consolidated results of operations, financial position, and cash flows

FSP No. FAS 115-1 – The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments

In November 2005, the Financial Accounting Standards Board issued this FASB Staff Position (FSP) which addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP amends FASB Statements No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, and APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. FSP FAS 115-1 is effective for France Telecom for the period beginning January 1, 2006. France Telecom is currently reviewing this issue to measure the potential impact on the consolidated results of operations, financial position, and cash flows.

Other recent accounting pronouncements issued by the FASB (including the Emerging Issues Task Force), the AICPA, and the SEC did not or are not believed by management to have a material impact on France Telecom's present or future consolidated financial statements.

C – ADDITIONAL SUBSEQUENT EVENTS

Events occurring between June 30, 2005 and September 30, 2005, the date the interim consolidated financial statements were published, are mentioned in Note 11 to the financial statements. The main events having occurred since September 30, 2005 are as follows:

Acquisition of Amena (Spain)

Further to the agreement signed on July 27, 2005, France Telecom completed the acquisition of 80% of the shares of Auna on November 8, 2005 for €6.4 billion. Auna holds 97.9% of Retevision Movil SA, a mobile operator conducting business under the Amena trade name. The acquisition was completed after Auna had separated out its cable activities (Auna Tlc) and after European Commission approval, granted on October 24, 2005. In 2006, France Telecom will merge Auna, Retevision Movil SA and France Telecom España (which operates France Telecom's fixed and internet businesses in Spain).

Auna and Retevision Movil SA are fully consolidated from the acquisition date.

Increase in France Telecom's interest in Orange Slovensko

On November 9, 2005, France Telecom acquired 36.10% of Orange Slovensko from the minority shareholders for a cash consideration of \$628 million (€35 million), raising its interest from 63.90% to 100.00%. In accordance with IAS 32, France Telecom's commitment to purchase this interest was recognized in the balance sheet as of December 31, 2004 as a financial debt at an amount of €500 million. On November 9, 2005, this liability was reversed out on payment of the consideration.

Exchange of Sonae.com shares

Further to the agreement signed on June 9, 2005, France Telecom on November 15, 2005 exchanged its minority interests in Optimus, Novis and Clix (Portugal) for new shares issued by their parent company Sonae.com via a capital increase reserved for France Telecom. This transaction gives France Telecom a 23.7% interest in the capital of Sonae.com, which is consolidated by the equity method.

Public tender offer for Telindus

On September 29, 2005, the Belgian securities regulator (the "CBFA") announced that Belgacom had made an offer for all of the shares and warrants of Telindus Group NV, a Belgian company offering network-based ICT solutions. On December 14, 2005, France Telecom made a counter-bid in the form of a public tender offer for all of the shares and warrants of Telindus. France Telecom offered a cash price of €5.80 per Telindus share, representing a 7.6% premium over the closing share price on December 13, 2005, the day before the France Telecom offer was filed. The France Telecom offer values Telindus at approximately €70 million.

The France Telecom offer is subject to approval of the prospectus filed with the CBFA and to acquisition of more than 75% of the outstanding share capital of Telindus.

On December 15, 2005, the CBFA announced that Belgacom had decided to make an improved offer of €16.60 per Telindus share.

Bond issues

On October 5, 2005, France Telecom closed a €2 billion fixed-rate bond issue, split into two tranches:

| Term | Amount | Coupon | Re-offer spread |
|----------|------------|--------|-----------------|
| 5 years | €1 billion | 3% | 27 bp |
| 10 years | €1 billion | 3.625% | 49 bp |

On November 23, 2005, France Telecom closed a £350 million fixed-rate bond issue:

| Term | Amount | Coupon | Re-offer spread |
|----------|--------------|--------|-------------------|
| 20 years | £350 million | 5.25% | 105 bp over Gilts |

Claims and litigation

On February 2, 2004, AOL filed a complaint with the French Competition Council (Conseil de la Concurrence) relating to Wanadoo's ADSL prices for 2004. AOL claimed that Wanadoo's price offers amounted to an abuse of dominant position. In a decision dated May 11, 2004, the Conseil de la Concurrence rejected the application for an injunction. This decision held that the sector had not suffered immediate or serious damage as a result of Wanadoo's practices. On September 16, 2005, the Conseil de la Concurrence issued a formal order closing the case and referring the complaint to the European Commission.

- In a decision on the merits dated November 8, 2005, the Conseil de la Concurrence imposed a fine of €80 million on France Telecom for abuse of dominant position. The Conseil held that France Telecom unjustifiably restricted its competitors from access to its local network, thereby distorting competition in the retail market and the upstream broadband ADSL market during the period from November 1999 through September 2002. France Telecom has indicated its intention to lodge an appeal against this decision in the Paris Court of Appeal.

On June 30 2005, Neuf Télécom summoned France Telecom to appear before the Paris Commercial Court at short notice, claiming €497 million in damages as compensation for the loss it claimed to have suffered as a result of the failure by France Telecom to put in place an ADSL Connect ATM offer in accordance with orders handed down by the Conseil de la Concurrence and the Paris Court of Appeal. The parties have now settled their dispute.

- In December 2003, Free and Iliad, and subsequently LD Com and Neuf Télécom, filed a complaint with the Conseil de la Concurrence relating to the television offers over telephone lines launched by France Telecom and TPS. The Conseil de la Concurrence ordered France Telecom to take certain provisional measures, but refused to order the temporary suspension of the offers. In a decision dated June 29, 2004, the Paris Court of Appeal canceled all these provisional measures. This ruling was overturned by the highest French court, the Cour de Cassation, on November 8, 2005, as a result of which the provisional measures ordered by the Conseil de la Concurrence came into force. A settlement has now been reached with Neuf Telecom and LD Com, who have consequently withdrawn their claims.

- On November 20, 2003, France Telecom made a tender offer followed by a compulsory purchase procedure to buy the entire share capital of Orange at a price of €9.50 per share. The Association for the Defense of Minority Shareholders (ADAM), believing that the offer price was too low, filed an action with the Paris Court of Appeal on November 24, 2003 seeking cancellation of (i) the notice of admissibility issued by the French Financial Markets Council (Conseil des Marchés Financiers – CMF) in respect of the tender offer and compulsory purchase procedure and (ii) the approval by the French Securities and Exchange Commission (Commission des Opérations de Bourse – COB) of the prospectus. After its claim was rejected by the Paris Court of Appeal on April 6, 2004, ADAM appealed the case to the Cour de Cassation. On November 22, 2005, the Cour de Cassation rejected this appeal, finally extinguishing the claim.
- Following an institutional advertising campaign relating to the quality of its network, several claims were lodged against France Telecom between October and December 2004 by a number of different operators (Free, Cegetel, Neuf Télécom and Tiscali/Liberty Surf) in the Paris Commercial Court and the Paris Civil Court, in full or summary proceedings, for unfair competition (mainly defamation and parasitism) and/or trademark infringement. The cumulative amount of damages claimed in these proceedings, in respect of both trademark infringement and unfair competition, was €39 million. In a decision of November 25, 2005, the Paris Commercial Court awarded €6m of damages to Free, which had claimed €38.1 million. The proceedings brought against France Telecom by Cegetel and Neuf Telecom, who were claiming damages of €40 million and €52 million respectively, have been settled between the parties. The Tiscali claim, seeking damages of €8.9 million, is still pending before the Paris Commercial Court.
- In the ongoing arbitration procedure between TP S.A. and Danish Great Northern Telegraph Company (DPTG) concerning the split of revenues from a fiber optic network in Poland, an initial expert inquiry report was communicated to TP SA on November 28, 2005 and is currently being studied.
- Following the settlement by France Telecom and T-Online of all the disputes between them before the Conseil de la Concurrence, on November 29, 2005 the Conseil de la Concurrence issued a formal order closing the case in respect of the complaint relating to the launch of the Netissimo offer by France Telecom in 1999.
- On December 1, 2005, the Conseil de la Concurrence imposed a fine of €256 million on Orange France for having operated, alongside SFR and Bouygues Télécom, two types of concerted practices which, according to the Conseil, restricted free competition in the mobile telephony market. The mobile operators are alleged to have exchanged strategic information on subscriber data between 1997 and 2003, and to have agreed to freeze their market shares between 2000 and 2002. Orange contests the validity of this decision and has announced its intention to appeal. Following the decision, some consumer associations announced their intention to seek compensation for losses suffered by consumers as a result of these concerted practices.
- At the request of certain minority shareholders of MobilCom, on December 8, 2005 the Schleswig Holstein Court of Appeal cancelled the resolution passed at the MobilCom shareholders' meeting of January 27, 2003 which approved the signature of the MC Settlement Agreement (MCSA). France Telecom was not a party to these proceedings. The ruling does not have the effect of canceling the MCSA itself, and France Telecom considers its position in respect of the MobilCom litigation to be unchanged.

Stock option plan

In accordance with the plan framework established on September 6, 2005, the Board of Directors of France Telecom on October 26, 2005 granted 14.6 million stock subscription options representing 0.59% of the capital. The exercise price of the options was set at €23.46, with no discount. Options were granted to 3,752 beneficiaries.