



# Delivering NEX**T**

*February 14<sup>th</sup>, 2006*

## Cautionary Statement



- This presentation contains forward-looking statements and information on France Telecom's objectives, notably for 2006. Although France Telecom believes that these statements are based on reasonable assumptions, these forward-looking statements are subject to numerous risks and uncertainties and there is no certainty that anticipated events will occur or that the objectives set out will actually be achieved. Important factors that could result in material differences between the objectives presented and the actual results achieved include, among other things, changes in the telecom market's regulatory environment, competitive environment and technological trends, the success of the NEX**T** program and other strategic initiatives (based on the integrated operator model) as well as France Telecom's financial and operating initiatives, and risks and uncertainties attendant upon business activity, exchange rate fluctuations and international operations.
- All the financial information in this presentation is based on international financial reporting standards (IFRS) and present additional specific uncertainty factors given the risk of changes in IFRS standards.
- More detailed information on the potential risks that could affect France Telecom's financial results can be found in the Document de Référence filed with the Autorité des Marchés Financiers and in the Form 20-F filed with the U.S. Securities and Exchange Commission.



**Introduction: where are we?**

**Transform France Telecom to deliver NExT**

**2005 results and 2006 trends**

**Use of cash and conclusion**

**2005: Despite pressure on pro forma revenue growth, financial commitments achieved**



Organic Cash Flow*	▶	<b>EUR7.5 Bn</b>	→ Over FY05 target of “above 7 Bn euros” → EUR7.7 bn before payment of EUR256m fine
Revenues	▶	<b>EUR49,038 Bn</b> +2.5% PF* +6.2% actual	→ <b>84.3m total mobile clients</b> (+16.2% yoy PF*), 1.5m mobile broadband clients end of 05 → Stabilisation of ADSL market share in France, <b>1.6m Livebox in France</b>
GOM*	▶	<b>EUR18,563 Bn**</b>	→ In line with initial guidance (excluding EUR256m fine and Amena’s consolidation)
Capex	▶	<b>12.3% of revenues</b>	→ 6,045 Bn euros

\* See glossary

\*\*Excluding the EUR256m fine and the consolidation of Amena

## FY 2005: strong growth of net income group share



<i>Euro millions</i>	Actual FY04	Pro-forma* FY04	FY05	Actual % change	Proforma* % chg
<b>Revenues</b>	<b>46,158</b>	<b>47,841</b>	<b>49,038</b>	<b>+ 6.2%</b>	<b>+2.5%</b>
<b>Gross Operating Margin (including fine &amp; consolidation of Amena) As a % of revenues</b>	<b>17,923</b>	<b>18,264</b>	<b>18,416</b>	<b>+ 2.8%</b>	<b>+ 0.8%</b>
<b>G.O.M. rate before commercial expenses <i>Before EUR256m fine</i></b>	<b>38.8%</b>	<b>38.2%</b>	<b>37.6%</b>		
	<b>51.2%</b>	<b>50.5%</b>	<b>50.8%</b>		
			<b>51.4%</b>		
<b>Net Income, Group share</b>	<b>3,017</b>		<b>5,709</b>	<b>+ 89.2%</b>	

\* See glossary

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## FY 2005: Sound financial fundamentals, cash flow is maintained



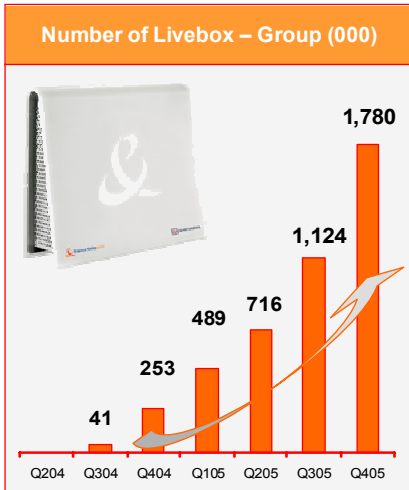
<i>Euro millions</i>	Actual FY04	Pro-forma* FY04	FY05
<b>CAPEX *</b>	<b>5,134</b>	<b>5,384</b>	<b>6,045</b>
<b>As a % of revenues</b>	<b>11.1%</b>	<b>11.3%</b>	<b>12.3%</b>
<b>Organic Cash Flow *</b>	<b>7,688</b>		<b>7,481</b>
<b><i>Before EUR256m fine</i></b>			<b>7,737</b>
		<b>FY 04</b>	<b>FY05</b>
<b>Net Debt /G.O.M.**</b>		<b>2.78x</b>	<b>2.48x**</b>

\* See glossary.

\*\*Net Debt end of the period / GOM including 12 months consolidation of Amena

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# 2005: France Telecom leader on broadband, has built a sound base for NExT



# 2005: first NExT rollouts



## Convergent offers

**Family Talk**

En famille, communiquez sans limites et sans soucis. Tout est inclus dans un forfait unique, même mobile et fixe !

29€

## Orange / Wanadoo UK home broadband offer

**broadband** terms apply

Up to 8 Meg for just £9.99

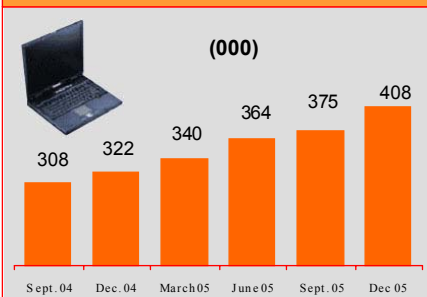
wanadoo

find out more

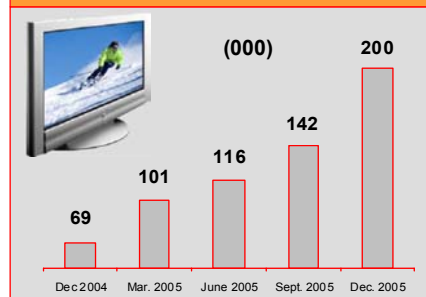
**Business Talk**

Offre de services de téléphonie fixe et de services de téléphonie mobile.

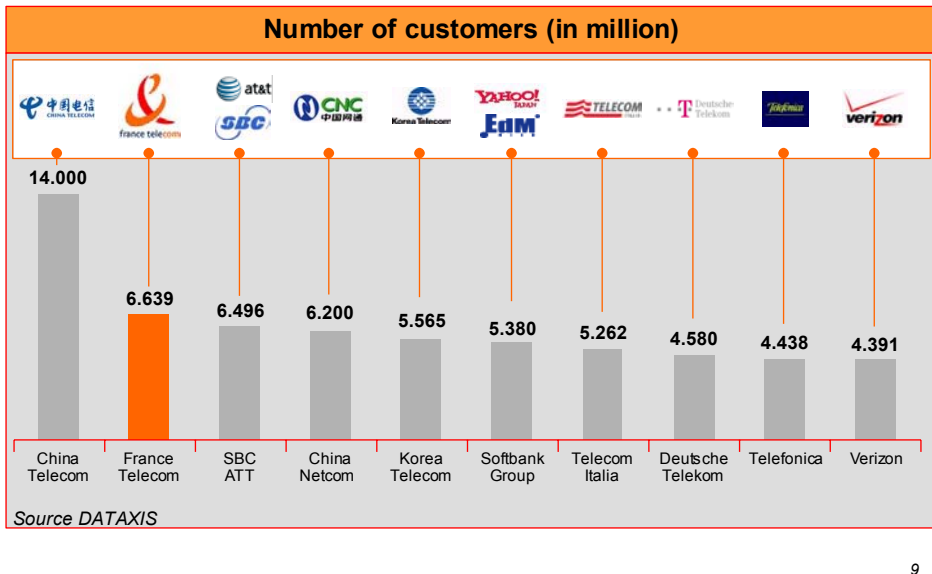
## Business Everywhere end users in France



## MaLigneTV

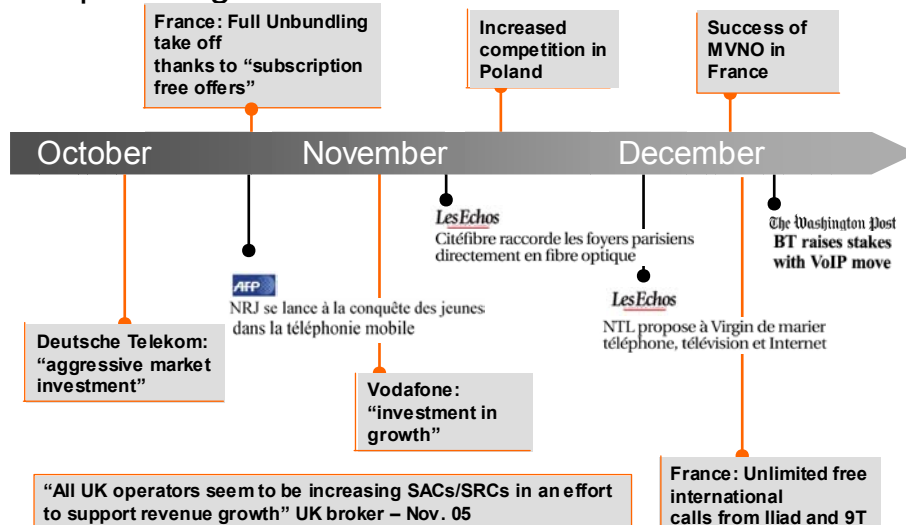


## 2005: France Telecom a major global player in broadband DSL access



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## What has changed since NExT announcement: competition gets fiercer



**A tougher competitive environment for 2006**

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## What has changed since NExT announcement: Regulatory evolution



“L’Autorité restera vigilante sur l’évolution de leurs accords avec les opérateurs de réseaux mobiles hôtes, qui ne laissent pas, aujourd’hui, assez de liberté aux **MVNO**”.

Paul Champsaur  
New year wishes for 2006  
January 2006

“ARCEP launches a public consultation on the market for **international roaming**. ARCEP considers that the retail prices that are billed for the use of a mobile phone abroad are particularly high”

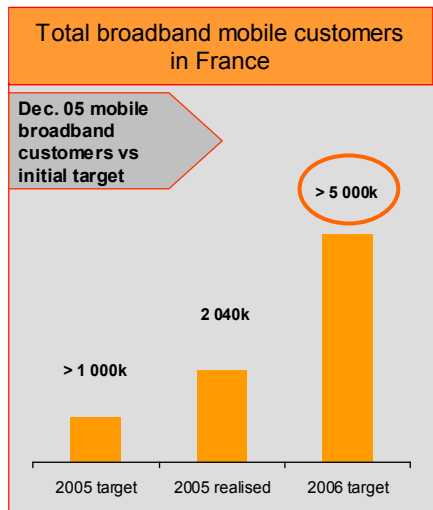
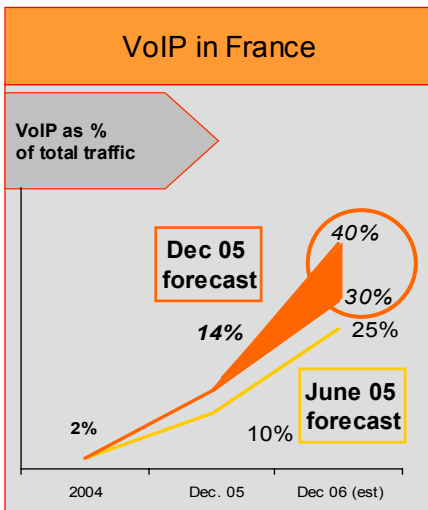
Dec 15<sup>th</sup>  
ARCEP Press Release

“ARCEP resolved the dispute according to the principles of equity, establishing an **SMS mobile termination rate** for all three mobile operators of 4.3 € cents excluding VAT, retroactively applicable beginning 1<sup>st</sup> July 2005.”

ARCEP Press Release  
Nov 17<sup>th</sup>, 2005

Additional constraints from regulators

## What has changed since NExT announcement: The broadband revolution

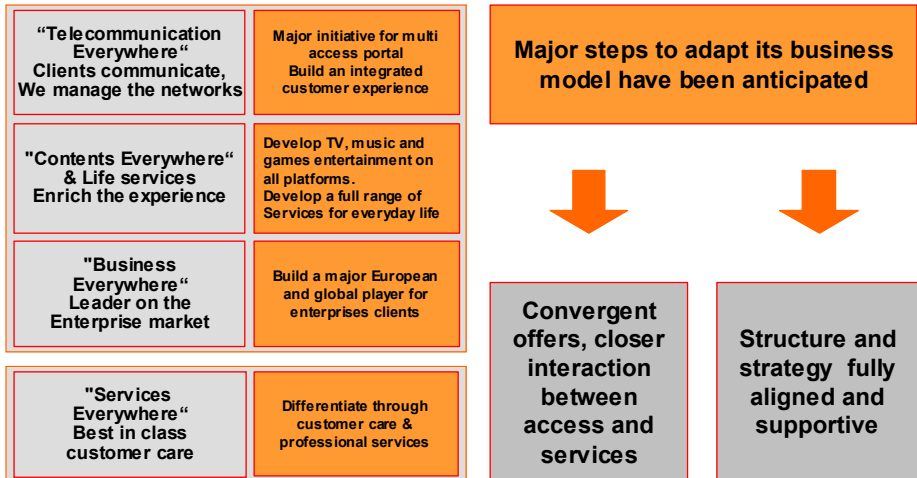


Accelerated changes in usage

# The vision is unchanged

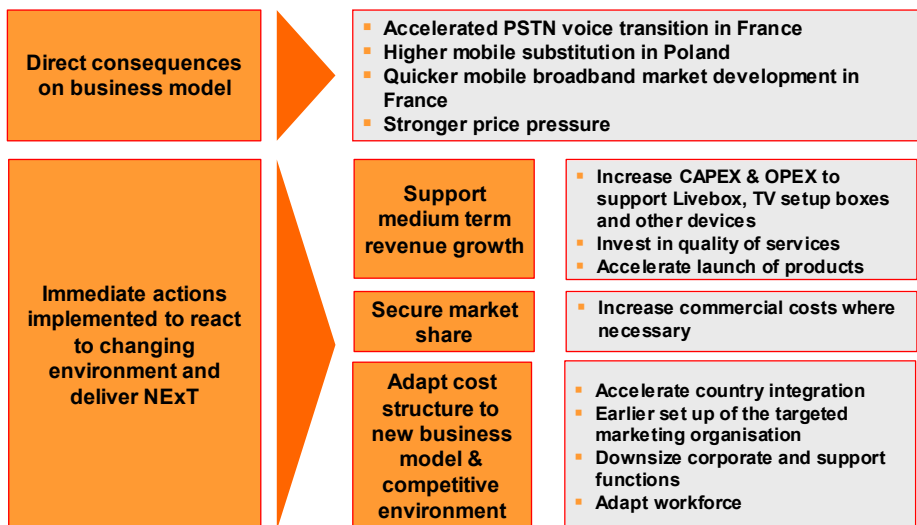


From June 2005



NEXt is designed to answer these changes

# 2006 main assessments and actions



France Telecom speeds up transformation



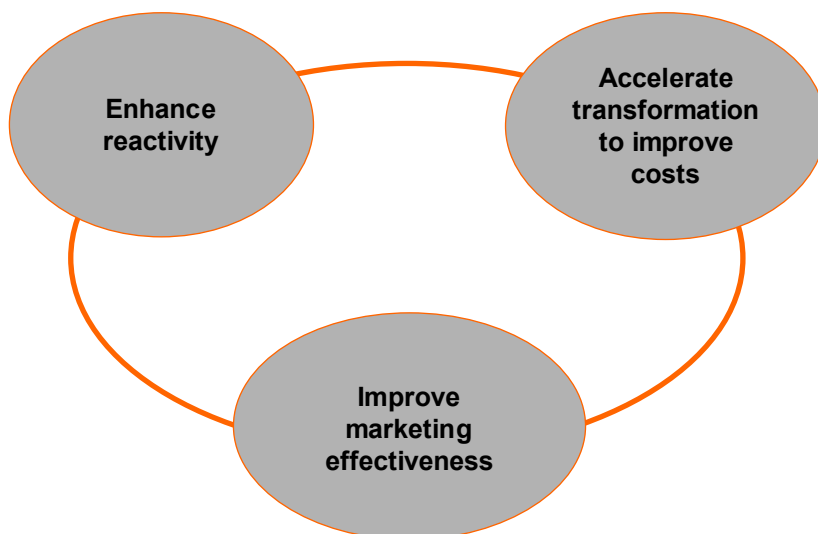
Introduction

**Transform France Telecom to deliver NExT**

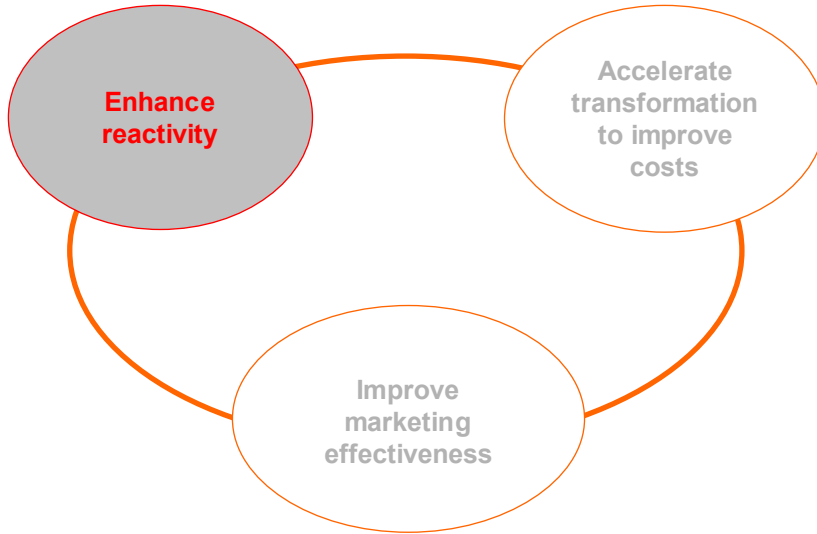
2005 results and 2006 trends

Use of cash and conclusion

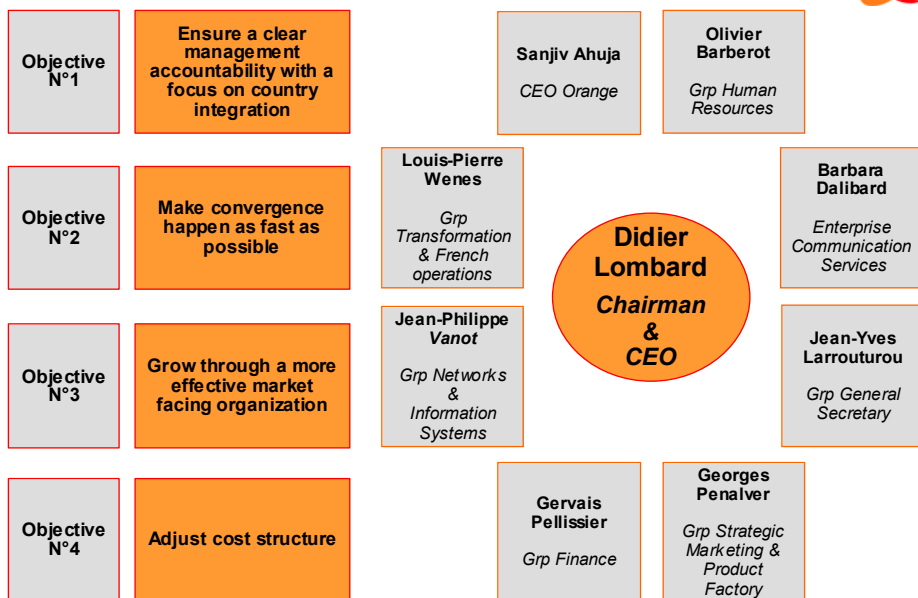
Three priorities



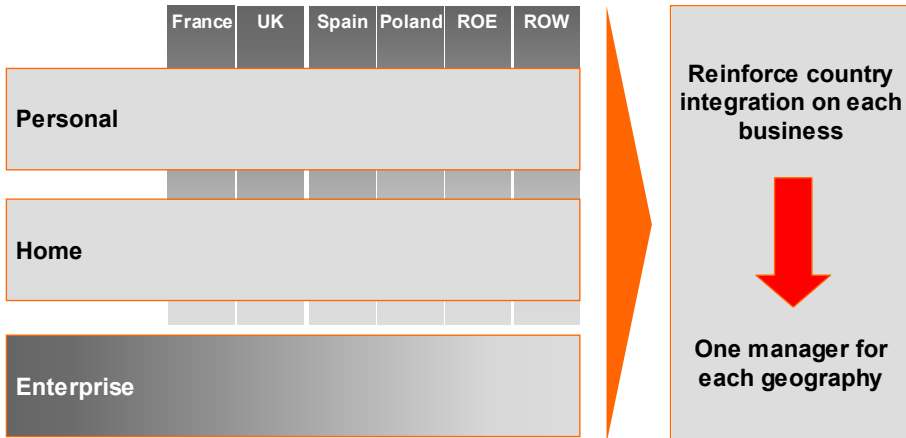
## Three priorities



## Tightened management organization



## Managing strong local businesses and taking advantage of global business lines



Group Management Committee will exercise its direct responsibility for of all group businesses on a geographical basis

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## Manage overall group key priorities



### → Organic Cash Flow generation

- Cash target for each entity
- CAPEX allowance to be released only after completion of specific milestone
- Management incentive based on Organic Cash Flow

### → Increase flexibility to improve reactivity (Opex) and speed up resource allocation if necessary

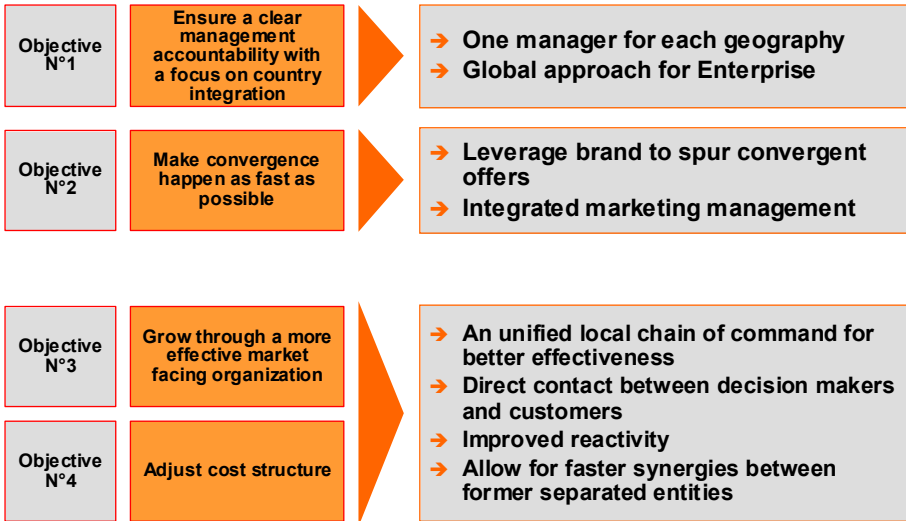
- Action plans to master risks and adjust costs

### → Develop and spur profitable growth opportunities on existing footprint

Manage to secure sustainable organic cash generation

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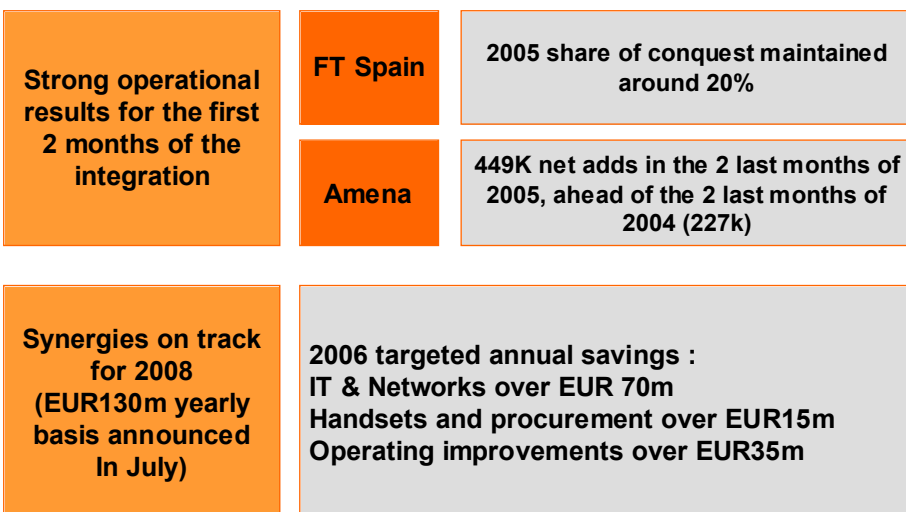
## Country integration to better serve the customer



A major step towards the integrated operator

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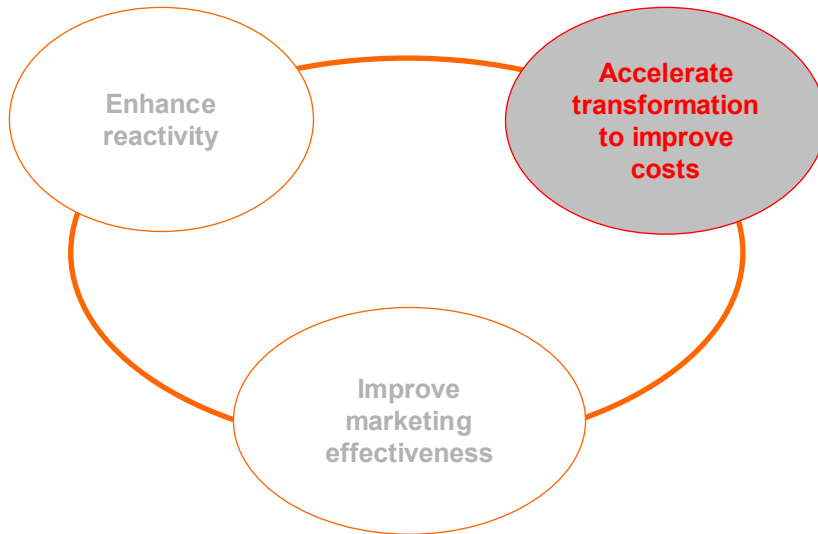
## Country integration: the example of Spain



Strong commercial performance and cost savings execution

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## Three priorities



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## Improve cost and marketing effectiveness



Create a group transformation team and a strategic marketing function

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## Group transformation:

### NExT commitment clustered into major objectives



Revenue and Finance	Product and services	Customer base	Customer relationship	Effectiveness & efficiency	Human Resources
Grow people intensive services revenue by over 50% by 2008	Develop a wide range of Every day life services	Over 12M BB, 85M Mobile and 1M Business Everywhere customers in '08	Achieve re-branding & implement cost savings	EUR 2 bn cumulated gain on sourcing & support functions	NExTHR & ACT
Slight decrease of revenues for enterprise with over 30% in ICT services	Over 30% mobile signature devices by 2008		20% of contact with self-care in 2008	Unified IT&N from 2006 and OPEX savings eq up to 2pp of EBITDA margin in 2008	
Over EUR 400m direct paid content revenues in 2008	Convergent offers 5% to 10% of group revenues in 2008		A multi channel strategy, operational by 2006 per country	Integrated processes and organization by end 2007 per country	
Boost revenue growth	Boost innovation with 2% of revenues on R&D		Best in class customer support, QoS and self-care	Improve time to market	
Sustain cash flow generation	Operate convergent portal & communication suite by '06				

A dedicated team with a robust roadmap

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## Group transformation:

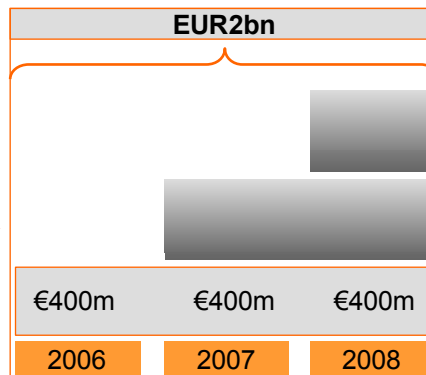
### Sourcing & support functions



#### Objective

EUR2bn target of cumulative through savings over 2006-2008 announced in June 2005

- Strategy of suppliers portfolio
- Sourcing initiatives
- Optimized country structure
- E-buro
- IT&N



EUR1.2bn cumulated savings over the period thanks to EUR400m sourcing gains in 2006

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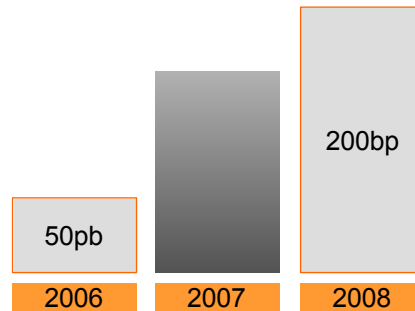
## Group transformation: IT & Networks



### Objective

200 bp of EBITDA margin gain before end of NExT

- Capacity Management
- Sourcing actions
- Cost assurance
- International voice traffic internationalization
- Lean Management
- Country integration
- Data Center consolidation



2006 short term target 50 bp on Opex gain

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## Group transformation: Human resources and ACT



### Efficiency

- Adapt workforce to industry transformations
- Transfer support functions to customer services

Increase targeted trainings

- Align employees incentive with NExT objectives

Organic Cash Flow targets

### Headcounts

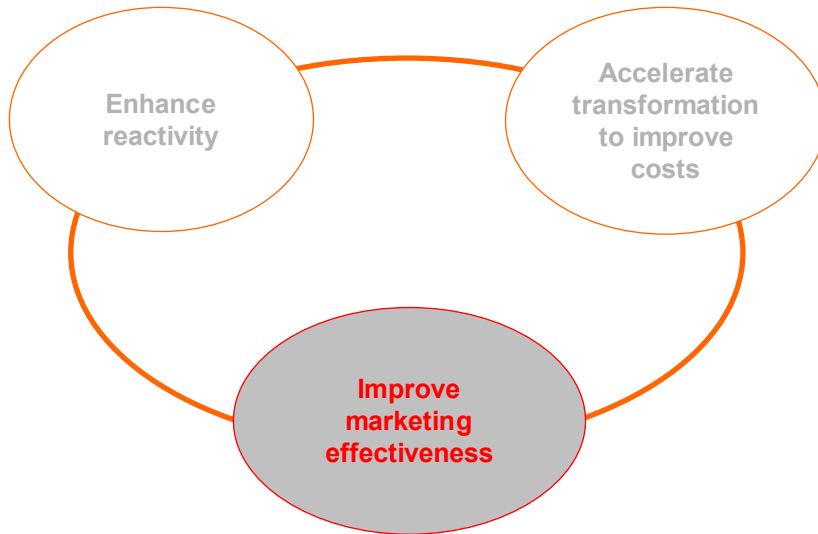
- 2006-2008: Continue headcount adaptation in France in spite of hiring new skills

Around 17,000 net reduction including 22,000 departure in France

“The right skill in the right place”

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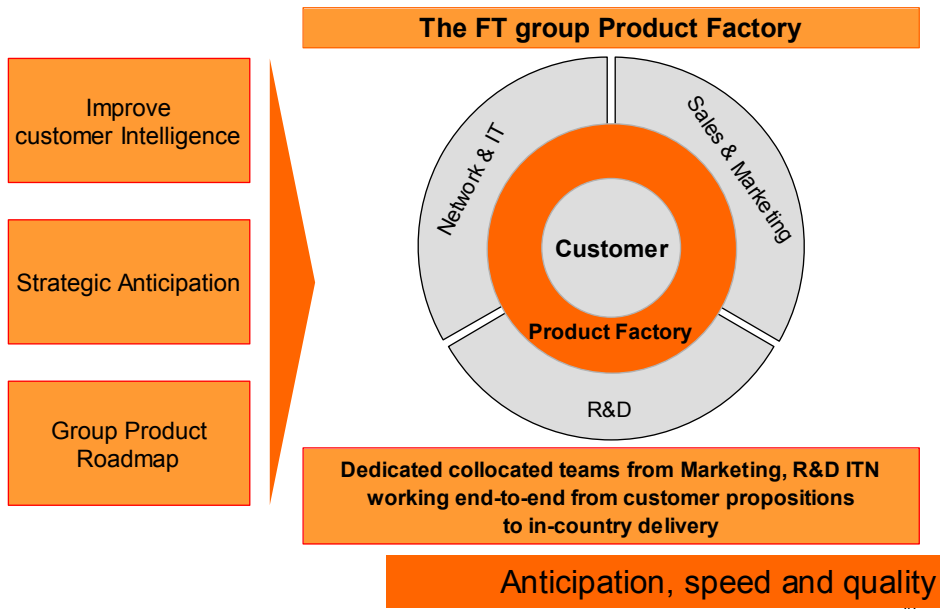
## Three priorities



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## Group strategic marketing

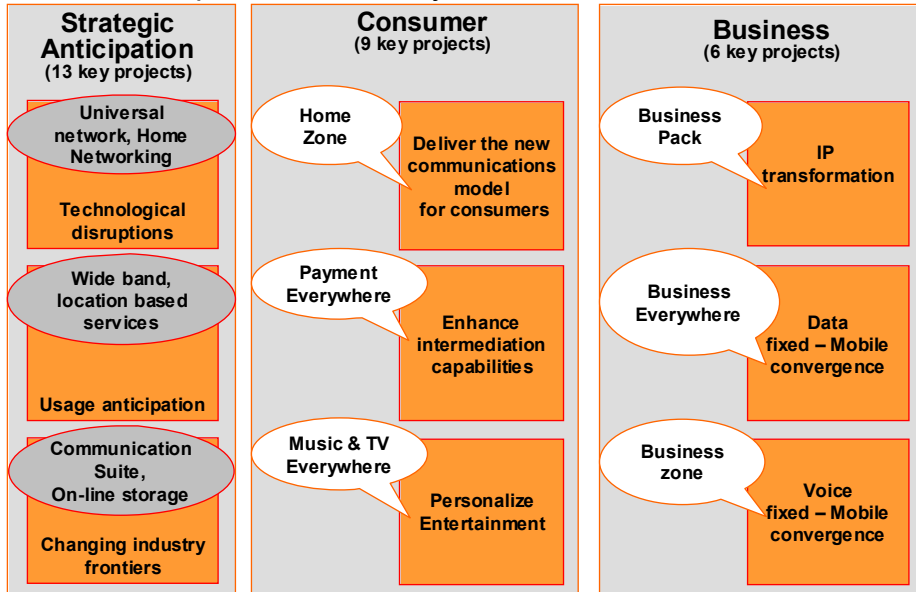
Quicker and better on the market



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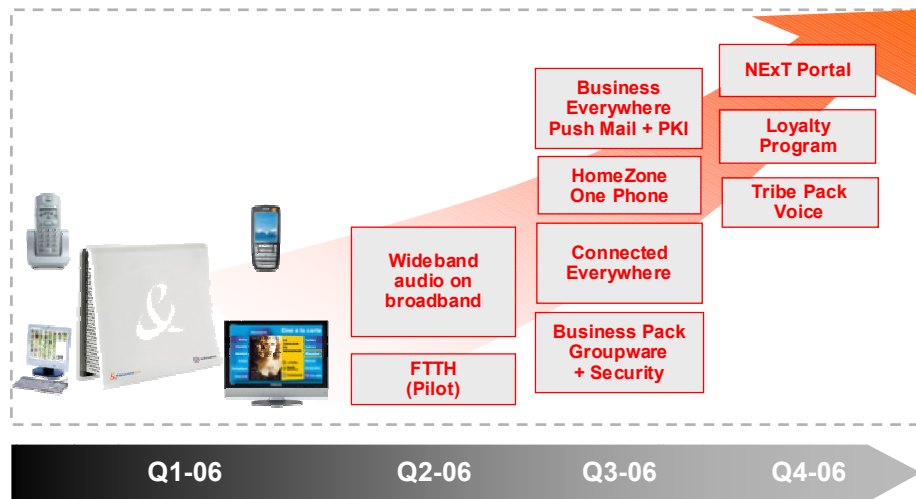
# Group strategic marketing

## The FT Group Product Factory



# Group strategic marketing

## The Group Product Factory NEXt deliveries





→ **Strategic framework confirmed**

→ **Management streamlined and focused on delivery**

→ **Commercial efficiency enhanced**

**Towards the integrated operator**