

report of the board of directors to the shareholders



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1. company activities

1.1 DESCRIPTION OF ACTIVITIES

France Telecom S.A. ("France Telecom"), the parent company of the France Telecom Group, is the main telecommunications operator in France and, via its subsidiaries, one of the world's leading telecommunication operators. The France Telecom Group is the leading broadband Internet service provider and the third-largest mobile operator in Europe, as well as one of the world market leaders in telecommunications services for multinational companies. It offers its residential, business and wholesale clients a broad range of telecommunications services. Its main activities comprise providing fixed-line telephony services (local, national and international), mobile telecoms,

multimedia communications services for businesses, Internet services, equipment sales and hire, information services and other value-added services. Via the NEXT plan (New Experience in Telecommunications), the France Telecom Group is pursuing its transformation as an integrated operator aimed at making France Telecom the benchmark for new telecommunications services in Europe. In 2006, Orange became the Group's single brand for Internet, television and mobile services in most of the countries in which the Group operates, with Orange Business Services becoming the brand for services offered to businesses around the world.

1.2 MAIN DEVELOPMENTS

- **January 2007:** France Telecom acquires a 54% controlling block in the groupe Silicomp. Through successive purchases of shares, it increases its stake to 96.1% at the end of the year, representing an amount of 101 million euros. This acquisition fits in with France Telecom's strategy of providing convergent communications solutions and services for businesses and developing its position in this market.
- **February 2007:** France Telecom carries out a 2.5 billion euros bond issue, allowing it to optimize the refinancing of its debt in euros.
- **April 2007:** The Board of Directors decides to implement a share-based compensation plan for employees of France Telecom S.A. and French subsidiaries, representing a total of 10.8 million shares. This should help to achieve the targets

of the NEXT plan. In December 2007, the Board decides to implement a further plan of 1.8 million shares for employees of international subsidiaries.

- **June 2007:** The French government sells 130 million existing France Telecom shares, representing 5% of share capital. In December 2007, it then proceeds with an offer reserved for employees and former employees of the France Telecom Group concerning 14.4 million shares delivered in January 2008. At December 31, 2007, the French government owned 27.34% of France Telecom S.A.'s share capital either directly or indirectly through ERAP and 27.45% of voting rights.
- **October 2007:** Apple chooses Orange as exclusive operator for the launch of the iPhone in France on November 29, 2007.

1.3 BREAKDOWN OF INCOME

The following data relates to income statement items based on France Telecom S.A. annual financial statements. Items with a negative impact are indicated with a "-" sign, with no sign for those with a positive impact. Year-on-year changes are

expressed as a percentage (with a "-" for a reduction in absolute terms and no sign for an increase in absolute terms).

2006 figures are provided on an unadjusted historical basis, unless stated otherwise.

1.3.1 Operating income

(in millions of euros)	Year ended December 31		
	2007	2006	Change (%) 2007-2006
Revenues	22,108	21,171	4.4%
Other operating income	3,128	3,093	1.1%
Consumption of goods and merchandises	(2,598)	(2,123)	22.4%
Other external expenses	(6,714)	(6,661)	0.8%
Taxes (other than income tax)	(926)	(1,011)	(8.4%)
Labour expenses	(6,675)	(6,674)	0.0%
Other operating expenses	(702)	(418)	67.9%
Depreciation and amortization	(2,391)	(2,666)	(10.3%)
Operating income	5,230	4,711	11.0%

1.3.1.1 Revenues

The following table shows France Telecom S.A.'s revenue growth by market in 2007 and 2006.

(in millions of euros)	Year ended December 31		
	2007	2006	Change (%) 2007-2006
Fixed line services	19,651	19,375	1.4%
Subscriber fixed telephone lines	8,808	9,559	(7.9%)
Internet services	2,212	1,741	27.1%
Carrier services	3,501	3,137	11.6%
Data transfer	3,202	3,145	1.8%
Other fixed-line services	1,928	1,793	7.5%
Other revenues	2,457	1,796	36.8%
Sales of mobile equipment	261	378	(31.0%)
Various other revenues	2,196	1,418	54.9%
TOTAL REVENUES	22,108	21,171	4.4%

France Telecom S.A. generated revenues of 22.11 billion euros in 2007, an increase of 4.4% compared with the previous year, reflecting growth in services provided to subsidiaries of the France Telecom Group. The rapid development of ADSL broadband services (via Internet services and services to operators) more than offset the decline in subscriber fixed telephone lines.

1.3.1.1.1 Fixed line services

Subscriber fixed telephone lines

Revenues from subscriber fixed telephone lines fell by 7.9%, corresponding primarily to the 14.9% drop in revenues from traditional telecommunications services relating to the development of Voice over IP services.

Internet services

The 27.1% increase in Internet services revenues reflects the sharp rise in broadband ADSL access sales and sales of complementary broadband ADSL services such as Voice over IP

and ADSL digital television to consumers under the Orange brand.

Services to operators

The 11.6% increase in revenues from services to operators corresponds to development in the unbundling of telephone lines and, to a lesser extent, growth in sale of ADSL access to ISPs and third-party operators.

Data transfer

The 1.8% increase in data transfer services relates to the development of company data network management services.

Other fixed line services

The 7.5% increase in other fixed line services relates to the rise in sales of company branch exchanges and consumer ADSL router leasing (Livebox), partly offsetting the decline in public phone products.

1.3.1.1.2 Other revenues

Sales of mobile equipment

The 31.0% fall in sales of mobile equipment relates to the transfer to Orange S.A. of management of sales of Orange mobile prepaid cards and lower selling prices for handsets.

1.3.1.1.3 Operating indicators

All figures in the table are in thousands.

Various other revenues

Various other revenues increased by 54.9% as a result of the development of services provided by France Telecom S.A. to its direct and indirect subsidiaries and the consolidation of Orange France's network unit activities.

	Cumulative to end-Dec	
	Actual 2007	Actual 2006
Subscriber fixed telephone lines		
Total number of telephone lines managed by FTSA	34,174	33,873
o/w		
Number of consumer telephone lines	22,962	25,470
Number of business telephone lines	5,645	5,804
Internet and ADSL multiservices		
Number of Orange broadband ADSL subscribers	7,296	5,916
Number of multiservice subscribers		
Number of leased Livebox	5,209	3,437
Number of subscribers to voice over IP services	4,102	2,081
Number of subscribers to ADSL TV offers	1,149	577
Business services		
Number of permanent access points to data networks managed in France	322	300
o/w		
Number of IP-VPN access points	242	209
Number of Business Everywhere mobile services users in France	571	486
Services to operators		
Number of unbundled telephone lines	5,187	3,919
Partial unbundling	1,563	1,810
Full unbundling	3,624	2,109

1.3.1.2 Other operating income

Other operating income increased by 1.1% year-on-year. This was thanks to:

- year-on-year growth of 11.2% in capitalized costs, relating to both the development of customer service platforms and the pooling of projects concerning the Group's IT systems;
- growth of 19.8% in other incomes, reflecting primarily the development of services provided by France Telecom S.A. to its direct and indirect subsidiaries;
- offset by the reduction in provisions reversals, relating chiefly to a reversal of 129 million euros in 2006 of provisions in respect of post-employment benefits following the transfer of social activities to the works council.

1.3.1.3 Operating expense

Consumption of goods and merchandises rose by 22.4% from 2,123 million euros in 2006 to 2,598 million euros in 2007,

mainly as a result of the increase in purchases of handsets in correlation with very rapid growth in the number of Liveboxes on lease (5,209,000 units distributed in France in December 2007 compared with 3,437,000 a year before).

France Telecom S.A.'s **labour expenses** remained stable at 6,675 million euros in 2007 compared with 6,674 million euros in 2006). This was the result of:

- a cost effect stemming primarily from pay rises and the increase in the variable portion of managerial pay;
- the cost of the additional contribution relating to the employee shareholding plan of 37 million euros (see Note 4.5 to the financial statements of France Telecom S.A.);
- the higher cost of incentive bonuses;
- the reduction in the number of employees (average number of full-time equivalent employees), down from 100,601 in 2006 to 95,857 in 2007, a reduction of 4,744 employees year-on-year.

Other operating expenses increased by 284 million euros between 2006 and 2007 to 702 million euros in 2007. This is mainly as a result of the centralization of a number of the Group's project development activities.

Operating income came to 5,230 million euros in 2007, an increase of 11.0% compared with 2006. Operating margin

improved by 1.4 percentage points from 22.3% in 2006 to 23.7% in 2007. This was primarily due to:

- a 4% increase in total operating income;
- partly affected by the 2.3% increase in operating expense, in particular expenses of a commercial nature reflecting growth in purchases of equipment (mainly Livebox) and efforts in view of the competitive climate in terms of both fostering the loyalty of existing customers and winning new customers.

1.3.2 Financial income

(in million euros)	Year ended December 31	
	2007	2006
Interest expenses excluding perpetual bonds redeemable for shares (TDIRAs)	(1,857)	(1,981)
Interest expenses for perpetual bonds redeemable for shares (TDIRAs)	(212)	(256)
Currency gains and losses	(191)	(12)
Dividends received	971	6,920
Change in provisions for equity interests and related receivables	2,460	(5,214)
Other income/expenses/accretion effects	(186)	(91)
Net financial income (expense)	985	(634)

Financial income came to 985 million euros in 2007 compared with a net financial expense of -634 million euros in 2006. This increase relates primarily to a change in provisions for equity interests and related receivables (-5,214 million euros in 2006 compared with 2,460 million euros in 2007), partly offset by the reduction of 5,949 million euros in dividends received.

The improvement of 124 million euros in **interest expenses excluding perpetual bonds redeemable for shares (TDIRAs)** was due to:

- a saving of 114 million euros in interest on borrowings between 2006 and 2007;
- an increase of 133 million euros in interest received in respect of receivables related to equity interests and intercompany current accounts between 2006 and 2007 (732 million euros in 2007 compared with 599 million euros in 2006);

- an increase in revenues from marketable securities of 120 million euros relating to an increase in investment outstandings and interest rates in 2007;

- offset by the increase of 244 million euros in interest paid on intercompany loans, which amounted to 787 million euros in 2007 (compared with 543 million euros in 2006).

Interest expenses for perpetual bonds redeemable for shares (TDIRAs) came to 212 million euros in 2007 compared with 256 million euros in 2006; this was due to the reduction in outstanding perpetual bonds redeemable for shares (TDIRAs) as a result of buybacks. By way of indication, average outstanding perpetual bonds redeemable for shares (TDIRAs) were 4,033 million euros in 2007 compared with 4,798 million euros in 2006.

(millions of euros)	Year ended December 31		
	2007	2006	Change (%) 2007-2006
Net financial expenses (excluding TDIRAs)	(1,857)	(1,981)	124
Net financial debt at year-end ⁽¹⁾	28,443	31,755	(3,312)
Average net financial debt outstandings over the period ⁽²⁾	30,197	35,053	(4,856)
Weighted average cost of net financial debt ⁽³⁾	5.92%	5.53%	0.39 pt

(1) See note 1.4.5.

(2) Average outstanding net financial debt adjusted for amounts not giving rise to interest such as accrued interest payable and allowing for calculation of the weighted average cost of net financial debt.

(3) See note 5.2.4 to the financial statements of France Telecom S.A.

The reduction in dividends received from 6,920 million euros in 2006 to 971 million euros in 2007 was mainly due to the reduction in dividends received from Orange S.A. subsidiaries (-5,045 million euros between 2006 and 2007) and FTMI (-869 million euros between 2006 and 2007). This stems from the exceptional payment in 2006:

- of a dividend of 5,434 million euros by Orange S.A. within the context of the restructuring of the debt and capital of Orange S.A. subsidiaries in the United Kingdom;
- a dividend of 969 million euros by FTMI following the sale of PTK to TPSA in December 2005, generating a capital gain of 956 million euros in FTMI's accounts, paid back to France Telecom S.A. in the form of a dividend in 2006.

Provisions for equity interests and related receivables came to 2,460 million euros in 2007 compared with -5,214 million euros in 2006. These comprise primarily:

- a reversal of 3,375 million euros for Orange S.A. shares;
- a -593 million euros provision charge for Equant B.V. shares;
- a -929 million euros provision charge for Atlas Services Belgium shares;
- a reversal of 627 million euros for TPSA shares.

The net foreign exchange loss came to -191 million euros in 2007 compared with -12 million euros in 2006. This was mainly due to a foreign exchange loss of 197 million euros relating to the fall in sterling against the euro.

As regards **exposure to market risks and financial instruments**, France Telecom's policy is not to use derivatives for speculative purposes. Details of all market risks and financial instruments are provided in Note 5.2.5 to the company's financial statements entitled "Exposure to market risks and financial instruments".

1.3.3 Exceptional income

(in millions of euros)

Gains on asset disposals and retirements
Change in provisions and other exceptional items
Exceptional income (expense)

Year ended December 31

2007	2006
203	(50)
(314)	(463)
(111)	(513)

Gains on asset disposals and retirements of 203 million euros comprise chiefly:

- a gain of 307 million euros on the disposal of TDF shares;
- a loss of -73 million euros on the disposal of Bluebirds shares;
- a loss of -68 million euros on the sale of FT Services Nederland BV shares.

Changes in provisions and other exceptional items of -314 million euros mainly includes:

- a 221 million euros provision reversal following the elimination of accelerated depreciation;
- a -159 million euros provision charge for free share awards made to employees;
- a -132 million euros provision charge for 2007 investment;

- a -116 million euros exceptional depreciation of property, plant and equipment and intangible assets.

1.3.4 Net income

Taking account of 290 million euros relating to employee profit-sharing in 2007 (264 million euros in 2006) and corporate income tax (see Notes 4.11 and 4.12 to the company's financial statements), representing net income of 1,517 million euros in 2007 (1,104 million euros in 2006), France Telecom S.A.'s **net income** stood at 7,331 million euros in 2007, an increase of 66.5% compared with 2006 (4,404 million euros).

There was no reintegration of general expenses within the sense of Article 223 *quinquies* of the French General Tax Code in 2007. Non-deductible vehicle leasing costs, carried as sumptuary expenses in tax declaration 2057-A, were reintegrated.

1.4 BALANCE SHEET

The following data relates to changes in balance sheet items based on France Telecom S.A.'s company financial statements. Items with a negative impact are indicated with a "-" sign, with no sign for those with a positive impact.

1.4.1 Fixed assets

Net fixed assets increased by 4,971 million euros between 2006 and 2007 to 105,282 million euros. This is mainly as a result of an increase of 4,746 million euros in financial assets. Intangible assets rose by 249 million euros and property, plant and equipment decreased by 25 million euros.

In net terms, the increase of 249 million euros in **intangible assets** relates primarily to investment in software and research and development.

The 4,746 million euros increase in **financial assets** from 85,343 million euros in 2006 to 90,089 million euros in 2007 net was mainly due to:

- the reversal of a provision for the impairment of Orange S. A. shares for 3,375 million euros and of TP S.A. shares for 627 million euros, offset by an allowance for Atlas Services Belgium of 929 million euros and for Equant of 593 million euros;
- the increase in receivables relating to subsidiary FT España of 977 million euros receivables relating to Equant BV of 411 million euros;

1.4.2 Current assets

Net current assets excluding marketable securities and cash and cash equivalents stood at 5,642 million euros in 2007, representing an increase of 1,032 million euros between 2006 and 2007.

The main increase concerns **other receivables**, which came to 2,031 million euros in 2007, an increase of 553 million euros compared with 2006. This is due to both an increase in cash current accounts of subsidiaries of 417 million euros between 2006 and 2007 and tax owed to France Telecom S.A. by its tax consolidated subsidiaries of 327 million euros (compared with 21 million euros in 2006).

The change in net current assets excluding marketable securities and cash and cash equivalents is also due to the increase in

trade accounts receivable, which came to 3,209 million euros in 2007, an increase of 392 million euros compared with 2006. Gross trade receivables came to 3,382 million euros compared with 2,950 million euros in 2006.

Marketable securities rose by 325 million euros while cash and cash equivalents decreased by 83 million euros between 2006 and 2007 (see Note 5.1.5 to the company's financial statements).

1.4.3 Shareholders' equity

Shareholders' equity stood at 43,623 million euros in 2007, an increase of 4,305 million euros compared with 2006. The main factors contributing to this increase were:

- the positive impact of net income for the year of 7,331 million euros;
- the payment in June 2007 of dividends of 3,117 million euros in respect of the 2006 financial year, corresponding to 1.2 euro per share.

1.4.4 Provisions for risks and charges

Provisions came to 3,178 million euros in 2007, down 363 million euros compared with 2006. This is primarily due to a 834 million euros reversal corresponding to the payment of termination benefits (civil servant early retirement plan), partly offset by an addition to provisions for foreign exchange losses of 305 million euros and the booking of a provision of 159 million euros for free share to all employees.

1.4.5 Debts

Gross financial debt was 31,861 million euros in 2007, including long and medium-term debts of 30,571 million euros and short-term debts of 1,290 million euros. Cash and cash equivalents and marketable securities stood at 3,418 million euros in 2007, with **financial debt net of cash** of 28,443 million euros in 2007 compared with 31,755 million euros in 2006. Debt was therefore reduced by 3,312 million euros in 2007. Details of the repayment schedule, composition and structure of financial debt are provided in Note 5.2.4 to the company's financial statements.

1.5 ACTIVITIES AND PROFITABILITY

Management indicators are monitored at the level of the France Telecom Group. An overview of the Group's activities and profitability is provided: France Telecom Group Management Report.

2. subsequent events

Details of subsequent events are provided in note 6.5 to the company's financial statements.

3. research and development

Since 2004, the France Telecom Group has devoted increasing efforts to innovation. The Group dedicated 1.7% of its revenues to innovation in 2007, a sum of 894 million euros compared with 856 million euros in 2006 and 716 million euros in 2005. This includes staff costs and other operating and investment expenses relating to research, development and innovation in new products and services. Research and development is managed by the "Orange Labs" network, comprising R&D laboratories, the "Explocentre", which tests out potential innovations with clients, the "Technocentre", which is responsible for industrial aspects of launching new products and services, while also reinforcing

the Group's responsiveness in its markets, and Group Strategic Marketing, which provides all aspects of market knowledge.

At December 31, 2007, the France Telecom Group had over 4,800 employees in R&D, Marketing Stratégique-Technocentre and Technologies-Explocentre, with 4,071 in the R&D division, including 3,661 engineers, scientists and researchers.

Details of the France Telecom Group's research and development activities are provided in France Telecom Group Management Report, section 5.2. "Research and development".

4. employment and environmental information

In addition to the employment and environmental information contained in this section of the management report, France Telecom prepares a Corporate Responsibility and Sustainable Development Report. The 2007 report is due to be published in spring 2008.

4.1 EMPLOYMENT INFORMATION

The information provided in this document relates primarily to France Telecom S.A., its French subsidiaries and, to a lesser extent, its international subsidiaries.

4.1.1 Workforce trends

General changes in the total number of employees

Overall Group changes

› NUMBER OF EMPLOYEES (ACTIVE EMPLOYEES AT END OF PERIOD)

SCOPE	2007	2006	2006 (proforma)
France Telecom S.A.	97,355	99,902	100,986
French subsidiaries	8,817	8,986	9,191
Total France	106,172	108,888	110,177
International subsidiaries	81,159	82,148	81,847
TOTAL GROUP	187,331	191,036	192,024

› NUMBER OF EMPLOYEES (ACTIVE EMPLOYEES AT END OF PERIOD)

TYPE OF CONTRACT	2007	2006	2006 (proforma)
Permanent	183,051	186,688	187,671
Temporary	4,280	4,348	4,353
TOTAL GROUP	187,331	191,036	192,024

Between 2006 and 2007, the number of employees (active employees at year-end) decreased by 3,705 on an historical basis. This reduction breaks down as follows:

- 2,716 employees in France, mainly as a result of retirements, resignations and transfers to the public sector; people leaving to set up on their own and within the framework of supported personal projects schemes;
- 989 employees in international subsidiaries.

On a comparable basis, the number of permanent employees in France decreased by 4,005 in 2007 (permanent and temporary staff). Within the scope of NEXT commitments (the Group in France excluding new Orange Business Services acquisitions), the number of permanent employees decreased by 4,105 in

2007. On a cumulative basis in 2006 and 2007, the number of permanent employees decreased by 11,991, equal to 75% of the three-year target (reduction of 16,000 permanent staff) within the context of the NEXT plan.

In France, the main aspect concerning changes in the number of employees in 2007 was the high level of definitive departures, primarily retirements (around 1,600) and transfers to the public sector (over 1,000 departures), partly offset by the hiring of new staff from outside the Group (1,464 new staff within the scope of NEXT commitments).

Outside France, changes in the number of employees in 2007 varied in each country and business sector. An increase in the number of employees was observed at mobile and Internet subsidiaries, with a reduction in fixed-line operations.

Between December 31, 2006 and December 31, 2007, the number of temporary contracts remained stable overall, down from 4,353 (pro forma) to 4,280 for the France Telecom Group as a whole. The number of temporary contracts in France remained more or less at the same level (1,788 at end-2006 versus 1,794 at

end-2007). Outside France, the number of temporary employees decreased by just 79, falling from 2,565 at end-December 2006 to 2,486 at end-December 2007, with a significant increase in Poland (increase of 261) and falls in Europe and the Middle East (decrease of 316) and the United Kingdom (decrease of 65).

The breakdown of persons employed in France by category of activity was as follows at December 31, 2007:

BREAKDOWN OF FRANCE GROUP* EMPLOYEES BY CATEGORY OF ACTIVITY AT DECEMBER 31, 2007

Sales and customer services	46.7%
Innovation & forecasting	3.2%
Management & support	13.1%
Content & multimedia production	0.5%
Information systems	8.5%
Technical & network	27.7%
Other	0.3%

* including Silicomp

Recruitment policy

› **NUMBER OF EXTERNAL HIRES UNDER OPEN-ENDED CONTRACTS**

ENTITY	2007	2006
France Telecom S.A.	1,288	2,124
French subsidiaries*	628	610
Total France	1,916	2,734
International subsidiaries*	12,733	10,060
TOTAL GROUP	14,649	12,794

* including new Orange Business Services acquisitions (Diwan, Néocles, Silicomp, etc.)

The France Telecom Group continued to exercise close management of its external recruitment in France in 2007. The number of external hires in France in 2007 came to 1,916 or 1,464 for the initial scope of the NEXT plan (excluding new Orange Business Services acquisitions). These hires concern primarily the priority sectors of sales and customer relations, business services, innovation, IT systems development and multimedia.

The number of external hires at France Telecom S.A. in 2007 includes 864 employees hired on a part-time basis in the area of customer relations (stores and telephone customer services). These employees were hired due to the significant number of departures in this category.

External hires at international subsidiaries remained at a high level due to the high turnover in some countries with a very competitive environment and the expansion needs of mobile phone and Internet subsidiaries.

Transfers to the public sector

The policy of transferring civil servants to the public sector continued in 2007, based on five government decrees (published in September and October 2004) facilitating transfers of France Telecom employees to the public sector.

A total of 1,061 transfers were made in 2007, 41% of which concerned management staff and 59% non-management staff.

The following table shows the breakdown of transfers of civil servants to the public sector by destination for the Year ended December 31, 2007.

› **BREAKDOWN OF TRANSFERS OF CIVIL SERVANTS TO THE PUBLIC SECTOR BY DESTINATION**

DESTINATION	2007	2006
State civil service	65%	54%
Regional civil service	29%	38%
Public hospitals	6%	8%

Private employees may also transfer to the public sector; they benefit from the “supported personal projects” scheme.

Around 10,000 job offers are published on our dedicated website every year. In 2007, these offers resulted in nearly 13,500 applications, an increase of 73% compared with 2006, thereby demonstrating our employees’ interest in the public sector.

External workforce**EXTERNAL STAFF ⁽¹⁾ - FRANCE TELECOM S.A.**

INDICATOR	2007	2006
Payments made to external companies for providing staff (in million euros)	19.28	43.27
Monthly average number of temporary staff	386*	889*
Monthly average duration of temporary staff contracts	2.10	2.50

* calculated on the basis of temporary employment costs as recorded in FTSA's accounts.

(1) Only temporary staff.

The use of temporary staff enables France Telecom primarily to cope with temporary increases in activity related mainly to launches of new products and services, as well as sales campaigns and promotional offers.

As part of the Group's close management of the use of this resource, the number of temporary staff decreased significantly in France in 2007, down from a monthly average of 889 equivalent employees in 2006 to 386 in 2007, a reduction of 57%.

Management of economic impacts on employment**Main economic impacts on employment**

In 2007, France Telecom continued with its integrated operator strategy and the implementation of the new country organizational structure within the Group as a whole.

In France, this strategy resulted in the acquisition of new subsidiaries to develop new business services (Groupe Silicomp).

The ongoing implementation of the new organizational structure in the various countries in which the Group operates is associated with the rebranding of activities under the Orange brand and contributes to better integration in these countries and further synergies within the Group.

In Poland, the number of TP Group permanent employees decreased by 2,209 in 2007, equal to 7% of employees, as a result of the implementation of the 2007-09 three-year employment agreement signed with employee representatives. In parallel, an internal mobility plan has allowed employees to be redeployed to priority business areas.

In the United Kingdom, the number of permanent employees at Orange UK increased by 287 within the context of the plan to develop and improve the quality of service.

Equant continued with its growth strategy with the acquisition of GTL in India, as well as the expansion of its operations in emerging markets and the launch of new projects in Russia.

In Jordan, the number of permanent employees decreased by 397 as a result of a voluntary redundancy plan. This was accompanied by a skills renewal program through external hires and improved synergies between fixed-line and mobile activities.

In the Netherlands, the main event of 2007 was the deconsolidation of Orange Nederland and Wanadoo Nederland.

Development of the Group's business lines

Within the framework of the NEXT plan, the Group has implemented a program to support operating requirements. This program is based on a forward-looking view of skills requirements for all of the Group's activities.

The introduction of the Group job roles catalog constitutes the foundation of this process. It is used as a common language of all of the France Telecom Group's companies.

The cross-functional "business lines" approach has therefore been extended to all of the Group's activities (sales, customer relations, professional services, IT, network technology, multimedia, strategic marketing, research and development and support). The 23 "business lines" have put forward an updated three-year vision in terms of job and skills requirements both at Group level and for the main countries in which it operates – France, Poland, the United Kingdom and Spain. This approach has allowed:

- the implementation of forward-looking management of jobs and skills;
- a recruitment policy concerning new jobs and levels of expertise;
- the creation of professional training courses;
- a policy of transfers to priority sectors;
- an overhaul of training programs with professional courses in direct relation to new skills requirements, particularly in France.

The vision of development trends for the Group's job categories can now be accessed by all employees on the HR "careers-opportunities" Intranet site, which was launched for France in February 2006 in accordance with the commitments of the ACT program.

Furthermore, the deployment of the "Performance" IT system in France as of January 2007 has allowed the skills of each employee to be assessed. The Group is currently looking into the deployment of this program in other countries and it is being adapted to each country's requirements.

4.1.2 Organization of working hours

Work schedules and yearly working time

➤ BREAKDOWN OF EMPLOYEES BY WORK SCHEDULE – FRANCE TELECOM S.A.

WORK SCHEDULE	Yearly working time	2007 ⁽¹⁾	2006
Basic schedule	1,596 hours	41.6%	42.6%
Customer service hours	Between 1,148.4 and 1,548.0 hours	19.5%	19.7%
Non-business hours and night shift	Between 1,539.4 and 1,580.8 hours	2.7%	3.1%
Flexi-time	1,573.2 hours	0.6%	0.4%
Call center	Between 1,519 and 1,547 hours	0.9%	1.4%
Managers (“cadres exécutifs autonomes”)	Fixed amount of 208 days a year	24.1%	21.7%
Local operating managers ⁽²⁾		10.6%	11.1%
TOTAL		100%	100%

(1) Provisional values.

(2) Local operational managers work according to the collective schedule applicable to the department to which they belong or the team they manage.

Between 2006 and 2007, the managers (“cadres exécutifs autonomes”) category expanded, rising from 21.7% to 24.1% in connection with changes in France Telecom S.A.’s qualification structure.

Part-time work

➤ NUMBER OF PART-TIME EMPLOYEES – FRANCE TELECOM S.A.

PROPORTION OF WORKING TIME	2007 ⁽¹⁾	2006
Less than 30%	175	215
30% to 49%	1,607	1,891
50% to 59%	688	604
60% to 69%	273	270
70% to 79%	267	276
80% to 89%	7,814	7,922
90% to 99%	1,112	1,076
TOTAL	11,936	12,254

(1) Provisional values.

The number of part-time employees at France Telecom S.A. decreased by 2.6% overall between 2006 and 2007. This is in line with the overall development of FTSA employees, with the proportion of part-time employees in the total workforce remaining stable at 12.3%.

Absenteeism

➤ NUMBER OF DAYS OF EMPLOYEE ABSENCE – FRANCE TELECOM S.A.

REASON	2007 ⁽¹⁾	2006
Sick leave (all reasons)	1,521,935	1,560,280
Work-related and travel accidents	73,003	67,639
Maternity, paternity and adoption leave	140,639	139,769
Family reasons	57,383	62,349
Other reasons ⁽²⁾	7,136	7,842
TOTAL	1,800,096	1,837,880

(1) 2007 values are provisional.

(2) Absences not taken into account in other indicators, excluding annual leave or days taken under the reduction in working hours system (“RTT”), industrial action, unpaid leave and military service.

The total number of days’ absence decreased slightly in 2007 compared with 2006. In absolute terms, absences under sick

leave decreased by 2.45% in 2007. This moderate reduction is also seen in absences of less than seven days, down by

7,508 days in 2007 compared with a reduction of 24,613 days in 2006. The same trend was also seen in absences of

more than eight days, at 1,311,871 in 2007 compared with 1,342,708 days in 2006, a difference of 30,837 fewer days.

4.1.3 Remuneration

4.1.3.1 Remuneration policy

France Telecom S.A.

› REMUNERATION – FRANCE TELECOM S.A.

INDICATOR	2007 ⁽¹⁾	2006
Gross average monthly remuneration (in euros)	3,053	2,924
Men	3,218	3,086
Women	2,778	2,662

(1) 2007 values are provisional.

France Telecom Group

Within the France Telecom Group in France, studies by the Internal Remuneration Survey showed consistency in the remuneration policies of all of the Group's companies and remuneration practices in line with those of the market.

In order to develop and anchor a results-based culture, France Telecom rewards its employees for their contribution and performance via a dynamic remuneration policy. In addition to changes in fixed salaries related to improved expertise in their position or a significant change in responsibility, variable pay is awarded for achieving individual and group targets:

- managers, who play a major role in mobilizing their staff, and supervisory staff benefit from half-yearly individual variable remuneration based on achieving the targets of the Group's major programs and their own personal targets;
- in 2007, all employees benefited from an average of at least one month's salary in the form of incentive bonuses awarded at company level and under the Group's profit-sharing agreement in France.

In order to help mobilize staff to achieve the targets of the NEXT Plan, France Telecom's Board of Directors decided at its meeting of April 4, 2007 to implement a new share-based remuneration scheme to reward the efforts of its staff.

At its meeting of April 25, 2007, the Board of Directors determined the conditions for the implementation of the free share award plan for all of its employees in France. These actions will be assigned definitively for employees present as at April 25, 2009 if the company achieves its organic cash flow commitment in 2007 and 2008.

On December 4, 2007, the Board of Directors also voted in favor of the deployment of a free share award plan or equivalent for other countries.

Following the French government's sale of a 5% stake in France Telecom in June 2007, an offer to buy shares under preferential terms was launched reserved for employees, retired employees and former employees of the France Telecom Group. This gave employees the opportunity to be involved in the Group's potential performance and future and to benefit from the value created by the Orange brand. The offer ran from December 13 to 24, 2007. Three choices were available at a preferential purchase price (20.39 euros), with an employer's contribution (up to 4,324.50 euros) and bonus shares (up to a maximum of 30).

4.1.3.2 Incentive and profit-sharing

Incentive

Incentive agreements are signed at the level of each company and there is therefore no Group incentive scheme. At France Telecom S.A., six incentive agreements have been signed since 1992. These concern all of the company's employees.

Under the terms of the agreement signed for 2006 to 2008, France Telecom S.A. incentive payments are based on achievement of the Operating Performance Indicator related to revenue growth, control of operating expenses, optimization of capital expenditure and improvement in the working capital requirement. Incentive payments are also based on the Customer Service Quality Indicator, which can result in an additional payment if it is achieved.

Achieving the 2007 Customer Service Quality Indicator target allows for the payment of an additional sum on top of that for exceeding the 2007 Operating Performance Indicator.

The following table shows the amount of incentive bonuses paid over the last two years.

(in million euros)	Year	
	2007	2006
France Telecom S.A. incentive payments ⁽¹⁾	194	157

(1) Amount corresponding to the provision booked as at December 31.

Employee profit sharing

The Group profit-sharing agreement signed in 1997 with trade union organizations applies to employees of France Telecom S.A. and its majority-owned French subsidiaries. As a corporate officer, the Chairman does not participate in profit sharing.

The Group's special profit-sharing reserve is the sum of the special profit-sharing reserves calculated for each relevant subsidiary using a special formula (an exemption amendment was signed on June 29, 2001). It is based on operating income less financial expenses for each company within the scope of consolidation.

The special reserve is distributed to eligible employees, with 20% of the amount based on hours worked and 80% in proportion to their annual gross salary. The amounts attributed to each individual are held in the Group savings plan and are not available for five years.

The following table shows the amount distributed under the Group profit-sharing agreement over the last two years.

(in million euros)	Year	
	2007	2006
Group special profit-sharing reserve distributed under the terms of the agreement	345 ⁽¹⁾	325

(1) Including provisions of 290 million euros booked into France Telecom S.A.'s accounts as at December 31, 2007.

4.1.3.3 Stock-options

4.1.3.3.1 France Telecom S.A. stock option plans

In accordance with the authorization given by the Annual Shareholders' Meeting of September 1, 2004, the Board of Directors decided on October 26, 2005 to allocate 14.5 million stock-options representing 0.59% of share capital. The exercise price was fixed at 23.46 euros with no discount. The plan concerns senior executives with key responsibilities or expertise for France Telecom. The options were awarded to 3,747 beneficiaries.

On March 8, 2006, the Board of Directors made an additional allocation of 536,930 stock-options representing 0.02% of share capital, subject to the same terms as the plan of October 2005, particularly concerning the exercise price of 23.46 euros. The options were awarded to 165 beneficiaries.

On May 21, 2007, acting on the same authorisation granted by the September 1, 2004 Shareholders' Meeting, the Board of Directors allocated 10,093,300 stock-options (of which 140,000 were granted to Didier Lombard) representing 0.39% of share capital. The exercise price was fixed at 21.61 euros with no discount. The plan concerns senior executives with a key role for France Telecom. The options were awarded to 1,152 beneficiaries.

	October 2005 plan	March 2006 plan	May 2007 plan	Total
FRANCE TELECOM STOCK-OPTION PLANS				
Date of Annual Shareholders' Meeting authorizing the plan	01/09/2004	01/09/2004	01/09/2004	
Date of Board meetings allocating the options	26/10/2005	08/03/2006	21/05/2007	
Total number of options granted	14,516,445	536,930	10,093,300	25,146,675
- options granted to corporate officers	149,140	0	140,000	289,140
- options granted to top 10 employees	645,000	121,350	605,000	1,371,350
First possible exercise date	26/10/2008 ⁽¹⁾	08/03/2009 ⁽¹⁾	21/05/2010	
Expiry date	26/10/2015	08/03/2016	21/05/2017	
Exercise price	€23.46	€23.46	€21.61	
Total number of options exercised as at 31/12/2007	48,140	0	43,500	91,640
Total number of options cancelled as at 31/12/2007	928,510	85,970	376,300	1,390,780
Number of options outstanding as at 31/12/2007	13,539,795	450,960	9,673,500	23,664,255

(1) For non-French residents.

Stock-options exercised in 2007

91,640 options were exercised in 2007. All of them were subject to early exercise by 15 employees or former employees of Orange Nederland NV and Orange Nederland Broadband BV following the sale of these companies. The number of options exercised by the 10 employees who exercised the most options over the year is not relevant as several of the 15 employees who exercised options exercised the same number.

4.1.3.3.2 Stock-option plans granted by certain subsidiaries

Certain France Telecom Group employees have participated in stock-option plans granted by certain listed subsidiaries of

France Telecom, namely Orange S.A., Wanadoo S.A., Mobistar and ECMS (Mobiil). The different stock-option plans granted by subsidiaries of France Telecom are described in Note 27 to the Consolidated Financial Statements.

■ Wanadoo stock-options transferred to France Telecom S.A.

When Wanadoo S.A. merged with France Telecom S.A. on September 1, 2004, this resulted in France Telecom assuming Wanadoo's commitments to holders of Wanadoo stock-options. Those options thus carry the right to purchase France Telecom shares based on the exchange ratio of 7/18 which applied under the combined public offer to buy Wanadoo shares.

	2000 plan	March 2001 plan (UK)	April 2001 plan	November 2001 plans	June 2002 plans	November 2002 plans	2003 plan	TOTAL
STOCK-OPTION PLANS GRANTED BY WANADOO								
Date of Annual Shareholders' Meeting authorizing the plan	22/06/2000	22/06/2000	22/06/2000	22/06/2000	22/06/2000	22/06/2000	22/06/2000	
Date of Board meeting allocating the options	18/07/2000	21/03/2001	02/04/2001	26/11/2001	04/06/2002	26/11/2002	26/11/2003	
Total number of options granted ⁽¹⁾	1,660,966	2,178,705	4,329,916	691,883	3,817,710	435,618	2,107,115	15,221,913
First possible exercise date	18/07/2005	21/09/2001 ⁽²⁾	02/04/2004	26/06/2003 ⁽³⁾	04/06/2004 ⁽⁴⁾	26/11/2004 ⁽⁵⁾	26/11/2006	
Expiry date	18/07/2010	21/03/2011	02/04/2011	26/11/2011	04/06/2012	26/11/2012	26/11/2013	
Exercise price ⁽¹⁾	€48.70	€15.69	€15.38	€15.38	€13.84	€13.84	€16.60	
Total number of options exercised as at 31/12/2007 ⁽¹⁾	0	741,455	2,415,336	336,191	2,050,200	230,726	342,013	6,115,921
Total number of options cancelled as at 31/12/2007 ⁽¹⁾	924,255	1,437,250	513,784	284,223	589,678	93,389	394,254	4,236,833
Total number of options outstanding as at 31/12/2007 ⁽¹⁾	736,711	0	1,400,796	71,469	1,177,832	111,503	1,370,848	4,869,159

(1) After conversion into France Telecom stock-options based on the exchange ratio of 7/18th and adjusted for the number of options and exercise price following the France Telecom capital increase of September 26, 2005.

(2) 10% of stock-options have been eligible for exercise since September 21, 2001, 10% since March 21, 2002, 40% since March 21, 2003 and 40% since March 21, 2004.

(3) 5% of stock-options became eligible for exercise on June 26, 2003, 23% on September 26, 2003, 5% on June 26, 2004, 23% on September 26, 2004 and 44% on November 26, 2004.

(4) 8% of stock-options became eligible for exercise on June 4, 2004 and the remaining 92% on June 4, 2005.

(5) 13.5% of stock-options became eligible for exercise on November 26, 2004 and the remaining 86.5% on November 26, 2005.

Stock-options allocated and exercised in 2007

No stock-options were granted in 2007.

In 2007, 1,326,010 options (after conversion on the basis of the exchange ratio) were exercised under plans granted by Wanadoo, including 253,476 options exercised by the 10 employees or former employees who exercised the most options.

As at December 31, 2007, 4,869,159 stock-options were outstanding with a weighted average exercise price of 20.36 euros per option.

■ Orange stock-options covered by a liquidity contract

Following the public buyout offer followed by a squeeze-out of Orange S.A. shares, France Telecom proposed a liquidity contract to holders of Orange stock-options and holders of Orange shares obtained through the exercise of options after the offer. In September 2005, France Telecom issued option-based liquidity instruments (ILO) which allow beneficiaries to receive new France Telecom shares upon the exercise of the options based on an exchange ratio of 0.446 France Telecom share for one Orange share.

	February 2001 plan	Orange UK Sharesave Plan (5 yrs)	Orange UK Sharesave Plan (3 yrs)	October 2001 plan (A)	October 2001 plan (B)	Orange UK Sharesave Plan (3 yrs)	May 2002 plan	Orange UK Sharesave Plan (3 yrs)
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STOCK-OPTION PLANS GRANTED BY ORANGE

Date of Annual Shareholders' Meeting authorizing the plan	29/12/2000	29/12/2000	29/12/2000	29/12/2000	29/12/2000	29/12/2000	29/12/2000	29/12/2000
Date of Board meeting allocating the options	12/02/2001	21/03/2001	21/03/2001	24/10/2001	24/10/2001	04/12/2001	15/05/2002	15/05/2002
Total number of options granted	75,009,447 ⁽¹⁾	4,037,379	2,356,097	1,305,334 ⁽²⁾	11,096,825 ⁽³⁾	563,503	24,496,332 ⁽⁴⁾	1,349,694
First possible exercise date	04/05/2001	01/06/2006	01/06/2004	12/02/2002	01/03/2002	01/01/2005	01/10/2002	01/07/2005
Expiry date	12/02/2011	30/11/2006	30/11/2004	24/10/2011	24/10/2011	30/06/2005	15/05/2012	31/12/2005
Exercise price	€10.00	£4.43	£4.98	€10.00	€8.91	£5.16	€6.35	£3.17
Total number of options exercised as at 31/12/2007	17,321,727	1,241,986	830,592	181,311	5,658,457	192,831	15,709,010	771,857
Total number of options cancelled as at 31/12/2007	34,292,411	2,795,393	1,525,505	169,725	3,064,028	370,672	3,355,066	577,837
Total number of options outstanding as at 31/12/2007	23,395,309	0	0	954,298	2,374,340	0	5,432,256	0

(1) Of which 0.4 million became eligible for exercise in 2001, 7.2 million in 2002, 7 million in 2003 and 59.6 million since February 12, 2004.

(2) Of which 1.2 million only became eligible for exercise on October 24, 2004.

(3) Of which 1.5 million became eligible for exercise in 2002, 1.5 million in 2003 and 8 million since October 24, 2004.

(4) Of which 4.1 million became eligible for exercise on May 15, 2003, 4.1 million on May 15, 2004 and 15.5 million since May 15, 2005.

	December 2002 plan	Orange UK Sharesave Plan (3 yrs)	Orange Nederland Sharesave Plan (5 yrs)	May 2003 plan (A)	May 2003 plan (B)	Orange UK Sharesave Plan (3 yrs)	TOTAL
STOCK-OPTION PLANS GRANTED BY ORANGE							
Date of Annual Shareholders' Meeting authorizing the plan	29/12/2000	29/12/2000	29/12/2000	29/12/2000	29/12/2000	29/12/2000	
Date of Board meeting allocating the options	20/12/2002	20/12/2002	20/12/2002	13/05/2003	13/05/2003	13/05/2003	
Total number of options granted	2,968,240 ⁽⁵⁾	1,269,754	232,186	18,722,150 ⁽⁶⁾	1,700,000	300,459	145,407,400
First possible exercise date	01/05/2003	01/03/2005	01/03/2006	13/05/2004	01/03/2005	01/07/2006	
Expiry date	20/12/2012 ⁽⁷⁾	31/08/2005	31/08/2006	13/05/2013 ⁽⁸⁾	13/05/2013	31/12/2006	
Exercise price	€7.23	£3.93	€6.14	€7.43	€7.38	£4.53	
Total number of options exercised as at 31/12/2007	1,836,989	756,655	127,532	9,632,508	1,700,000	136,127	56,097,582
Total number of options cancelled as at 31/12/2007	543,999	513,099	104,654	1,994,121	0	164,332	49,470,842
Total number of options outstanding as at 31/12/2007	587,252	0	0	7,095,521	0	0	39,838,976

(5) Of which 0.6 million became eligible for exercise on December 20, 2003, 0.6 million on December 20, 2004 and 1.6 million on December 20, 2005.

(6) Of which 3.4 million became eligible for exercise on December 31, 2004, 2.8 million on May 13, 2005 and 12.2 million as of May 13, 2006.

(7) 67,200 options have an expiry date of December 20, 2014.

(8) 423,900 options have an expiry date of December 13, 2015.

Stock-options allocated and exercised in 2007

No stock-options were granted in 2007 in respect of these plans.

In 2007, 14,101,219 Orange options were exercised, including 2,388,932 by the top 10 employees or former employees who exercised the most options.

As at December 31, 2007, 39,838,976 Orange stock-options were outstanding with a weighted average exercise price of 8.94 euros per option. The exercise of these options could give rise to the issuance of a maximum of 17,567,903 France Telecom shares.

4.1.3.4 Free Share Award Plans

France plan

France Telecom has set up a free share award plan covering 10.8 million shares, which represents 0.4% of the share capital. The plan covers approximately 113,000 employees of France Telecom S.A. and most of its majority-owned French subsidiaries.

The free share award plan will not vest until April 25, 2009. Vesting is contingent upon:

- performance conditions: achievement of the cash flow set out in the NEXT plan in 2007 and 2008, and cost of the plan

to be covered by additional cash flow generated over the same period; the cash flow performance condition was met in 2007;

- beneficiaries must be contractually employed by the Group at the end of the vesting period.

The shares awarded may not be sold for a period of two years after the vesting date, i.e. until April 25, 2011.

The date of grant is deemed to be the date on which employees were personally informed of the free share award plan, i.e. June 19, 2007.

International plan

France Telecom granted a free share award plan covering 1.8 million shares, which represents less than 0.1% of France Telecom S.A.'s share capital. The plan covers approximately 45,000 employees and executive officers of the France Telecom Group's non-French companies and other entities.

The vesting conditions are identical to those of the France plan.

No expense was recognized in 2007 as the grant date, which is deemed to be the date on which the beneficiaries are personally informed of the awards, is scheduled for 2008.

4.1.4 Labour relations

Employee representation

In France

PROFESSIONAL RELATIONS – FRANCE TELECOM S.A.

INDICATOR

	2007 ⁽¹⁾	2006
Number of meetings with employee representatives	8,565	8,929
Total volume of hourly time credits used	973,512	756,874

(1) 2007 values are provisional.

Following legal action by a trade union organization, in 2007 the central works council (“CCE”) was changed into a France Telecom S.A. – Orange S.A. Central Council for Economic and Social Unity (“CCUES”), with subsidiary Orange S.A. joining the committee.

The committee met for 36 full days and dealt with 67 different matters, most of which concerned information and consultation of elected representatives. The issues addressed concerned primarily planned organizational changes and planned agreements or amendments, as well as periodical information and consultations within areas defined by labour law.

This social dialogue resulted in the signature of 17 agreements concerning areas as diverse as the life of Employee Representative Bodies, the implementation of the Economic and Social Unit and issues such as disabled workers, equality in the workplace, group pension plans, salaries and incentive bonuses.

Internationally

Throughout 2007, the France Telecom Group pursued a dynamic labour relations policy with all employee representatives (trade union organizations and elected members of employee forums). In keeping with our commitment, Orange Slovakia elected its employee forum, which met for the first time in the autumn. Social dialogue was continued within the Group’s African subsidiaries with local labour organizations.

Social dialogue in Europe

During 2007, constant social dialogue in Europe was maintained with a number of fruitful discussions. The European Works Council met three times in plenary session and two conference calls were organized. In accordance with the commitments made, one of the meetings was held outside France in Bucharest and another meeting was held in Lille in order to allow our European colleagues to learn about a regional division. Each of these meetings provided the opportunity to meet with local employee representative bodies (works council of the Lille division, elected employee forum in Romania). At the March 2007 meeting, the European Works Council formally adopted the amendments made to the 2004 agreement that had been discussed in 2006.

The issues addressed during European Works Council meetings can be divided into three categories:

- information about the France Telecom Group’s general strategic options;
- information and/or consultation about cross-border projects or reorganization plans;
- and information about the Group’s general activities.

In addition to these meetings, the European Works Council regularly receives information concerning France Telecom Group employees and associated key events.

The Council constitutes a body for information and dialogue about a number of issues, in particular general policy, financial performance, social policy and reorganization plans concerning more than two countries. It also ensures that all Group companies have the same level of information about the Group’s corporate strategy.

A total of 18 countries are currently represented within the Council via 30 employee representatives: Sweden, Norway, Finland, Denmark, Germany, Austria, the United Kingdom, Ireland, France, Spain, Portugal, Italy, Greece, Poland, Luxembourg, the Netherlands, Belgium and Slovakia. Nine of these representatives are French and all French trade union organizations are represented.

The development of social dialogue on a European level helps to reinforce the sense of belonging to a multinational and responsible Group. The European Works Council lends a strong pan-European dimension to social dialogue that is fully in keeping with the implementation of the Group’s integrated operator strategy.

As part of its policy of developing social dialogue, the Group has also decided to implement a body for collective dialogue in European countries not required to do so by law. This body, called the “Employee Forum”, allows for the sharing of opinions and dialogue between management and elected employee representatives. Employee Forums have been set up in the United Kingdom, Switzerland, Ireland, Romania and Slovakia. European countries in which France Telecom has more than 50 employees and where trade union organizations do not have

sole rights over social dialogue – as is the case in Poland and Sweden – will therefore be covered by a body for collective social dialogue.

Social dialogue on an international level

Social dialogue on an international level made further progress in 2007 with the implementation of the agreement signed in 2006 by Didier Lombard, CEO of the France Telecom Group, Gabou Gueye, Chairman of the UNI France Telecom Alliance, and Philip Jennings, General Secretary of Union Network International (UNI), concerning the observation of fundamental rights. The agreement, which follows on from the commitments made at the time of the signature of the Global Compact – a UN initiative aiming to engage businesses in the development of fundamental human rights and protecting the environment – is in keeping with the Group’s social responsibility agenda. Regular meetings will be held. It is within this framework that the Group’s international social relations director traveled to Cameroon to attend a meeting with West African trade union representatives and present the agreement.

Under the terms of this agreement, France Telecom is committed in particular to:

- respect for fundamental human rights. France Telecom will take particular care to prevent the use of forced labour, prohibit child labour and exploitation, combat discrimination, ensure health and safety in the workplace, respect people’s freedom to join a trade union or not and favor collective social dialogue with trade union organizations and/or employee representatives;

- the implementation of dynamic labour policies. In particular, the Group will encourage international mobility, access to training, work time management, the implementation of a fair remuneration policy ensuring equity between men and women, anticipation of restructuring measures via training efforts, social dialogue and internal mobility;
- the application of ethical guidelines in its relations with suppliers and subcontractors. In accordance with the France Telecom Group Code of Ethics and its support for the Global Compact, all employees ensure compliance with the principles of fairness, integrity and objectivity in their relations with suppliers and subcontractors.

To facilitate labour relations, France Telecom and UNI undertake to hold prior discussions before any external communication if certain principles of this agreement appear not to be respected.

This agreement, which applies to all companies controlled by the France Telecom Group, will be monitored regularly by the signatories at half-yearly meetings. Fully aware that this is an important commitment, France Telecom will inform its suppliers and subcontractors that this agreement has been signed.

The second way of developing social dialogue at Group level concerns the implementation of a body for international dialogue. It is with a view to achieving this that discussions have been initiated with employee representatives to set up a body of this kind, which would enable all of the Group’s employees all over the world to have a representative within a social dialogue body. Negotiations began in December 2007 and are due to continue throughout 2008.

4.1.5 Health and safety conditions

HEALTH AND SAFETY CONDITIONS – FRANCE TELECOM S.A. & ORANGE FRANCE

INDICATOR	2007 ⁽¹⁾	2006
Frequency of work-related accidents ⁽²⁾	4.1	4.2
Seriousness of work-related accidents ⁽³⁾	0.23	0.23
Number of fatal accidents	4 ⁽⁴⁾	3

(1) 2007 values are provisional.

(2) The frequency of work-related accidents corresponds to the number of work-related accidents with leave per million hours theoretically worked.

(3) The level of seriousness of work-related accidents corresponds to the number of lost days for work-related accidents per million hours theoretically worked.

(4) All traffic accidents (one work-related accident and three commuting accidents).

The deployment of the health and safety at work management system initiated in 2006 continued in France in 2007. The audit program also continued over the year: nearly all units were audited (Orange France, FTSA and national divisions such as SCE, DDSI etc.), with 123 audits representing a total of 735 days. A few major aspects have emerged, in particular the newness of the system, resulting in different level of appropriation. As

regards the results, the action plans implemented at the end of 2007 and in 2008 are centered around three core areas:

- helping units to understand and appropriate the health and safety at work management system;
- risk assessment;
- compliance with regulations.

Main actions in 2007

A number of the actions currently in progress were initiated several years ago. These actions continued in 2007 with added emphasis.

Prevention

Two new training sessions on prevention were introduced in 2007. This training program has been approved by the French telecommunications national employment commission ("CPNE"). Business leadership training for all parties involved in prevention has also been introduced.

Furthermore, within the context of permanent professional development and in connection with the results of audits carried out, training modules have been developed concerning compliance with regulations. Sessions took place in the last quarter of 2007 and are due to continue in 2008.

Risk assessment

A national risk assessment methodology has been devised, presented to all parties involved in prevention and made available to all units.

Risks

The risks identified within the Group's risk assessment policy constitute the basis for work over a number of years. Measures taken in 2007 concerned primarily:

Work at heights

The work started in 2006 on the high access platform continued with the first on-site experiments. We continued to receive the support of INRS, CRAM and expert advisors in this project.

Asbestos

A training module on risks related to asbestos in telecom works has been developed and tested on a unit before being extended to all units in 2008.

Ergonomics at work

The work carried out since the start of the project to the new store concept in 2006 concerning the ergonomics of workstations and their organization depending on the business activity being performed has allowed for these factors to be taken into account as the project progresses. Deployment of the final "NEXT store" concept began in mid-2007 with the opening of more than 50 stores.

Two projects have been implemented centered around the "Customer relations areas development Charter" introduced in 2006 and continued in 2007. The first concerns the choice of headsets used by call centre staff (a study into the choice of equipment has been carried out in partnership with LNE). The second project, in which we have been assisted by consulting firm Peutz, concerns the provision of a noise measurement protocol.

Driving-related risks

With around 25,000 FT vehicles in France, a number of business entities are exposed to motoring risks. Local efforts have been implemented and training provided.

4.1.6 Training

TRAINING - FRANCE TELECOM S.A.

INDICATOR

	2007	2006
Percentage of wage bill allocated to training ⁽¹⁾	5.30 %	5.10 %
Continuing training expenses (in million euros)	229.7	214.4
Number of employees trained	82,045	82,585
Number of hours training	2,779,887	2,613,300

(1) 2007 values are provisional.

The "Anticipation and Skills for Transformation" ("ACT") program continued as part of the NEXT plan. In 2007, the number of training hours provided was more than one-third (33.7%) higher than in 2005, with training efforts representing over 5% of the total wage bill.

The rate of access to training and the average duration of training increased further in 2007, with 85% of employees undergoing training (compared with 77% in 2005 and 83% in 2006) and an

average of 28 hours of training per employee (compared with 19.9 hours in 2005 and 26.2 hours in 2006).

As part of the Group's efforts to support priority business areas, more than 2,000 employees took part in one of the 37 professional training programs on offer concerning all business areas and all job levels.

The professionalization of training programs also involved increasing work with business schools and the support of over

1,000 local trainers, trained by the Professional Development Department, providing employees with on-the-ground support.

training, with communications about personal training histories and all training offers now available on "Anoo Formation".

A major effort was initiated to ensure that employees and managers receive as much information as possible about

4.1.7 Employment and integration of people with disabilities

DISABLED EMPLOYEES – FRANCE TELECOM S.A.

INDICATORS

	2007	2006
Number of disabled employees ⁽¹⁾	2,805	2,504
Purchases charged to protected sector (in million euros)	15.6	13.9
Rate of integration ⁽²⁾	3.10%	2.70%

(1) People with disabilities declared under the DOETH system (mandatory yearly declaration for disabled employees).

(2) Rate of integration: calculated in accordance with DOETH methods.

In 2007, France Telecom confirmed its commitment to supporting the integration of people with disabilities in the workplace. This is reflected by its managing to exceed all of the targets of the 2007 agreement, as well as the implementation of qualitative actions targeting employees and people with disabilities who may join the company.

The following results were achieved to the end of 2007:

- the Group exceeded its target of hiring more than 50 people, with 68 permanent staff and four temporary staff hired in sales and marketing, customer relations, IT and network positions. These new hires were made primarily through partnerships with associations and websites, participation in recruitment fairs and advertising inserts in the specialist press;
- more than 1 million euros was allocated to converting work stations for disabled employees (purchasing equipment, IT equipment, training, sign language services etc.), more than double the initial budget;

- more than 500 people (managers, human resources managers, company doctors, nurses, social assistants, employees) took part in "Demystifying Disabilities" awareness days organized by the disability integration office ("Mission Insertion Handicap") in Paris and the surrounding regions;
- nearly one million euros was spent on adapting IT applications to people with visual disabilities (accessibility of Intranet and Internet sites, business applications);
- purchases charged to "protected sector" projects for the disabled exceeded 15.5 million euros in 2007 alone.

A network of disability correspondents positioned in local human resources departments – one per regional department and one per business division – also benefited from increased competence and means of action in 2007.

4.1.8 Social and cultural activities

SOCIAL ACTIVITIES EXPENDITURE (IN MILLION EUROS) – FRANCE TELECOM S.A.

AREA	2007	2006
Sporting and leisure activities	5.3	16.0
Children		16.7
Contingency and solidarity	2.6	9.3
Cultural activities		0.8
Economic action		0.4
Total expenditure by France Telecom S.A. on behalf of works committees in the framework of transitional management (a)	7.9	43.2
Catering	56.0	55.2
Housing	19.4	18.6
Social cohesion	6.2	6.3
Total France Telecom S.A. expenditure for social activities (b)	81.6	80.1
France Telecom S.A. subsidiaries to works committees (c)	88.8	55.7
TOTAL (a+b+c)	178.3	179.0

Works committees were set up in the first quarter of 2005.

Pursuant to the agreement of January 13, 2005, between management and all of the trade union organizations represented at France Telecom S.A., concerning the employer contribution to social and cultural activities and transferring their management from France Telecom S.A. to the works committees, the company continued to manage certain social and cultural activities in 2007 prior to their definitive transfer to the works committees as of January 1, 2008.

The employer contribution paid to works committees to finance the taking over of these activities and new actions came to 88.8 million euros.

Catering and social cohesion activities are managed directly by the company on behalf of the works committees.

Total expenditure for France Telecom S.A.'s social activities came to 178.3 million euros.

4.1.9 Outsourcing

› OUTSOURCING - FRANCE TELECOM S.A.

INDICATORS

Amount of outsourcing (in million euros)

Equivalent average number of employees

	2007	2006
Amount of outsourcing (in million euros)	979	969
Equivalent average number of employees	8,856*	9,046*

* Calculated on the basis of outsourcing costs recorded in France Telecom S.A.'s company financial statements.

France Telecom S.A.'s outsourcing expenses totaled 979 million euros in 2007. This represents the equivalent of 8,856 employees on average over the year.

France Telecom S.A. uses external staff under service agreements. This concerns in particular network research, engineering and architecture activities and IT design, development and integration activities. To a lesser extent, outsourcing is also used in customer relations for customer telephone support.

In addition to a straightforward contractual arrangement, France Telecom's relationship with its suppliers is structured around an economic, social and environmental performance assessment system, which allows for regular analysis of services provided and planning of any joint corrective measures or ongoing improvement efforts required.

The Group's responsible purchasing policy is based on the QREDIC supplier evaluation process. Since 2004, an Ethics and Environment clause has been included in all of the Group's contracts.

4.1.10 Impact on national employment and regional development

Professional integration

› PROFESSIONAL INTEGRATION - FRANCE TELECOM S.A.

INDICATORS

Number of students on internships

Number of apprenticeship and work-based training contracts

	2007 ⁽¹⁾	2006
Number of students on internships	2,279	1,730
Number of apprenticeship and work-based training contracts	2,113	1,859

(1) Provisional values.

The France Telecom Group signed the Apprenticeship Charter in September 2005 and increased the number of staff on work-based training schemes at France Telecom S.A. by 24%. In 2007, France Telecom S.A. continued with its efforts to support young people in their initial training or in addition to this initial training. At the end of 2007, these efforts concerned 3.5% of active employees (temporary and permanent) compared with 2.9% at the end of 2006. This figure compares favorably with the work-based training quota set by the French government at

2% of the average annual workforce in 2007 for companies with more than 250 employees.

Relationships with education establishments

France Telecom S.A.'s policy in this area is focused on two main aims:

- developing the France Telecom Group's reputation as an employer among students;

- and anticipating its recruitment requirements in terms of required skills for the years ahead.

This policy has been pursued via a number of actions:

- relationships with around 30 higher education establishments, involving in particular participation in careers fairs (present at around 15 fairs) and the payment of a significant proportion of the apprenticeship tax;
- closer relationships with the top five engineering and business schools to present our business activities, our international dimension and the “Telecom Talents” program to these top-ranking schools;
- partnerships with certain schools to develop professional training courses, including the Master’s degree in production engineering and open-system infrastructure (IPISO) and the IP vocational degree course.

France Telecom also maintains strong ties with the Groupe des Écoles de Télécommunications (GET), with Group representatives on GET’s management and directional bodies and its school bodies. France Telecom is directly involved in the financing of the GET schools comprising an economic interest group: Eurecom and Telecom Lille 1.

Through its involvement in the X, Supelec and GET Foundations (Telecom Foundation), France Telecom supports international expansion and financing bursaries for foreign students, as well as research and other efforts to support the development of these schools.

France Telecom’s support also includes teaching in the Group’s recognized areas of expertise, through its involvement in designing teaching courses at universities, the joint creation of teaching and research chairs such as the ESSEC “Media & Entertainment” chair, the joint IFACI/ESCP-EAP chair dedicated to “Internal Control and Management of Activities” and the “Innovation and Regulation of Digital Services” Ecole Polytechnique/Télécom Paris joint chair.

France Telecom sponsors two graduating classes, at INT (Management & Telecom) and at Eurecom.

Two major research programs are run jointly by schools including Ecole Normale Supérieure, Ecole Polytechnique, Groupe des Ecoles de Télécommunications (Télécom Paris, ENST Bretagne, Institut National des Télécommunications (INT) etc.) and Supelec.

4.2 ENVIRONMENTAL INFORMATION

4.2.1 General environmental policy

France Telecom’s environmental policy is based upon a program of continuous improvement, aiming on the one hand to reduce the impact of its activities, products and services on the natural environment and on the other to contribute to the development of telecommunications solutions which promote sustainable development towards people, local authorities and the industrial, commercial and services world.

This policy is based on the signature in 1996, of the European Telecommunication Network Operators (ETNO) Environmental Charter, extended in 2004 with the signature of the European Telecommunication Network Operators Sustainable Development Charter, as well as France Telecom joining the Global Compact in 2000.

France Telecom is also involved in the work of the Global e-Sustainability Initiative (GeSi), sponsored by the United Nations Environment Program (UNEP), which helps telecommunications operators and manufacturers to further sustainable development in the information and communications technologies sector.

The France Telecom Group’s structure is organized by country and region – Spain, France, Poland, the United Kingdom, EME, EMEA, OBS – with correspondents in the areas of energy, commodities, waste and environmental management.

Activities in these countries are managed by Group correspondents in these areas, with the aim of achieving continuous improvement and reducing our impact on the environment.

Employee training and awareness are ensured on several levels by the Group team for the core business line. This is rolled out in each country. Communications are provided via an Intranet site, the Group’s communications tool. Specific awareness campaigns are organized in each country.

4.2.2 Environmental risk analysis approach

The France Telecom Group believes that its activities as a telecommunications operator do not set a serious threat to the environment. These activities do not entail any production processes that have a severe impact on rare or non-renewable resources, natural resources (water, air) or to biodiversity.

However, the France Telecom Group does use certain equipment, products and substances that may be hazardous to the environment (even slightly) and which are subject to specific regulations. These include classified sites for the protection of the environment (“Installations Classées pour la Protection de l’Environnement” or “ICPE”) and, for all countries in which

the France Telecom Group operates, waste production and elimination.

In Europe, France Telecom does not require authorization under the IPPC Directive (2001/78) in respect of its activities.

The France Telecom Group conducts continual in-depth analysis of these risks, leading to the adoption of action plans and prevention programs.

As regards the monitoring of Legionnaires' disease (legionellosis) in France, in 2007, no cases of contamination were reported at any of France Telecom S.A.'s 58 refrigerating towers.

In order to prevent health-related risks (legionellosis) and reduce its water consumption, a major program to replace refrigerating towers with dry cooler systems was implemented in 2006 and 2007 and is set to continue in 2008.

The main risks related to the Group's activities and the assessment and preventive measures programs adopted by the France Telecom Group for each of these risks are detailed below.

Facilities at risk

› **FACILITIES AT RISK – FRANCE TELECOM S.A.**

INDICATORS

Number of facilities classified for the protection of the environment (ICPE) subject to declaration or authorization
 Number of refrigerating towers
 Number of fuel tanks

	2007	2006
	(1)	2120 ⁽²⁾
	58	80
	1,714	1,850

(1) 894 sites (number of facilities not communicated).

(2) The 2,120 facilities stated for 2006 were divided between 904 sites.

Legislation requires operators of classified sites for the protection of the environment ("ICPE") either to obtain authorization from the government or to make a declaration in advance to the authorities. All ICPE sites are subject to a number of applications at *préfecture* level and a maintenance program has been launched.

Use of substances or products presenting risks for the environment

Some facilities use regulated products or substances. These are chlorofluorocarbon or CFC gases or other refrigerants (more specifically HCFCs or HFCs) contained in air conditioning installations.

Programs to eliminate the use of halon and replace it with less environmentally damaging FM 200 or FE 13 fire extinguishing gases or even inert Azote or INERGEN gases in sprinkler systems are in place since the end of 2003, in accordance with regulations in France.

Strict observation of regulatory requirements and prevention are the rule in this area.

Some of the Group's electrical transformers also contain polychlorinated biphenyls (or PCBs), the gradual elimination of which is continuing and will be completed in 2010, in accordance with legislation in force in France and Europe.

Controls are systematically carried out with suppliers in France, Europe and around the world to ensure that their products comply with the RoHS (Restriction of Hazardous Substances) Directive.

In addition, the new REACH regulation – which becomes effective in 2008 – was addressed in September 2006 in the France Telecom Group's Corporate Responsibility and Sustainable Development questionnaire sent to all suppliers.

Risks related to waste collection and elimination

After a survey resulting in the creation of 12 waste management units at France Telecom S.A., waste management processes have been optimized through:

- the implementation or renegotiation of national framework agreements for collection and treatment services for waste generates on and off France Telecom S.A. sites;
- training and management of local and national correspondents, as well as France Telecom Group correspondents, implementing waste management;
- and the integration of waste management into the processes concerned.

Waste management procedures have been defined at Group level and their implementation is coordinated. Sharing of best practices at the main waste management units, in particular the waste from electrical and electronic equipment (WEEE) unit, is ensured at all times.

In 2007, WEEE regulations were consolidated in all European countries. In France, the France Telecom Group belongs to the Eco-Système organization for "household WEEE" and has opted for an individual system for "business WEEE".

Energy

France Telecom's activities require the use of thermal facilities such as heating facilities and power generators, which emit greenhouse gases, such as carbon dioxide. In France, the census of overall energy consumption (electricity and fuel) carried out in 2002 and 2003 was continued in 2005, 2006 and 2007. Once the steering tools were consolidated, a

savings program was launched. In addition to compliance with regulatory requirements concerning the type of facilities, France Telecom S.A. intends to help to limit greenhouse gas production. However, as it does not have any sites eligible for the emissions trading system, France Telecom S.A. is not directly involved in emission trading programs for the time being arising from the application of the Kyoto Protocol in Europe.

ENERGIE – FRANCE TELECOM S.A.

INDICATORS

Energy consumption

Electricity (in GWh)

Carbon dioxide emissions (in tonnes)

CO₂ issued by transportation

CO₂ excluding total transportation

o/w CO₂ excluding transportation (electricity only)

	2007 (estimate)	2006
Electricity (in GWh)	1,730	1,724
CO ₂ issued by transportation	98,480	112,008
CO ₂ excluding total transportation	⁽¹⁾	159,710
o/w CO ₂ excluding transportation (electricity only)	77,930	75,788

(1) More information, in particular about non-electricity energy consumption (domestic fuel, gas) and associated carbon dioxide emissions, will be provided in the sustainable development report.

Protected sites

Poles and overhead cables have an impact on landscapes. France Telecom S.A. participates in efforts necessary to bury these telephone lines in accordance with applicable legislation

at classified and protected sites in France, in conjunction with the local and national authorities responsible for natural and cultural heritage.

LANDSCAPE PRESERVATION – FRANCE TELECOM S.A.

INDICATORS

Number of poles removed

Number of kilometers of cables buried

	2007	2006
Number of poles removed	51,960	46,460
Number of kilometers of cables buried	2,078	2,020

Biodiversity

WILDLIFE PRESERVATION – FRANCE TELECOM S.A.

INDICATORS

Number of metal poles visited (in thousands)

Number of poles blocked (in thousands)

	2007	2006
Number of metal poles visited (in thousands)	380	450
Number of poles blocked (in thousands)	175	189

Hollow metal poles present a danger for certain species of cave-dwelling birds and animals, which can become trapped. Some of the covers installed on top of these poles over the years have come off, for example during bad weather. In France, France Telecom has resolved to systematically control that these covers are in place during its telephone pole maintenance visits, which take place over a six-year cycle. This ensures that all metal poles are visited and that covers are replaced if they are missing.

France Telecom has made a commitment to set up a dialogue with bird protection organizations and associations in France at the most decentralized level in order to ensure better coordination of priority areas of intervention concerning its metallic poles.

Agreements were signed in 2006 and 2007 with regional representatives of the *Ligue pour la Protection des Oiseaux*

(the French bird protection league) in the Aquitaine and Lorraine regions and then in Alsace.

Electromagnetic fields

The Group maintains a permanent scientific overview of all research relating to health and electromagnetic waves. In May, 2006, the World Health Organization (WHO) published fact sheet No. 304 on base stations and wireless networks, concluded that: "Considering the very low exposure levels and research results collected to date, there is no convincing scientific evidence that the weak RF signals from base stations and wireless network cause adverse health effects."

The WHO also recommends that national authorities adopt international standards. It continued its studies in 2007.

Mobile base stations meet the international standards of the International Commission on Non-Ionizing Radiation Protection (ICNIRP), recognized by the WHO and for France by decree 2002-775 of May 3, 2002.

In France, more than 427 field measurements of Orange base stations were taken by independent laboratories in 2007 to check that phone masts comply with regulatory limits. The results of these measurements can be accessed by the public on the Agence Nationale des Fréquences (ANFR) website. They show that the average exposure of people living close to telephone masts is well below the limits set.

As regards mobile phones, the WHO also states that no danger to health has been established below the thresholds set by international standards (ICNIRP) and scientific research should be pursued. All mobile phones sold in Europe must have a specific absorption rate (SAR) below 2W/kg (for the head and trunk), the limit recommended by ICNIRP. Orange only sells phones with an SAR below this level.

In France, mobile phones are sold with a hands-free kit and a guide to responsible use. In addition, their SAR is displayed in all Orange stores.

4.2.3 Compliance with environmental regulations

Monitoring of compliance with regulations in France has been enhanced in collaboration with Bureau Veritas for all of our local and regional entities.

Overall, in the countries in which the Group operates, all aspects of its regulatory monitoring comply with ISO 14001, Paragraph 4.3.2 of which, entitled "Legal and other requirements", requires the identification of applicable regulations.

4.2.4 Environmental Management System (EMS)

In order to meet its targets of reducing the risks and the environmental impact of its activities, the France Telecom Group has implemented an Environmental Management System in each of the countries in which it operates following the ISO 14001 international standard.

In order to facilitate the implementation and assessment of EMS performance, the Group has defined a reference framework and provides help with its implementation.

This reference framework comprises:

- a dedicated and scheduled in different steps methodology for managing such projects;
- Group processes and tools in key areas, such as risk and impact analysis or managing regulatory compliance;

- guides and checklists to support a detailed audit of the EMS and its key components.

In addition, guidelines in line with the project management methodology and essential requirements of ISO 14001 enable country project managers to steer their work effectively and ensure regular reporting to the Group.

The reference framework and EMS key indicators facilitate benchmarking between units and objective performance comparisons.

In 2006 and 2007, in accordance with the reference framework, the main countries in which the Group operates mapped out their significant risks and environmental impacts and took them into account in their environmental management program.

Some countries have already obtained ISO 14001 certification for some of their activities or sites, such as the mobile operator in Spain, while others such as Belgium are currently presenting their sites and activities to external auditors responsible for certification.

The process for obtaining certification is under way in France, Poland, Spain and the United Kingdom and levels of deployment vary in each country. The use of data has been particularly useful for the Environment section of the Group's Risk Management guides, which were updated continually in 2007.

4.2.5 Specific actions to raise employee awareness

A program to raise employee awareness was initiated in June 2007 by the departments in charge of corporate responsibility and sustainable development and the internal communications department. The aim was to highlight our corporate responsibility approach and make everyone understand the Group's commitment through a two-tier competition:

- a local competition in which employees in each of the 16 participating countries nominated the project that best symbolized corporate responsibility for each of five categories (clients, employees, environment, suppliers and company);
- a Group-wide competition, which determined the 2007 prize-winners for the Group from the projects chosen locally.

4.2.6 Provisions for environmental risks

The obligation to restore and dismantle sites is calculated on the basis of:

- dismantling costs (on a per-unit basis for telephone poles, terminals and public phones, per site for mobile phone masts) incurred by France Telecom to meet its environmental commitments;

- annual scheduled asset returns for telephone poles and public telephones;
- estimated site closures for mobile phone masts.

These dismantling costs are calculated on the basis of the identified costs for the current financial year, extrapolated for future years using the best estimate of future trends in prices, inflation etc. and are discounted at a risk-free rate. Forecasts of estimated site closures or asset returns are revised in light of future changes in regulations or technological requirements.

At December 31, 2007, the provision booked for dismantling and restoring sites mainly covered costs related to:

- restoring mobile phone mast sites: 215 million euros;
- dismantling telephone poles: 156 million euros (including 122 million euros related to France Telecom S.A.);
- management of waste electrical and electronic equipment: 65 million euros (including 36 million euros related to France Telecom S.A.);
- dismantling public phones: 62 million euros (including 52 million euros related to France Telecom S.A.).

4.2.7 Action plan

The deployment of the environmental policy in all areas of the France Telecom Group is based on a route map that is updated every year, formally setting out priority environmental actions.

The main actions concern:

- reducing our clients' indirect energy consumption via the products we sell them;
- controlling our energy consumption at our work premises and in the choice and use of our business vehicles;
- enhancing the contribution of information and communications technologies to sustainable development;
- reducing our visual impact on the environment;
- reducing consumption of other resources, particularly paper;
- reducing indirect production of waste at our clients, in our business activities and in our behavior;
- managing all activities in accordance with EMS principles.

5. outlook

France Telecom's outlook is defined at Group level. Details are provided in the Group Management Report, Section 1, "Overview".

6. changes in accounting methods

The financial statements of France Telecom S.A. have been prepared in accordance with accounting principles generally accepted in France and according to the arrangements of the General Accounting Plan (*Plan Comptable Général*).

Details of the accounting policies used by France Telecom S.A. are provided in Note 2 to the company's financial statements.

7. information about subsidiaries and equity interests

7.1 TABLE OF SUBSIDIARIES AND EQUITY INTERESTS

COMPANY DATA (in millions of euros)	Share capital	Other shareholders' equity*	Percentage interest	Book value of shares held at December 31, 2007		2007 revenue	2007 earnings	Dividends received in 2007	Receivables related to subsidiaries
				Cost	Net				
Subsidiaries (over 50% owned)									
Atlas Services Belgium	9,910	(1,481)	100.00%	20,671	7,480	1	167		
Equant BV		(888)	100.00%	1,300	67	2,061	(560)		573
EGT	3	(2)	100.00%	53	0	22	(2)		
FT Immo H	255	9	100.00%	255	255	69	23		
Nordnet		22	100.00%	90	90	56	17	10	
Orange S.A.	4,871	35,050	100.00%	62,904	60,945	80	3,038	389	
Orange Participations	184	(82)	100.00%	184	144	N/A	(50)		
Rimcom	140	40	100.00%	310	221	N/A	42	13	
FCR	763	128	100.00%	762	762	19	90	86	
FTCD	39	39	100.00%	64	64	N/A	0	5	
FTMI	22	119	100.00%	679	385	N/A	48	100	
FTP Us	312	(266)	100.00%	437	41	N/A	(17)		
GlobeCast Holding	7	(29)	100.00%	125	26	N/A	(6)		
Silicomp	1	21	96.06%	101	101	8	(1)		
Other				176	138			11	
Total subsidiaries				88,111	70,719			614	573
Minority interests (between 10% and 50% owned)									
TPSA	1,169	3,131	48.58%	6,335	5,485	2,871	294	247	278
Bull	10		10.07%	445	38				
Other				12	1				
Total minority interests				6,792	5,524			247	278
Other equity interests									
Other				4	3				
Total other equity interests				4	3				
TOTAL SUBSIDIARIES AND MINORITY INTERESTS				94,907	76,246			862	851

* Including net income at December 31, 2007.

The following significant transactions occurred in 2007:

- France Telecom S.A. acquired shares in the Groupe Silicomp, a company listed on Eurolist by Euronext, for a total of 101 million euros. At December 31, 2007, France Telecom S.A. held a 96.1% stake in the company;
- France Telecom S.A. acquired 100 % of shares in Orange International SAS for 1.6 million euros in November 2007;
- France Telecom S.A. acquired 50 % of shares in Orange BNP Parisbas Services for 15 million euros in December 2007.

7.2 ACTIVITIES OF THE MAIN SUBSIDIARIES OF THE FRANCE TELECOM GROUP

In accordance with the structure of the Group's activities, 2007 revenues for France Telecom's main subsidiaries are summarized below.

7.2.1 Mobile activities

At December 31, 2007, the main subsidiaries of the France Telecom Group in the mobile sector were grouped together in the "Personal Communication Services" division, which generated revenues of 29,119 million euros in 2007 (under IFRS).

The Group's main subsidiaries are in France, the United Kingdom, Spain and Poland.

7.2.2 Fixed line and Internet activities

The France Telecom Group's main subsidiaries in the fixed line and Internet sector ("Home Communication Services") are TP S.A., Poland's incumbent operator and its non-mobile subsidiaries.

At December 31, 2007, France Telecom owned 48.58% of TP S.A.

In 2007, TP S.A. and its fixed line and Internet subsidiaries generated revenues of 2,886 million euros (under IFRS).

8. information about the shareholding structure and the share price

8.1 FRANCE TELECOM'S SHAREHOLDING STRUCTURE

› SHAREHOLDING STRUCTURE AS AT DECEMBER 31, 2007

	Number of shares	%	Number of voting rights	%
French government	473,938,144	18.13%	473,938,144	18.20%
ERAP	240,823,564	9.21%	240,823,564	9.25%
Total French government + ERAP	714,761,708	27.34%	714,761,708	27.45%
Public	1,812,628,901	69.33%	1,812,628,901	69.61%
Employees ⁽¹⁾	76,429,418	2.93%	76,429,418	2.94%
Treasury stock	10,528,884	0.40%	0	0%
TOTAL	2,614,348,911	100.00%	2,603,820,027	100.00%

(1) Includes only shares held directly by employees or former employees in registered form or in the Group savings plan, as well as shares purchased under offerings by the French government reserved for employees and former employees and entitling holders to free share awards in January 2008. Shares purchased under the offering by the French government of December 2007 are not included as these shares were not delivered until January 29, 2008.

Treasury shares

The Ordinary and Extraordinary Shareholders' Meeting of April 21, 2006 authorized a share buyback program for up to 10% of France Telecom's capital, valid until October 21, 2007. On May 21, 2007, it renewed this authorization until

November 20, 2008. A description of France Telecom's share buyback program was published on May 21, 2007.

In May 2007, France Telecom also entered into a liquidity contract for its ordinary shares with a financial institution. Funding in the amount of 100 million euros has been allocated for purposes of implementing the contract.

► SUMMARY OF PURCHASES AND SALES OF TREASURY SHARES IN 2007

PURPOSE	Number of shares bought	Weighted average gross price (€)	Number of shares sold	Weighted average gross price (€)	Number of shares held as at December 31, 2007
Coverage of commitments ⁽¹⁾	9,113,884	19.76	0	N/A	9,113,884
Liquidity contract ⁽²⁾	10,894,896	23.59	9,479,896	23.63	1,415,000
TOTAL					10,528,884

(1) Coverage of commitments relating to debt instruments giving access to share capital or stock option programs or any other form of allocation of shares to employees.

(2) Does not include transactions carried out in December 2007 for which shares were delivered in January 2008. Taking these transactions into account, France Telecom held 1,399,992 treasury shares within the context of the liquidity contract.

The 10,528,884 treasury shares held by the company as at December 31, 2007, are recognized as marketable securities.

8.2 FRANCE TELECOM'S SHARE PRICE PERFORMANCE

France Telecom shares have been listed since October 1997 on the Eurolist market (formerly the *Premier Marché*) of Euronext Paris (ISIN code: FR 0000133308) and on the New York Stock Exchange in the form of American Depositary Shares (ADS) (Code 35177Q10).

The following table shows France Telecom's monthly historical share price performance (unadjusted for payment of dividends) and trading volume on the Eurolist market of Euronext Paris in 2007.

	Historical share price (in euros)			Trading volume (daily average)
	Monthly average share price	High	Low	No. of shares
January 2007	21.69	22.29	20.95	10,581,009
February 2007	21.28	21.55	20.53	10,352,227
March 2007	19.69	20.17	18.94	13,332,152
April 2007	20.81	21.63	20.14	11,342,037
May 2007	22.10	22.83	21.52	11,710,330
June 2007	21.42	23.42	20.40	16,282,220
July 2007	20.20	20.67	19.40	13,016,245
August 2007	20.99	20.14	19.66	17,174,741
September 2007	22.52	23.49	21.81	11,657,885
October 2007	24.01	25.80	22.75	14,247,059
November 2007	25.68	26.78	24.81	12,597,686
December 2007	24.88	26.22	24.39	9,934,898

Source: Bloomberg.

■ Highest and lowest prices in 2007 (historical): 18.94 euros – 26.78 euros;

■ Historical closing share price performance from December 31, 2006 to December 31, 2007: +17.5%;

■ Closing share price performance adjusted for dividends from December 31, 2006 to December 2007: +24.1%;

■ Stoxx Telecom index performance from December 31, 2006 to December 31, 2007: +14.6%.

9. information about directors and corporate officers

9.1 COMPENSATION OF DIRECTORS AND CORPORATE OFFICERS

9.1.1 Compensation paid to the Chairman and Chief Executive Officer

➤ **GROSS AMOUNTS EXCLUDING EMPLOYER'S SOCIAL SECURITY CONTRIBUTIONS AND BENEFITS PAID IN RESPECT OF 2007 AND 2006**

(in euros)	2007	2006
Fixed	900,000	900,000
Variable ⁽¹⁾	598,500	464,738
Incentive and employee profit-sharing ⁽²⁾	0	0
Exceptional	0	0
Benefits in kind	3,885	3,382
Attendance fees ⁽³⁾	0	0
TOTAL	1,502,385	1,368,120

(1) Including the portion relating to the second half of the relevant year, which is paid in the following year.

(2) As a corporate officer, the Chairman does not receive any incentive or employee profit-sharing.

(3) The Chairman has waived his right to receive attendance fees.

Compensation paid to the Chairman and Chief Executive Officer is set by the Board of Directors on the basis of a proposal from the Compensation, Nominating and Governance Committee.

Bonus

Every six months, the Compensation, Nominating and Governance Committee examines and proposes to the Board of Directors the parameters for calculating the variable amount of the compensation (bonus) of the Chairman and Chief Executive Officer for the following six-month period and proposes the amount of the bonus for the past six-month period based directly on France Telecom's financial results.

In 2007, Didier Lombard was eligible for a bonus whose target rate is 50% of his base compensation. In the event that these objectives are exceeded, this bonus may reach a maximum of 66.6% of the base salary. The semi-annual variable portion of the Chairman and CEO was based on an overall financial objective calculated on the scope of France Telecom Group and consisting of the weighted average growth rate on a comparable basis of the revenues and the Organic Cash flow indicator.

Pension plan

Didier Lombard is not a beneficiary of any specific pension arrangements. He is covered by the France Telecom

supplemental retirement system and shall continue to benefit for the rest of his term of office from the supplemental pension system created for employees classified as "off-grid", in view of his being placed off-grid before the age of 55. This pension will be paid to him at the liquidation of his other pension plans provided that he is still at that time with the Company. The end-of-career salary used to calculate the supplemental pension is equal to the best annual average of the gross compensation for 36 months "off-grid" or as a corporate officer.

Other benefits

The benefits in kind received by Didier Lombard consist of a company car, a telephone line package and assistance from private firms providing personal legal assistance related to his position, up to a maximum of 100 hours of advice annually.

In the event his duties with the company are terminated by decision of the Board of Directors, and should such decision also involve the premature termination of his employment contract (which was suspended upon his appointment as a corporate officer), he would receive a payment equivalent to 21 months of his latest total annual compensation (including the contractual severance package), after a decision by the Board of Directors.

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Didier Lombard also participated in the share purchase offer reserved for employees in December 2007 (see section 4.1.3).

Stock-options

Didier Lombard was allocated 140,000 stock-options by the Board of Directors at its meeting of May 21, 2007, within the framework of the "May 2007" stock-option plan (see Section 4.1.3). The Board of Directors decided that all shares issued in the event of these options being exercised will be kept as registered shares by Didier Lombard for the rest of his term of office.

Free share award plan

No shares were allocated to Didier Lombard within the framework of the free share award plan approved by the Board of Directors on April 25, 2007 (see section 4.1.3.).

9.1.2 Attendance fees paid to directors

(in euros)	In respect of 2007	In respect of 2006
Didier Lombard	0	0
Hélène Adam ⁽¹⁾	34,000	31,500
René Bernardi	46,000	43,500
Bruno Bezar ^{(2) (3)}	27,111	na
Bernard Dufau	58,000	56,500
Jean Michel Gaveau ⁽¹⁾	34,000	30,000
Claudie Haigneré ⁽⁴⁾	14,111	na
Arnaud Lagardère	11,000	17,000
Jacques de Larosière ⁽²⁾	36,000	44,500
Henri Martre	34,000	32,000
Marcel Roulet	53,000	46,500
Henri Serres ⁽²⁾	37,000	37,000
Jean Simonin	40,000	38,500
Stéphane Tierce	38,000	31,500
Former directors		
Jean-Pierre Jouyet ^{(2) (5)}	12,806	16,500
Stéphane Richard ⁽⁶⁾	19,944	32,000
Pierre-Mathieu Duhamel ⁽⁷⁾	na	5,500
Denis Samuel-Lajeunesse ⁽⁸⁾	na	27,000
TOTAL	494,972	489,500

na: not applicable.

(1) Attendance fees paid to these directors representing employees were paid to their trade union organization on their request.

(2) Attendance fees paid to directors representing the French government are paid to the Treasury Department.

(3) Appointed on March 9, 2007.

(4) Appointed on May 21, 2007.

(5) Stood down on May 18, 2007.

(6) Stood down on May 23, 2007.

(7) Stood down on April 19, 2006.

(8) Stood down on August 31, 2006.

The Shareholders' Meeting of April 22, 2005, set the maximum amount of attendance fees payable to directors at 500,000 euros a year. In accordance with this decision, the Board of Directors decided on February 5, 2008, after consultation with the Compensation, Nominating and Governance Committee, to allocate 494,972 euros to all Members of the Board of Directors in respect of 2007. These attendance fees were paid in February 2008.

Pursuant to the rules concerning the distribution of attendance fees confirmed by the Board of Directors on February 5, 2008,

directors received a fixed amount of 10,000 euros a year and a variable amount based on their attendance at Board and committee meetings and the functions they serve within these committees.

With the exception of directors representing employees and employee shareholders who receive compensation as employees of the Company, and of the Chairman and Chief Executive Officer, directors did not receive any compensation or benefits other than attendance fees in 2007, nor do they benefit from any pension commitments from France Telecom.

9.1.3 Other compensation paid to employee directors

› GROSS AMOUNTS EXCLUDING EMPLOYER'S SOCIAL SECURITY CONTRIBUTIONS AND BENEFITS PAID IN RESPECT OF 2007 AND 2006

	Hélène Adam		René Bernardi		Jean Michel Gaveau		Stéphane Tierce	
(in euros)	2007	2006	2007	2006	2007	2006	2007	2006
Fixed	29,949	29,788	50,936	42,656	29,127	26,536	65,515	65,577
Variable ⁽¹⁾⁽²⁾	0	0	2,913	4,387	691	779	7,076	12,655
Incentive, employee profit-sharing and employer's contribution ⁽¹⁾⁽³⁾	-	3,970	-	5,631	-	3,138	-	8,583
Exceptional	2,696	744	19 871	8,442	0	27	73	0
Benefits in kind	232	232	349	349	232	232	0	0

(1) See Section 4.1.3 for calculation criteria.

(2) The variable amount for the second half of the 2007 fiscal year, which will be paid in 2008, was not known at the date of this document. As a result, the 2007 variable amount consists only of the variable for the first half of 2007. On the other hand, the 2006 amount is the amount paid in respect of the full 2006 year.

(3) Figures for incentive, profit sharing and employer's contribution in 2007 were not known at the date of the document. The 2006 amount is the amount paid in respect of 2006.

Stock-options

With the exception of the Chairman and Chief Executive Officer, directors did not receive any stock-options in 2007.

At January 31, 2008, Stéphane Tierce, a director representing employee shareholders, held 1,140 stock-options granted by the Board of Directors on October 26, 2005 (see Section 4.1.3).

Free share award plan

Within the framework of the free share award plan approved by the Board of Directors on April 25, 2007 (see Section 4.1.3), employee directors will be allocated the following on April 25, 2009, subject to the performance conditions of the plan:

Hélène Adam:	80 shares
René Bernardi:	120 shares
Jean Michel Gaveau:	120 shares
Stéphane Tierce:	200 shares

9.2 DIRECTORS TRANSACTIONS ON COMPANY'S SHARES

During 2007, Stéphane Tierce, an employee director, gave notice to the french *Autorité des Marchés Financiers* of two transactions for the sale of France Telecom shares for 9,424 shares in March, 2007, and for 4,100 shares in December, 2007.

9.3 DIRECTORSHIPS AND OFFICES HELD BY DIRECTORS AND CORPORATE OFFICERS IN 2007

	Directorships and offices within the France Telecom Group	Directorships and offices outside the France Telecom Group	Directorships and offices expiring in the last five years
Directors elected by the Shareholders' Meeting			
Didier Lombard	Chairman and Chief Executive Officer of France Telecom Chairman of the Board of Directors of Orange SA (until May 21, 2007) Chairman of the Strategy Committee	Director of: <ul style="list-style-type: none"> ■ Thomson ■ Thalès ■ Member of the Supervisory Board of: <ul style="list-style-type: none"> ■ STMicroelectronics NV ■ Radiall ■ Agence de l'Innovation Industrielle (until December 31, 2007) 	None
Marcel Roulet	Director of France Telecom Chairman of the Compensation, Nominating and Governance Committee	Business consultant Director of: <ul style="list-style-type: none"> ■ Thomson ■ Thalès (permanent representative of TSA) ■ HSBC France (formerly CCF) ■ Chairman of the Supervisory Board of GIMAR Finance SCA ■ Member of the Supervisory Board of Eurazeo ■ Non-voting Director of Cap Gemini 	Observer on the Board of Directors of the PagesJaunes Groupe
Bernard Dufau	Director of France Telecom Chairman of the Audit Committee	Director of: <ul style="list-style-type: none"> ■ Dassault Systèmes ■ KESA Electricals 	Director of Team Partners Group
Claudie Haigueré (as of May 21, 2007)	Director of France Telecom Member of the Strategy Committee	Director of Cité des Sciences et de l'Industrie	None

	Directorships and offices within the France Telecom Group	Directorships and offices outside the France Telecom Group	Directorships and offices expiring in the last five years
Directors elected by the Shareholders' Meeting			
Arnaud Lagardère	<p>Director of France Telecom Member of the Compensation, Nominating and Governance Committee</p>	<p>General partner of Lagardère SCA Director of:</p> <ul style="list-style-type: none"> ■ Lagardère Ressources (SAS) ■ Hachette Livre (SA) ■ Hachette Distribution Services (SA) ■ LVMH – Moët Hennessy Louis Vuitton (SA) <p>Chairman and Chief Executive Officer of Hachette SA (Lagardère Media) Chairman of:</p> <ul style="list-style-type: none"> ■ Lagardère (SAS) ■ Lagardère Active (SAS) and its subsidiaries ■ Lagardère Active Broadband (SAS) ■ Lagardère Capital et Management (SAS) ■ Hachette Filipacchi Medias (SAS) <p>Deputy Chairman of Lagardère Active Broadcast (SA Monégasque) Chairman and Chief Executive Officer of Arjil Commanditée- Arco (SA) Member of the Supervisory Board of:</p> <ul style="list-style-type: none"> ■ Lagardère Sports (SAS) ■ Virgin Stores (SA) ■ Le Monde ■ DaimlerChrysler AG ■ Chairman of the Board of: ■ Société European Aeronautic Defence and Space Company – EADS NV ■ Lagardère Active North America, Inc ■ EADS Participations BV <p>Director of Lagardère Management, Inc Permanent representative of Lagardère Active Publicité on the Board of Directors of Lagardère Active Radio International</p>	<p>Director of LCM Expression (SA) Director of Multithématiques (SA) Joint manager of I.S.-9 Manager of Lagardère Active Publicité (SNC) Director of Société d'Agences et de Diffusion (SA) Manager of Nouvelles Messagerie de la Presse Parisienne – N.M.P.P. (SARL) Director of Canalsatellite (SA) Director of Lagardère –Sociétés (SAS) Director of Editions P. Amaury (SA) Chairman of Lagardère Images (SAS) Chairman and Chief Executive Officer of Lagardère Thématiques (SA) Manager of Lagardère ELEVAGE Vice-Chairman of the Supervisory Board of Arjil & Compagnie (SCA) Director of Fimalac (SA) Chairman of Lagardère Active (SAS) Director of Hachette Filipacchi Medias (SA) Permanent representative of Hachette SA on the Management Board of SEDI TV-TEVA (SNC) Deputy Chairman of Lagardère Active Broadcast (SA Monégasque)</p>

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	Directorships and offices within the France Telecom Group	Directorships and offices outside the France Telecom Group	Directorships and offices expiring in the last five years
Directors elected by the Shareholders' Meeting			
Henri Martre	Director of France Telecom Member of the Strategy Committee (Vice-Chairman)	Director of: <ul style="list-style-type: none"> ■ Renault SA ■ SOGEPA ■ ON-X Chairman of the Supervisory Board of ESL Vice-Chairman of the Supervisory Board of KLM Member of the Board of Directors of SOFRADIR Member of: <ul style="list-style-type: none"> ■ Conseil Supérieur de l'Aviation Marchande ■ Board of CEPII ■ Consultative Committee of Banque de France ■ Conseil de l'Agence Française pour les Investissements Internationaux Manager of SOCOGIT (SARL)	Member of the Consultative Board of Ernst & Young
Jean Simonin	Director of France Telecom Member of the Compensation, Nominating and Governance Committee	None	None
Director elected by the Shareholders' Meeting upon proposal by employee shareholders			
Stéphane Tierce	Director of France Telecom Member of the Strategy Committee	Director of AFTAS	None
Directors representing the French government appointed by decree			
Bruno Bezard (as of March 9, 2007)	Director of France Telecom Member of the Audit Committee	Director representing the French government of: <ul style="list-style-type: none"> ■ Areva ■ EDF ■ La Poste ■ Air France – KLM ■ Thalès 	Director of Renault
Jacques de Larosière	Director of France Telecom Member of the Audit Committee	Member of the Consultative Committee of AIG Chairman of the Strategy Board of EMP Chairman of the Observatoire de l'Épargne Européenne (trustee) (voluntary) Joint Chairman of Eurofi (voluntary)	Chairman (voluntary) of: <ul style="list-style-type: none"> ■ The Per Jacobsson Foundation ■ Reuters Founders Share Company Limited ■ BNP Paribas Hungaria Director of Power Corporation

	Directorships and offices within the France Telecom Group	Directorships and offices outside the France Telecom Group	Directorships and offices expiring in the last five years
Directors representing the French government appointed by decree			
Henri Serres	Director of France Telecom Member of the Compensation, Nominating and Governance Committee	Managing Director of Information Systems and Communications – French Ministry of Defense Government representative on the Board of Directors of: <ul style="list-style-type: none"> ■ Imprimerie Nationale (national printing office) ■ TSA 	Central Director of Information Systems Security, General Secretariat for National Defense French representative on the Board of Directors of the European Network and Information Security Agency (ENISA) Vice-Chairman of the General Council for Information Technologies, French Ministry of Finance Chairman of the Board of Directors of Groupe des Ecoles des Télécommunications Government representative on the Board of Directors of La Poste Group
Directors elected by employees			
Hélène Adam	Director of France Telecom Member of the Strategy Committee	None	None
René Bernardi	Director of France Telecom Member of the Audit Committee	None	None
Jean-Michel Gaveau	Director of France Telecom Member of the Strategy Committee	None	None
Former directors (directorships at the date they ceased to be directors of France Telecom)			
Stéphane Richard <i>Date ceased to be Director: May 23, 2007</i>	Director of France Telecom Member of the Audit Committee	Chief Executive Officer of Veolia Transport Deputy Chief Executive Officer of Veolia Environnement Member of the Supervisory Board of LBO France Director of: <ul style="list-style-type: none"> ■ NEXITY ■ UGC SA 	Chairman of the Board of NEXITY Member of the Management Board of Vivendi Environnement Director of APRR
Jean-Pierre Jouyet <i>Date ceased to be Director: May 18, 2007</i>	Director of France Telecom Member of the Strategy Committee	Vice-Chairman of the Board of Directors of Institut Pasteur Director of Fondation Nationale des Sciences Politiques (not-for-profit foundation) Member of the office of the Board of Directors of the “Le Siècle” Association	Director of: <ul style="list-style-type: none"> ■ Crédit Lyonnais ■ France Télévisions ■ Air France Member of the Supervisory Board of Caisse des Dépôts et Consignations Member of the Board of Politique Monétaire

10. prior years' results

	2007	2006	2005	2004	2003
1. Share capital at year-end					
Share capital (in euros)	10,457,395,644	10,426,692,520	10,412,239,188	9,869,333,704	9,609,267,312
Number of ordinary shares outstanding	2,614,348,911	2,606,673,130	2,603,059,797	2,467,333,426	2,402,316,828
2. Operations and results for the year (in million euros)					
Revenues before tax	22,108	21,171	20,147	20,479	20,056
Income before tax, employee profit-sharing, depreciation, amortization and impairment	5,451	10,389	4,511	1,755	(13,077)
Income tax	(1,517)	(1,104)	(1,529)	(1,110)	(1)
Employee shareholding	290	264	249	154	13
Income after tax, employee profit-sharing, depreciation, amortization and impairment	7,331	4,404	5,511	6,619	(3,116)
Distributed income (including treasury shares)	(1)	3,117	2,602	1,184	617
3. Earnings per share (in euros)					
Income after tax and employee profit-sharing but before depreciation, amortization and impairment	2.55	4.31	2.22	1.10	(5.45)
Income after tax, employee profit-sharing, depreciation, amortization and impairment	2.80	1.69	2.12	2.68	(1.30)
Dividend per share (in euros)	(1)	1.20	1.00	0.48	0.25
4. Employees					
Average number of employees during the year (full-time equivalent)	95,857	100,601	102,234	106,875	111,038
Total wage bill for the year (in million euros)	4,325	4,396	4,225	4,184	4,140
Employee benefits paid (social security, company welfare schemes etc.)	2,350	2,278	2,167	2,098	2,053

(1) Submitted to the decision of the Annual Shareholders' Meeting on May 27, 2008.

11. allocation of income

The Board of Directors proposes to the Annual Shareholders' Meeting:

- to decide, out of income for the year of 7,330,505,340.29 euros, to allocate 3,070,312.40 euros to the legal reserve, bringing the total amount of the reserve to 1,045,739,564.40 euros;
- to note that distributable income for the year, after allocation to the legal reserve of 3,070,312.40 euros and taking account of retained earnings of 8,512,649,858.16 euros, comes to 15,840,084,886.05 euros; and
- to decide to pay shareholders a dividend of 1.30 euro per share and to allocate remaining distributable income to retained earnings.

The dividend will be paid on June 3, 2008.

The Annual Shareholders' Meeting shall grant full powers to the Board of Directors to determine the total dividend amount, on the basis of the number of shares held by the Company on the date the dividend is paid, it being noted that shares held by the Company on the date the dividend is paid will not give it the right to the payment of dividends, and consequently the amount of distributable income to be allocated to retained earnings.

The entire dividend is eligible for the 40% tax allowance mentioned in Article 158 of the French General Tax Code, benefiting individuals resident in France for tax purposes.

Dividends paid in respect of the last three years are as follows:

Year	Number of shares	Dividend per share	Share of dividend eligible for tax allowance
2004 ⁽¹⁾	2,467,276,676	€0.48	100%
2005 ⁽²⁾	2,603,059,797	€1.00	100%
2006 ⁽²⁾	2,597,251,003 ⁽³⁾	€1.20	100%

(1) Tax reduction of 50% in accordance with the French General Tax Code (concerning only 2004).

(2) Tax allowance of 40% in accordance with the French General Tax Code.

(3) Excluding treasury stock.

12. resolutions

The draft resolutions to be submitted to the May 27, 2008 Shareholders' Meeting are presented in a separate form.

appendix to the board of directors' Report

1. SUMMARY OF DELEGATIONS AND AUTHORIZATIONS GRANTED BY THE ANNUAL SHAREHOLDERS' MEETING TO THE BOARD OF DIRECTORS – 2007

In accordance with Article L. 225-100 of the French Commercial Code, it is the responsibility of the Board of Directors to attach to the report presented to the Annual Shareholders' Meeting the table summarizing valid delegations granted by the Annual Shareholders' Meeting to the Board of Directors concerning capital increases and showing how these delegations have been used over the year. With the exception of the share buyback

program, which is covered by a special report, in accordance with Article L. 225-209, Paragraph 2 of the French Commercial Code, the following table shows, in addition to delegations granted in respect of capital increases, all authorizations granted to the Board of Directors by the Annual Shareholders' Meeting in 2007.

DELEGATIONS GRANTED BY THE ANNUAL SHAREHOLDERS' MEETING	Date of the Annual Shareholders' Meeting granting delegation	Duration of delegation and expiry date	Total amount of delegation (in euros)	Use of delegation over the year	Balance
Delegation of authority to the Board of Directors to issue ordinary shares in the Company and marketable securities giving access to ordinary shares in France Telecom or one of its subsidiaries, maintaining shareholders' preferential subscription rights. (8 th resolution)	May 21, 2007	26 months July 20, 2009	4 billion ⁽²⁾	—	€4 billion
Delegation of authority to the Board of Directors to issue ordinary shares in the Company and marketable securities giving access to ordinary shares in France Telecom or one of its subsidiaries, without shareholders' preferential subscription rights. (9 th resolution)	May 21, 2007	26 months July 20, 2009	4 billion ⁽¹⁾⁽²⁾	—	€4 billion
Authorization granted to the Board of Directors to set the issue price in accordance with the terms set by the Annual Shareholders' Meeting, without preferential subscription rights to ordinary shares in the Company or marketable securities giving access to ordinary shares in France Telecom or one of its subsidiaries. (10 th resolution)	May 21, 2007	26 months July 20, 2009	10% of share capital at the date of the Annual Shareholders' Meeting, or €1,042,669,252 ⁽¹⁾⁽²⁾ per 12 month period	—	€1,042,669,252
Authorization granted to the Board of Directors to increase the number of shares to be issued in the event of a capital increase with or without preferential subscription rights. (11 th resolution)	May 21, 2007	26 months July 20, 2009	15% of initial issue ⁽²⁾	—	15% of initial issue

DELEGATIONS GRANTED BY THE ANNUAL SHAREHOLDERS' MEETING	Date of the Annual Shareholders' Meeting granting delegation	Duration of delegation and expiry date	Total amount of delegation (in euros)	Use of delegation over the year	Balance
Delegation of authority to the Board of Directors to issue ordinary shares and marketable securities giving access to ordinary shares in the Company in the event of a public share exchange offer initiated by France Telecom. (12 th resolution)	May 21, 2007	26 months July 20, 2009	4 billion ⁽¹⁾⁽²⁾⁽³⁾	—	€4 billion
Delegation of authority to the Board of Directors to issue ordinary shares and marketable securities giving access to ordinary shares in the Company, in return for contributions in kind to France Telecom in the form of shares or marketable securities giving access to share capital. (13 th resolution)	May 21, 2007	26 months July 20, 2009	10% of share capital at the date of the Annual Shareholders' Meeting or €1,042,669,252 ⁽²⁾	—	€1,042,669,252
Delegation of authority to the Board of Directors to issue shares reserved for persons who have signed a liquidity agreement with the Company in their capacity as holders of shares or stock-options in Orange S.A. (15 th resolution)	May 21, 2007	18 months November 20, 2008	200,000,000 ⁽²⁾	5,259,304 France Telecom shares were issued, corresponding to a capital increase of €21,037,216	€178,962,784
Delegation of authority to the Board of Directors to issue free option-based liquidity instruments reserved for holders of Orange S.A. stock-options who have signed a liquidity agreement with the Company. (16 th resolution)	May 21, 2007	18 months November 20, 2008	10,000,000 ⁽²⁾	—	€10,000,000 ⁽⁴⁾
Delegation of authority to the Board of Directors to increase the Company's capital through the incorporation of reserves, profits or additional paid-in capital. (19 th resolution)	May 21, 2007	26 months July 20, 2009	2 billion	—	€2 billion
Authorization granted to the Board of Directors to allocate stock-options on ordinary shares of the Company to members of staff and corporate officers. (20 th resolution)	May 21, 2007	38 months July 20, 2010	2% of share capital as at May 21, 2007, or €208,533,850.40	— ⁽⁵⁾	2% of share capital as at May 21, 2007, or €208,533,850.40
Delegation of authority to the Board of Directors to proceed with capital increases reserved for members of the France Telecom group savings plan. (21 st resolution)	May 21, 2007	26 months July 20, 2009	1 billion	—	€1 billion
Authorization granted to the Board of Directors to reduce share capital by canceling ordinary shares. (22 nd resolution)	May 21, 2007	18 months November 20, 2008	10% of share capital per 24-month period, or €1,042,669,252	—	€1,042,669,252

DELEGATIONS GRANTED BY THE ANNUAL SHAREHOLDERS' MEETING	Date of the Annual Shareholders' Meeting granting delegation	Duration of delegation and expiry date	Total amount of delegation (in euros)	Use of delegation over the year	Balance
Authorization granted to the Board of Directors to acknowledge capital increases resulting from the exercise of Wanadoo stock-options after assuming Wanadoo's commitments towards holders of options. (2 nd resolution)	September 1, 2004	Duration of validity of stock-option plans	Amount of stock-option plans up to €48,000,000	1,326,010 France Telecom shares were issued as a result of the exercise of options, resulting in a capital increase of €5,304,040	4,869,159 options can still be exercised entitling the holder to the same number of France Telecom shares with a face value of €4

(1) These amounts may not be accumulated.

(2) These amounts are within the overall limit for the maximum amount of capital increases, immediate and/or in the future, that may be carried out under these delegations, as set by the nineteenth resolution of the Annual Shareholders' Meeting of May 21, 2007, of 8 billion euros.

(3) Writing off of the total nominal amount of the capital increase against the maximum amount set by the ninth resolution of the Annual Shareholders' Meeting of May 21, 2007.

(4) In 2007, 6,258,131 France Telecom shares were issued as a result of the exercise of option-based liquidity instruments allocated in August 2005 on the foundation of the 32nd resolution voted by the Annual Shareholders' Meeting of April 22, 2005, resulting in a capital increase of 25,032,524 euros. In relation to this and given the number of remaining option-based liquidity instruments, 17,567,903 shares with a face value of 4 euros may still be issued.

(5) Allocation on May 21, 2007, in accordance with the fifth resolution voted by the Annual Shareholders' Meeting of September 1, 2004, of 10,093,300 stock-options representing 0.41% of the Company's share capital as at September 1, 2004. At the end of this new allocation and previous plans, the aforementioned delegation was used for 1.02% of the Company's share capital as at September 1, 2004. Following the early exercise of options on these plans by employees of Orange's mobile and Internet subsidiaries in the Netherlands sold on October 1, 2007, 91,640 France Telecom shares were issued, resulting in a capital increase of 366,560 euros.

2. INFORMATION WHICH COULD HAVE AN IMPACT IN CASE OF PUBLIC OFFER

In accordance with Article L. 225-100-3 of the French Commercial Code, to the Company's knowledge, the following information may have an impact in case of public offer:

- *The company's capital structure:* stock-option plans implemented by the Company or taken over by France Telecom (Wanadoo plans) offer an early exercise facility for 50 to 100% (depending on the plans) of options allocated, in the event of a change of control as a result of a public cash offer or mixed public cash and exchange offer. The exercise of all options issued would represent around 1.08% of the Company's share capital as at December 31, 2007.
- *Control mechanisms provided for in employee shareholding systems when rights of control are not exercised by employee shareholders:* regulations relating to the employee profit sharing funds (FCPE) of the Company (France Telecom Actions, France Telecom Actions 2004, France Telecom Actions 2005 and Orange Success 2007) require voting rights attached to shares held as fund assets to be exercised by the Supervisory Boards. In the absence of an express reference in the regulations to prior notice for holders, the Supervisory Boards are entitled to decide whether or not to tender shares held as fund assets to public cash or or exchange offers, in accordance with Article L. 214-40 of the French Monetary

and Financial Code. FCPE funds represent around 3.45% of the Company's capital after settlement and delivery of the 2007 offering reserved for employees.

- *Powers of the Board of Directors or Management Board, in particular the issuing or purchase of shares:* under the terms of the share buyback program approved by the Annual Shareholders' Meeting of May 21, 2007, shares may be purchased or transferred, including during a public offer provided that it is settled entirely in cash, subject to conditions and limits, particularly as regards volume and price, set out by regulations in force at the date of the operations in question.
- *Agreements made by the Company subject to change or termination in the event of a change of control:* The shareholders' agreement which governs the relationship between France Telecom and Orascom within Mobinil Telecommunication SAE (a company owning 51% of the share capital of Egyptian Company for Mobile Services (ECMS)), provides that in the event of a change of control of one of the parties, that party shall have a put option over its shares and the other party shall have a call option over the shares. See note 32.3 «commitments in respect of securities» to the consolidated financial statements.