



This English language translation of France Telecom's 2004 *Document de Référence* is comprised of two volumes:

- **This document**
- **The financial report
(Chapter 5—Financial Situation and Results)**

FRANCE TELECOM

Société anonyme with capital of € 9,869,333,704
Registered Office : 6 place d'Alleray 75505 Paris Cedex 15
Paris Business Registry No. 380 129 866

2004 *Document de Référence*

This document constitutes the English language translation of France Telecom's 2004 *Document de Référence*, which was filed with the *Autorité des Marchés Financiers* on March 2, 2005 in accordance with article 211-6 of the AMF General Regulation

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PRESENTATION OF INFORMATION

- As used herein, unless otherwise indicated, the terms "Company" and "France Télécom S.A." refer to France Telecom S.A. and the terms "France Télécom", the "Group", and the "France Télécom Group" refer to France Télécom S.A. together with its consolidated subsidiaries.
- As used herein, unless otherwise indicated, the term "Orange" refers to Orange S.A. together with its consolidated subsidiaries, the term "Wanadoo" refers to Wanadoo S.A. together with its consolidated subsidiaries, the term "PagesJaunes" refers to PagesJaunes S.A., which became the PagesJaunes Group in December 2004 together with its consolidated subsidiaries, the term "Equant" refers to Equant N.V. together with its consolidated subsidiaries and the term "TP Group" refers to Telekomunikacja Polska S.A. (TP S.A.) together with its consolidated subsidiaries.
- Wanadoo S.A. was listed on the First Market of Euronext Paris up until July 2004. France Télécom launched a public tender and exchange offer for the Wanadoo S.A. shares that it did not hold in February 2004 and then a public withdrawal offer followed by a mandatory withdrawal in June 2004. Following these transactions, France Télécom held 100% of Wanadoo S.A.'s share capital. Wanadoo S.A. together with its subsidiary Wanadoo France merged with France Télécom S.A. in September 2004.
- The shares in the company PagesJaunes S.A. were first listed on the First Market of Euronext Paris in July 2004. France Télécom held 62% of the share capital in the PagesJaunes Group as at December 31, 2004 (See section 7.1 "Recent Events"). In December 2004, PagesJaunes S.A.'s mixed shareholders' meeting approved the restructuring of the PagesJaunes Group and the change in the parent company's corporate name to PagesJaunes Group. This company will publish a *Document de Référence*, which will be registered with the French *Autorité des marchés financiers*. For more information on its activities, the reader should refer to this *Document de Référence*.
- The companies in the France Télécom Group own or hold the intellectual property rights relating to brands, commercial and trade names, including those mentioned in this *Document de Référence*, set forth in Section 4.8 "Intellectual Property", which they use in their commercial activities as well as in the sale of their products or services.
- This *Document de Référence* contains statements regarding France Télécom's objectives, including, without limitation, certain statements made in sections 4.2 "Strategy" and 7.2 "Future Prospects". These statements can be identified by the use of forward-looking terminology, including the terms "believes", "expects", "should", "estimates" or "may". These forward-looking statements include statements that are not statements of historical facts and are not guarantees that the forward-looking information will prove accurate or that the desired results will be achieved. The anticipated results may not be realized or the assumptions on which they are based may prove to be erroneous.
- This *Document de Référence* also contains information relating to the markets in which France Telecom operates. Certain information was provided by external sources. Due to the rapid changes in the telecommunications industry, it is possible that some of this information is erroneous or no longer accurate. The activities of France Telecom may, as a result, evolve differently than as described in this *Document de Référence* and statements or information contained in this document may prove to be erroneous. France Telecom does not undertake to update any forward-looking statement to reflect the occurrence of unanticipated events.

Chapter 1

PARTIES RESPONSIBLE FOR THE *DOCUMENT DE REFERENCE* AND AUDITING OF THE ACCOUNTS

1.1 PARTY RESPONSIBLE FOR THE DOCUMENT DE REFERENCE

Didier Lombard, Chairman and Chief Executive Officer

1.2 ATTESTATION OF THE PARTY RESPONSIBLE FOR THE DOCUMENT DE REFERENCE

“To our knowledge, the information presented in this *Document de Référence* is true and accurate. Such information provides investors with all of the necessary elements on which to base a judgment on the assets, activity, financial situation, results and prospects of France Telecom. It does not omit any information which would be likely to alter its meaning.”

Didier Lombard
Chairman and Chief Executive Officer

1.3 PARTIES RESPONSIBLE FOR AUDITING THE ACCOUNTS

1.3.1 NAMES OF THE PARTIES RESPONSIBLE FOR AUDITING THE ACCOUNTS

Statutory Auditors

Ernst & Young Audit
Represented by Christian Chiarasini
4, rue Auber – 75009 Paris

Deloitte & Associés
Represented by Etienne Jacquemin and Jean-Paul Picard
185, avenue Charles de Gaulle
92524 Neuilly sur Seine Cedex

Deputy Statutory Auditors

Auditex
Tour Ernst & Young
Faubourg de l'Arche
11, allée de l'Arche
92037 Paris La Défense Cedex

BEAS
7-9, villa Houssay
92524 Neuilly sur Seine Cedex

1.3.2 START DATE OF FIRST TERM AND EXPIRATION DATE OF TERM

Statutory Auditors

Ernst & Young Audit was appointed by Government decree on September 18, 1991. Ernst & Young Audit's term of office was renewed by Government decree on May 14, 1997 and again on May 27, 2003, for a period of six financial years.

Deloitte Touche Tohmatsu (currently known as Deloitte & Associés) was appointed by Government decree on May 27, 2003 for a period of six financial years.

Their terms of office will expire at the close of the shareholders' meeting convened to approve the accounts for the financial year ended December 31, 2008.

Deputy Statutory Auditors

Auditex and BEAS were appointed by Government decree on May 27, 2003 for a period of six financial years.

Their terms of office will expire at the close of the shareholders' meeting convened to approve the accounts for the financial year ended December 31, 2008.

CHAPTER 1

1.4 ATTESTATION OF THE STATUTORY AUDITORS

This is a free translation into English of the statutory auditors' attestation on the Document de Référence issued in the French language and is provided solely for the convenience of English speaking readers. Accounting principles and auditing standards and their application in practice vary among countries. The financial statements referred to in this attestation are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than France. In addition, the procedures and practices utilised by the statutory auditors in France with respect to financial statements included in a Document de Référence may differ from those generally accepted and applied by auditors in other countries. Accordingly, the French financial statements and this attestation of which a translation for convenience purposes only is presented in this Document de Référence are for use by those knowledgeable about French accounting procedures, auditing standards and their application in practice.

As statutory auditors of France Telecom and in accordance with article 211-5-2 of the *Autorité des marchés financiers* (AMF) General Regulation, we have performed in compliance with professional standards applicable in France procedures on the information relating to the financial position and historical financial statements of France Telecom contained in the *Document de Référence*.

This *Document de Référence* has been prepared under the responsibility of the Chairman of the Board of directors of France Telecom. Our responsibility is to report on the fairness of the information presented in the *Document de Référence* relating to the financial position and financial statements of France Telecom.

We have performed our work in accordance with professional standards applicable in France. Those standards require that we assess the fairness of the information presented relating to the financial position and the financial statements and its consistency with the financial statements on which a report was issued. Our procedures also include reading the other information contained in the *Document de Référence* in order to identify any material inconsistencies with the information relating to the financial position and the financial statements and to report any manifest misstatement of facts that we may have uncovered based on our general knowledge as Statutory Auditors of the company. Prospective data included in this *Document de Référence* correspond to management's objectives and not to forecast data derived from a structured planning process.

The statutory and consolidated financial statements of France Telecom for the year ended December 31, 2002, as approved by the Board of Directors, were audited in accordance with professional standards applicable in France. Ernst & Young Audit and RSM Salustro Reydel issued an unqualified opinion thereon.

In their audit reports on the statutory and consolidated financial statements for the year ended December 31, 2002, they draw attention to notes 2.1 of the statutory and consolidated financial statements that present the change in accounting method arising from the first-time application as from 1 January 2002, of rule CRC 00-06 on liabilities, which has no impact on net income and shareholders' equity.

With regard to the information relating to the financial position and financial statements subject to pro forma adjustments, their procedures consisted in assessing whether the conventions used are coherent and provide a reasonable basis for the presentation of this information, verifying the accounting of such conventions, ensuring the consistency of accounting methods applied for such information with those applied for the preparation of the most recent audited financial statements, and, as appropriate, verifying their consistency with the financial statements shown in the *Document de Référence*.

Based on the procedures performed, no other matters were reported regarding the fairness of the information relating to the financial position and financial statements of France Télécom presented in the *Document de Référence*.

The statutory and consolidated financial statements of France Telecom for the years ended December 31, 2003 and 2004, as approved by the Board of Directors, were audited by us in accordance with professional standards applicable in France. We issued an unqualified opinion thereon, with the following observations:

In our report on the consolidated financial statements for the year ended December 31, 2003, we draw your attention to notes 2.4 of the consolidated financial statements that present the change in accounting method for the sale of advertisements in electronic directories.

CHAPTER 1

In our report on the consolidated financial statements for the year ended December 31, 2004, we draw your attention to the following points:

- The change in accounting method described in Note 2.1 regarding the accounting for and measurement of pension obligations and similar benefits, the consolidation of certain entities, and the accounting treatment for reductions of price or free products or services granted by companies to their customers, required respectively by the provisions of CNC Recommendation 2003-R01 of April 1, 2003, the provisions of CRC Regulation 04-03 of May 4, 2004, and the provisions of Opinion No. 2004-E of October 13, 2004 issued by the Urgent Issues Taskforce,
- The European Commission decision with respect to business license tax as described in Note 29, which specifies that the request formulated by the European Commission qualifies as a contingent liability as defined by Article 212-4 of French Chart of Accounts.

With regard to the information relating to the financial position and financial statements subject to pro forma adjustments, our procedures consisted in assessing whether the conventions used are coherent and provide a reasonable basis for the presentation of this information, verifying the accounting of such conventions, ensuring the consistency of accounting methods applied for such information with those applied for the preparation of the most recent audited financial statements, and, as appropriate, verifying their consistency with the financial statements shown in the *Document de Référence*.

Based on the procedures performed, we have nothing to report regarding the fairness of the information relating to the financial position and financial statements of France Telecom presented in this *Document de Référence*.

With respect to the pro forma information relating to France Telecom presented in this *Document de Référence*, it should be noted that the purpose of such information is to reflect the impact on historical financial and accounting information of the completion, at a date prior to its actual or reasonable foreseeable occurrence, of a given transaction or event. However, such information is not necessarily representative of the financial position or performance which would have been recorded had the transaction or event occurred at a date prior to that of its actual or reasonably foreseeable occurrence".

Neuilly-sur-Seine and Paris la Défense, March 2, 2005

The Statutory Auditors

DELOITTE & ASSOCIÉS
French original signed by
Etienne Jacquemin Jean-Paul Picard

ERNST & YOUNG AUDIT
French original signed by
Christian Chiarasini

The *Document de Référence* moreover includes:

- The Statutory Auditors' general report and report on the consolidated financial statements as at December 31, 2004 (respectively set out under sections 5.1 and 2.1 of the Financial Report) explaining how the Statutory Auditors arrived at their assessments in accordance with the requirements of the article L.225-235 of the French Commercial Code,
- The Statutory Auditors' report (included in the Exhibits of this *Document de Référence*), drawn up according to the last paragraph of article L.225-235 of the French Commercial Code, on France Telecom S.A.'s Chairman of the Board of Directors' report describing the internal audit procedures used in relation to preparing and processing accounting and financial information for the financial year ended December 31, 2004.

1.5 ADDITIONAL INFORMATION

1.5.1 PARTY RESPONSIBLE FOR INFORMATION

Michel Combes
Chief Financial Officer
6, Place d'Alleray
75505 Paris Cedex 15
Telephone: (33) (0)1-44-44-22-22

CHAPTER 1

1.5.2 FINANCIAL COMMUNICATIONS CALENDAR

The financial communications calendar for 2005 is anticipated to be as follows:

February 10, 2005	Publication of Results for Financial Year 2004
Mid-April 2005	Presentation of 2004 Results in accordance with International Financial Reporting Standards (IFRS)
April 22, 2005	Ordinary and Extraordinary Shareholders' Meeting
End of April 2005	Publication of 1Q 2005 revenues
End of July 2005	Publication of preliminary first-half 2005 results
End of September 2005	Publication of final first-half 2005 results
End of October 2005	Publication of 3Q 2005 revenues

Chapter 2

INFORMATION RELATING TO THE TRANSACTION

Not applicable.

Chapter 3

GENERAL INFORMATION ABOUT THE COMPANY AND ITS SHARE CAPITAL

3.1 GENERAL INFORMATION ABOUT THE COMPANY

3.1.1 COMPANY NAME AND REGISTERD OFFICE

"France Telecom"
6, place d'Alleray, 75015 Paris

3.1.2 LEGAL STATUS AND APPLICABLE LAW

France Telecom, which was formerly part of the French Postal and Telecommunications Ministry, was formed as a public operator on January 1, 1991. Having become a *société anonyme* pursuant to French law no. 96-660 of July 26, 1996, France Telecom S.A. is governed by French corporate law, subject to specific laws governing the Company, particularly French law no. 90-568 of July 2, 1990 relating to the organization of public postal and telecommunications services, as amended by French law no. 96-660 of July 26, 1996 and by French law no. 2003-1365 of December 31, 2003. France Telecom is also regulated by its by-laws.

The transfer from the public sector to the private sector of France Telecom S.A., authorized by decree no. 2004-387 of May 3, 2004 issued pursuant to French law no. 2003-1365 of December 31, 2003, took place on September 7, 2004 following the sale by the French state of 10.85% of France Telecom S.A.'s share capital.

The regulations applicable to France Telecom S.A. as an operator are set forth in section 4.13 "*Regulations*".

3.1.3 DATE OF INCORPORATION AND DURATION

France Telecom S.A. was incorporated for a duration of 99 years from December 31, 1996. Barring early liquidation or extension, the company will expire on December 31, 2095.

3.1.4 CORPORATE PURPOSE

France Telecom S.A.'s corporate purpose, in France and abroad, in conformity with the French Postal and Telecommunications Code, is:

- to provide all electronic communication services in internal and international relations;
- to carry out activities related to public service and, in particular, to provide, where applicable, a universal telecommunications service and other mandatory services;
- to establish, develop and operate all electronic communications networks open to the public necessary for providing said services and to interconnect the same with other French and foreign networks open to the public;
- to provide all other services, facilities, handset equipment, electronic communications networks, and to establish and operate all networks distributing audiovisual services, and especially radio, television and multimedia broadcasting services;
- to set up, acquire, rent or manage all real estate or other assets and businesses, to lease, install and operate all structures, businesses, factories and workshops related to any of the purposes defined above;
- to obtain, acquire, operate or transfer all processes and patents related to any of the purposes defined above;
- to participate directly or indirectly in all transactions that may be related to any of the purposes defined above, through the creation of new companies or enterprises, the contribution, subscription or purchase of securities or corporate rights, acquisitions of interests, mergers, partnerships, or any other means;
- and, more generally, all industrial, commercial and financial transactions, or transactions involving movable or fixed assets, that may be related directly or indirectly, in whole or in part, to any of the aforementioned corporate purposes, or to any similar or related purposes, or to any and all purposes that may enhance or develop the business of France Telecom S.A.

3.1.5 TRADE REGISTER AND APE CODE

Trade Register no.: 380 129 866 R.C.S. Paris
APE Code: 642 C

CHAPTER 3

3.1.6 CONSULTATION OF LEGAL DOCUMENTS

All shareholders are entitled to access the documents necessary to allow them to have full knowledge of relevant facts and make an informed judgment concerning the management and operation of France Telecom S.A.

The nature of these documents and the conditions under which they are mailed or made available are set by law.

All of the legal documents relating to France Telecom S.A. which must be provided to shareholders, as required by applicable regulations, may be consulted at the Legal Department of France Telecom S.A., 208, rue Raymond Losserand, 75014 Paris.

3.1.7 FINANCIAL YEAR

The financial year is twelve months, beginning January 1 and ending December 31 of each year.

3.1.8 DETERMINATION, ALLOCATION AND DISTRIBUTION OF EARNINGS – DIVIDEND PAYMENT CONDITIONS – INTERIM DIVIDENDS

Allocation of Earnings

The income statement, which summarizes the income and expenses for the financial year, shows, after deduction of depreciation and amortization and provisions, the profit or loss for the year.

Of the earnings for the financial year less prior losses, if any, at least 5% is set aside to fund the legal reserve. This withdrawal ceases to be mandatory when the reserve reaches one-tenth of the share capital; it resumes when, for any reason, the legal reserve falls below this one-tenth figure.

Distributable profits consist of the profits for the year, less prior losses, plus the amounts to be placed in reserves as required by law or the by-laws, plus retained earnings. The shareholders' meeting may withdraw from these earnings any sums it deems appropriate to allocate to any optional reserves or to carry forward to the next financial year.

Moreover, the shareholders' meeting may decide to distribute sums taken from reserves at its disposal, expressly indicating the reserve items from which such withdrawals are made. However, dividends shall first be taken from the distributable earnings for the year.

Except in the case of a capital reduction, no distribution may be made to shareholders when shareholders' equity is or would, as a result of such a distribution, be less than the amount of capital plus reserves which the law or the by-laws prohibit from being distributed. The re-evaluation variance may not be distributed; it may be incorporated, in whole or in part, into the capital.

Payment of Dividends – Interim Dividends

The terms and conditions for the payment of dividends approved by the shareholders' meeting are determined by the meeting or, in lieu thereof, by the board of directors. However, cash dividends must be paid within a maximum of nine months after the close of the financial year, unless extended by court order.

The ordinary shareholders' meeting may grant each shareholder, for all or part of the dividends to be distributed, an option between payment of the dividend in cash or in shares, subject to any legal requirements.

Interim dividends may be distributed before the approval of the financial statements for the year when the balance sheet established during or at the end of a financial year and certified by an auditor, shows that the company has made a profit since the close of the last financial year, after recognizing the necessary depreciation and provisions and after deducting prior losses, if any, and the sums to be allocated to reserves, as required by law or the by-laws, and including any retained earnings. The amount of such interim dividends may not exceed the amount of the profit so defined.

Dividends not claimed within five years after the payment date shall be deemed to expire.

3.1.9 RELATIONSHIP WITH THE FRENCH STATE

Until the adoption of French law no. 2003-1365 of December 31, 2003 and decree no. 2004-387 of May 3, 2004, the French State was required to hold, directly or indirectly, more than half of the share capital of France Telecom S.A. In this context, France Telecom S.A. was subject to various State control procedures. Moreover, France Telecom S.A.'s auditors were appointed by Government decree and the composition of the board of directors was determined by specific rules (see section 6.1.1 "Board of Directors").

CHAPTER 3

Following the transfer by the French State of 10.85% of the share capital of France Telecom S.A. on September 7, 2004, these specific procedures no longer apply. Nevertheless, pursuant to the Decree-Law of October 30, 1935, the board of directors must still include representatives of the French State pro rata to the number of France Telecom shares held by the State. In addition, the French State, in its capacity as principal shareholder, has in practice (given the low level of participation in shareholders' meetings and the absence of other significant shareholding blocks) the power to determine the outcome of the shareholders' vote for the election of directors and, more generally, for any issue put to a vote at a shareholders' meeting.

Moreover, the French State's various agencies constitute France Telecom's largest customer group. France Telecom provides the French State with telecommunications services at market prices.

France Telecom also performs, at the French State's request, various public service obligations specified in articles L.35 and L.35-6 of the French Postal and Telecommunications Code, and receives a fair remuneration.

3.1.10 SHAREHOLDERS' MEETINGS

Shareholders' Meetings and Voting Rights

Shareholders' meetings are composed of all shareholders whose shares are paid up and have been registered in an account prior to the date of the meeting in accordance with the following conditions:

- In order to attend, vote by mail or be represented at the meetings, owners of bearer shares or shares registered in an account not held by France Telecom S.A. must deposit a certificate issued by the intermediary holding their account, confirming the non-transferability of the shares until the date of the meeting, at the locations indicated in the notice of meeting, by no later than 3 p.m. (Paris time) the day before the meeting.
- In order to attend, vote by mail, or be represented at the meetings, owners of shares registered in an account held by France Telecom S.A. must have their shares registered in such company-held account by no later than 3 p.m. (Paris time) on the day before the meeting.

The board of directors may shorten or eliminate the deadline for the receipt of the certificates of non-transferability described above.

Access to shareholders' meetings is open to shareholders, and to their proxies and representatives registered upon simple proof of their status and identity. If it sees fit to do so, the board of directors may distribute personalized admission cards to shareholders and require them to produce these cards at the meeting.

Shareholders participating via video-conferencing or other means of telecommunications that allow identification shall be deemed present for the calculation of quorum and majority of shareholders' meetings.

The board of directors organizes, in accordance with legal and regulatory requirements, the participation and vote of these shareholders at the meeting, assuring, in particular, the effectiveness of the means of identification.

Any shareholder may, in accordance with legal and regulatory requirements, vote without attending the meeting or by proxy by granting a proxy to their spouse or to another shareholder in order to be represented at a shareholders' meeting.

Shareholders may, in accordance with legal and regulatory requirements, send their vote or proxy together with a document attesting to their status as a shareholder, either by hard copy or via other means of telecommunications, until 3 p.m. (Paris time) the day before the meeting. Transmission methods are set forth by the board of directors in the notice of meeting and the notice to attend.

The board of directors may shorten or eliminate the deadline for receipt of such votes or proxies.

Shareholders who are not resident in France may be represented at a shareholders' meeting by a registered intermediary who may participate subject to legal requirements.

Notice of Meetings

Shareholders' meetings are convened by the board of directors, or, failing that, by the auditors, or by any person empowered for this purpose. Meetings are held at the registered offices or any other location indicated in the notice to convene.

Notices must be given at least 15 days before the date of the meeting. When the shareholders' meeting cannot deliberate due to the lack of the required quorum, the second meeting and, if applicable, the second postponed meeting, must be called at least six days in advance in the same manner as used for the first notice.

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Agenda and Conduct of the Shareholders' Meetings

The agenda of the shareholders' meeting shall appear in the notice to convene for meeting and is set by the author of the notice.

The shareholders' meeting may only deliberate on the items on the agenda.

One or more shareholders representing the percentage of capital required by law, and acting in accordance with legal requirements and within applicable time limits, may request the inclusion of proposed resolutions on the agenda.

An attendance sheet containing the information required by law shall be kept at each shareholders' meeting.

Shareholders' meetings shall be chaired by the Chairman of the board of directors or, in his or her absence, by a director appointed for this purpose by the board of directors; failing which, the meeting itself shall elect a chairman.

Vote counting shall be performed by the two members of the meeting who are present and accept such duties, who represent, either on their own behalf or as proxies, the greatest number of votes.

The officers shall name a secretary, who does not have to be a shareholder.

The mission of the meeting's officers is to verify, certify and sign the attendance sheet, ensure the proper conduct of debates, settle any incidents occurring during the meeting, check the votes cast and ensure their legality and ensure that minutes of the meeting are drawn up.

The minutes shall be prepared, and copies or excerpts of the deliberations shall be issued and certified as required by law.

Ordinary Shareholders' Meeting

Ordinary shareholders' meetings are those meetings called to make any and all decisions that do not amend the by-laws. An ordinary meeting shall be convened at least once a year within six months of the end of each financial year in order to approve the annual and consolidated accounts for the year in question or, in case of postponement, within the period established by court order.

On the first convocation, the meeting may validly deliberate only if the shareholders present or represented by proxy or voting by mail represent at least one-quarter of the shares entitled to vote. Upon the second convocation, no quorum is required. Decisions are made by a majority of votes held by the shareholders present, represented by proxy, or voting by mail.

Extraordinary Shareholders' Meeting

Only the extraordinary shareholders' meeting is authorized to amend any and all provisions of the by-laws. It may not, however, increase shareholder commitments, except for properly executed transactions resulting from a share consolidation.

Subject to the legal provisions governing capital increases from reserves, profits or share premiums, the deliberations of the extraordinary meeting shall be valid only if the shareholders present, represented by proxy or voting by mail represent at least one-third of all shares entitled to vote when convened for the first time, or one-fourth when convened for the second time. If the latter quorum is not reached, the second meeting may be postponed to a date no later than two months after the date for which it was called.

Subject to the same condition, the second meeting shall make decisions by a two-thirds majority of the shareholders present, represented by proxy, or voting by mail.

Conditions for exercising voting rights

In all shareholders' meetings, each shareholder who is participating at such meetings has the same number of votes as shares held or represented, with no further limitations other than those stipulated by law. There is no clause in the by-laws for double or multiple voting rights for France Telecom S.A. shareholders.

3.1.11 TRANSFER AND CONVEYANCE OF SHARES

Shares are freely negotiable, subject to applicable legal and regulatory provisions. They shall be registered in a share account and are transferred by means of a transfer order from account to account.

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3.1.12 DECLARATION OF STATUTORY THRESHOLD REQUIREMENTS

In addition to the legal obligation to report to France Telecom S.A. and the AMF when the thresholds of 5%, 10%, 20%, 33 ⅓%, 50% and 66 ⅔% of the share capital or voting rights are crossed, any individual or legal entity, acting alone or in concert with others, who acquires, directly or indirectly (as defined by Articles L. 233-7 *et seq.* of the French Commercial Code) a number of shares, voting rights or securities representing shares equal to 0.5% of the share capital or voting rights in France Telecom S.A., must report the total number of shares, voting rights and securities giving rights to the share capital that such person or entity holds via registered mail with return receipt to France Telecom S.A. within five trading days after registration of the securities which enabled the holder to reach or cross the threshold.

This declaration must be repeated in accordance with the conditions indicated above each time a new 0.5% threshold is reached or crossed, whether crossing above or below, for any reason whatsoever, including beyond the 5% threshold.

In the event of failure to comply with any of the provisions set forth above, the shareholder or shareholders in question shall be deprived of the voting rights attached to any shares or securities in excess of the thresholds, subject to legal provisions and limits, if one or more shareholders holding at least 0.5% of the share capital or voting rights so requests at a shareholders' meeting.

3.1.13 IDENTIFICATION OF SHAREHOLDERS

France Telecom S.A. may at any time, including by request to the central depository that operates the account for issuance of its securities, use all statutory or regulatory provisions that allow it to identify holders of securities that confer immediate or future voting rights in its shareholders' meetings, and to obtain information about the number of securities held by each of them and any restrictions that might be attached to the securities; this identification concerns in particular the holders of similar securities outside French territory.

France Telecom S.A. is also entitled, with respect to shares in registered form, to request at any time that the intermediary registered on behalf of the owners of the shares residing abroad disclose the identity of the owners of such shares.

3.2 GENERAL INFORMATION ABOUT THE SHARE CAPITAL

3.2.1 SHARE CAPITAL

At December 31, 2004, the share capital of France Telecom S.A. was €9,869,333,704, divided into 2,467,333,426 fully paid-up shares¹, each with a nominal value of €4.

Each share confers the right to its proportional share in the profit and assets of France Telecom S.A.

France Telecom S.A.'s share capital may be increased, decreased or amortized in accordance with the provisions of the law.

3.2.2 PURCHASE BY FRANCE TELECOM S.A. OF ITS OWN SHARES

The board of directors may, within the limits and conditions set by law, purchase France Telecom S.A. shares on the market.

In its fifth resolution, the combined ordinary and extraordinary shareholders' meeting held on April 9, 2004 authorized the board of directors, with powers to sub-delegate in accordance with the provisions of the law, to repurchase shares of France Telecom S.A. up to a limit of 10% of the share capital, for a period of 18 months ending on October 9, 2005.

This share repurchase program was made public in an information memorandum ("*note d'information*") which received visa no. 04-182 from the *Autorité des marchés financiers* on March 22, 2004. This resolution terminated the unused portion of the authorization to repurchase shares granted by the combined ordinary and extraordinary shareholders' meeting held on May 27, 2003, as amended by the combined ordinary and extraordinary shareholders' meeting held on October 6, 2003.

According to the terms of this program, the maximum purchase price may not exceed €50 per share, while the minimum sale price may be no less than €14.50 per share.

¹ This amount includes 218,658 new shares issued upon exercise in 2004 of options granted by Wanadoo which were assumed by France Telecom following its merger with Wanadoo. The issuance of these shares was recorded by the Board of Directors at its meeting on January 26, 2005.

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The purposes of this repurchase program are (i) to participate in buying and selling of shares according to market conditions or to stabilize market prices by a systematic investment counter to market trends; (ii) to allocate shares to employees under a profit-sharing plan or a company or group savings plan; (iii) to deliver shares following the exercise of rights attached to securities or liquidity contracts giving rights to France Telecom shares through conversion, exchange, reimbursement, presentation of a warrant or any other manner; (iv) to implement a share purchase plan for employees under conditions set out by law, particularly articles L. 433-1 *et seq* of the French Labor Code; (v) to hold, sell, or generally transfer repurchased shares, notably by exchanging or remitting them in the context of external growth transactions or generally when an asset and financial management policy is implemented; or (vi) to cancel all or part of the repurchased shares pursuant to the sixteenth resolution of the combined ordinary and extraordinary shareholders' meeting held on February 25, 2003. The combined ordinary and extraordinary shareholders' meeting held on September 1, 2004 completed the objectives of this program to enable (vii) the delivery of France Telecom shares to holders of Wanadoo stock options (following the assumption of Wanadoo's commitments); and (viii) the implementation of any share purchase plan in accordance with the provisions of the law, particularly Article 225-17 *et seq* of the French Commercial Code.

Within the framework of this program on December 6, 2004 France Telecom repurchased 34 shares to meet the request for anticipated conversion of two France Telecom 4% bonds due November 29, 2005. France Telecom did not repurchase any other shares pursuant to this program during 2004 and therefore held none of its own shares at December 31, 2004.

The Board of Directors expects to propose a new resolution to the shareholders' meeting scheduled for April 22, 2005 canceling the existing authorization in respect of the portion not used and granting the board of directors a new authorization for the implementation of a share repurchase program consistent with European regulations applying the European "Market Abuse" directive relating to share repurchases (which entered into force on October 13, 2004).

3.2.3 SHARE CAPITAL AUTHORIZED AND NOT ISSUED AND SECURITIES ISSUED GIVING RIGHTS TO CAPITAL

Share Capital Authorized and Not Issued

Since 1998, the shareholders' meeting of France Telecom S.A. has authorized the board of directors to increase the share capital of France Telecom S.A., including in cases of tender or exchange offers, through the issuance of shares or other securities for a maximum total nominal amount. These shares and securities may be issued, at the discretion of the board of directors, with or without preemptive subscription rights. If there are no shareholders' preemptive subscription rights, a priority period may be granted to existing shareholders.

The combined ordinary and extraordinary shareholders' meeting held on February 25, 2003 renewed the authorizations granted to the board of directors to issue shares and other securities with or without preemptive subscription rights, including in cases of tender or exchange offers.

Two additional authorizations were granted to the board of directors at the ordinary and extraordinary shareholders' meeting held on September 1, 2004. The first was for the purposes of the liquidity contract entered into by France Telecom for certain holders of Orange stock options and shares. The second, following the merger with Wanadoo, was to assume Wanadoo's commitments to holders of options issued by it. At that date, in accordance with French law, the shareholders' meeting granted the board of directors a new authorization for a capital increase to benefit members of the France Telecom group savings plan (PEE).

In addition, the combined ordinary and extraordinary shareholders' meeting held on September 1, 2004, authorized the board of directors, for a period of 38 months, to grant stock subscription or purchase options to members of staff or executive officers (*mandataires sociaux*) (within the meaning of Article L. 225-185 of the French Commercial Code). The total number of options that can be approved pursuant to this resolution cannot provide the right to subscribe for or acquire a number of shares representing more than 2% of France Telecom's share capital at September 1, 2004.

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Nature of the Authorization	Maximum Amount of the Capital Increase Authorized	Date Authorized	Validity of the Authorization
Authorization to issue shares and securities giving rights to the share capital of France Telecom S.A., with maintenance of shareholders' preferential subscription rights.	€ 30,000,000,000 ⁽¹⁾	Shareholders' meeting of February 25, 2003 ⁽²⁾	26 months, until April 25, 2005
Authorization to issue shares and securities giving rights to the share capital of France Telecom S.A., with elimination of shareholders' preferential subscription rights.	€ 30,000,000,000 ⁽¹⁾	Shareholders' Meeting of February 25, 2003 ⁽²⁾	26 months, until April 25, 2005
Authorization to issue shares and securities giving rights to the share capital of France Telecom S.A. in the event of a public exchange offer initiated by France Telecom S.A.	€ 30,000,000,000 ⁽¹⁾	Shareholders' Meeting of February 25, 2003 ⁽²⁾	26 months, until April 25, 2005
Authorization to issue shares of France Telecom S.A. following the issue of bonds with equity warrants or equity-linked securities by the subsidiaries of the France Telecom group.	€ 30,000,000,000 ⁽¹⁾	Shareholders' Meeting of February 25, 2003 ⁽²⁾	26 months, until April 25, 2005
Authorization to increase capital by capitalization of reserves, profits or premiums.	€ 1,000,000,000	Shareholders' meeting of February 25, 2003 ⁽²⁾	26 months, until April 25, 2005
Authorization to issue shares reserved for holders of shares or stock subscription or purchase options of Orange, who are signatories of a liquidity contract with France Telecom S.A.	€ 400,000,000 ⁽³⁾	Shareholders' Meeting of September 1, 2004	18 months, until March 1, 2006
Authorization to issue shares upon exercise of stock options of Wanadoo, following the assumption of Wanadoo's commitments towards holders.	€ 48,000,000	Shareholders' Meeting of September 1, 2004	Duration of the Wanadoo option plans.
Authorization to increase capital to benefit the members of the France Telecom group savings plan (PEE).	€ 1,000,000,000	Shareholders' Meeting of September 1, 2004 ⁽⁴⁾	26 months, until November 1, 2006
Authorization to grant stock purchase or subscription options to members of staff or executive officers (<i>mandataires sociaux</i>)	2% of France Telecom S.A.'s share capital at September 1, 2004.	Shareholders' Meeting of September 1, 2004	38 months, until November 1, 2007

(1) These amounts are not cumulative.

(2) This authorization ends, to the extent of the unused fraction, the delegation granted by the combined ordinary and extraordinary shareholders' meeting held on May 28, 2002.

(3) The ceiling of this authorization is set within the maximum capital increase limit of €30 billion as authorized by the shareholders' meeting held on February 25, 2003.

(4) This authorization ends, to the extent of the unused fraction, the delegation granted by the combined ordinary and extraordinary shareholders' meeting held on April 9, 2004.

The Board of Directors expects to propose a resolution to the shareholders' meeting convened for April 22, 2005, granting to the board the authorizations within certain limitations to issue shares or other securities giving rights to the share capital of France Telecom S.A.

Securities Giving Access to Share Capital

This section describes all the securities that give rights to the share capital of France Telecom S.A.

As at December 31, 2004, the maximum potential dilution that may result from the conversion of the perpetual notes redeemable for France Telecom S.A. shares issued in March of 2003, the bonds convertible or exchangeable into new or existing shares of France Telecom S.A. issued in September 2004 and the stock options granted by Wanadoo, which were assumed by

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France Telecom S.A., is 6.97% of share capital and voting rights based on the number of shares comprising the share capital of France Telecom S.A. at December 31, 2004. Taking into account the stock options issued by Orange, the maximum potential dilution at December 31, 2004 is 8.49% of share capital and voting rights.

- Bonds Convertible into New France Telecom S.A. Shares – November 1998

In November 1998, France Telecom S.A. issued, at par, 2,538,543 bonds convertible into France Telecom S.A. shares, with a nominal value of €800.05, amounting to a total value of €2,031 million. The bonds were convertible between December 7, 1999 and January 1, 2004, based on an initial ratio of 10 shares per bond which became 12.17 shares per bond on December 31, 2003, following the changes in the share capital of France Telecom S.A.

The bonds were listed for trading on the *Premier marché* of Euronext Paris S.A. This transaction was the subject of an information memorandum ("*note d'information*") which received a visa (no. 98-943) from the *Commission des opérations de bourse* on November 28, 1998.

These bonds reached maturity on January 1, 2004 and were delisted at the close of trading on December 31, 2003. The holders had a period of three months, until March 31, 2004, to request conversion or reimbursement at par. At that date, 81 additional bonds were presented for conversion, resulting in the creation of 987 France Telecom S.A. shares. All of the remaining bonds were reimbursed at par.

- Bonds Exchangeable for Existing France Telecom S.A. Shares – November 2001

France Telecom S.A. issued on November 29, 2001, 3,492,000 bonds exchangeable for existing France Telecom S.A. shares, with a nominal value of €1,000 per bond, for a total amount of €3,492,000,000 maturing on November 29, 2005.

Each bond entitled the holder to exercise, at any time on or after November 29, 2001, an option to exchange the bonds for existing France Telecom S.A. shares. These exchangeable bonds were listed on the Luxembourg Stock Exchange.

On November 8, 2004, France Telecom S.A. announced its intention to reimburse at par the 2,843,000 bonds still outstanding. Holders of such bonds had until December 2, 2004, to exercise their right to exchange the bonds at a ratio of 17.2944 shares per bond. Two bonds were exchanged resulting in the delivery to their holder of 34 shares of France Telecom S.A. The remaining bonds were reimbursed on December 13, 2004 at par, together with accrued interest, for a price of €1,001.53 each.

- Perpetual Notes Redeemable for New France Telecom S.A. Shares – March 2003

In the context of the settlement of various disputes related to the German wireless telephone service provider MobilCom Holding GmbH ("*MobilCom*"), in which France Telecom S.A. holds 28.3% of the share capital, France Telecom S.A. entered into three agreements on November 30, 2002 (the "*Assignment and Subscription Agreements*") with certain creditors of MobilCom that had granted it loans or credit facilities, *i.e.*, (i) the members of the Senior Interim Facility banking syndicate, (ii) Ericsson Credit AB and (iii) Nokia OYJ.

Pursuant to these agreements, the combined ordinary and extraordinary shareholders' meeting held on February 25, 2003 authorized the board of directors, with powers to sub-delegate in accordance with the provisions of the law, to issue perpetual bonds redeemable into France Telecom S.A. shares (TDIRA) reserved for the members of the Senior Interim Facility banking syndicate and for Ericsson Credit AB and Nokia OYJ.

On March 3, 2003, the Chairman of the board of directors, pursuant to a delegation of authority by the board of directors on February 25, 2003, proceeded with the issue at par of 430,705 TDIRAs, with a nominal value of €14,100 each, for a total value of €6,072,940,500, of which:

- 341,910 TDIRAs were reserved for the members of the Senior Interim Facility banking syndicate ("*Bank Tranche*"); and
- 88,795 TDIRAs were reserved for Ericsson Credit AB and Nokia OYJ ("*Supplier Tranche*").

With the exception of the adjustment mechanisms for the redemption ratio, the TDIRAs of both the Bank Tranche and the Supplier Tranche have identical features. However, because they cannot be assimilated, these notes are listed for trading as two separate issues on the Eurolist (formerly *Premier marché*) of Euronext Paris S.A. The listing of these notes was covered in a prospectus approved by the *Commission des opérations de bourse* with specific warnings on February 24, 2003 under no. 03-092. This document is available on the website of the *Autorité des marchés financiers* at www.amf-france.org and at France Telecom S.A.'s website at www.francetelecom.com.

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Following adjustment of the initial conversion ratio in order to take into account the capital increase on April, 15, 2003, and the distribution to shareholders taken from the share premium account by France Telecom S.A. in May 2004, the TDIRAs are redeemable for new France Telecom S.A. shares at a ratio of 355.8959 shares for one TDIRA with a nominal value of €14,100, equivalent to a redemption price of €39.62 per share, (i) at any time after their issue at the holder's option; or (ii) at France Telecom S.A.'s initiative from March 3, 2010, provided the average closing price of the shares for the preceding consecutive 20 days of trading, taken from 40 days during which the shares are listed, is greater than 125% of the redemption price.

The TDIRAs carry interest at 5.75% from the date of issue until December 31, 2009 inclusive, then at the three-month Euribor rate plus 300 basis points thereafter (see note 26 of the Notes to the Consolidated Financial Statements).

Taking into account the TDIRAs repurchased by France Telecom S.A. during 2003 and 2004 (see Note 26 of the Notes to the Consolidated Financial Statements), 365,188 TDIRAs remained outstanding as of December 31, 2004, of which:

- 278,166 from the Bank Tranche, redeemable (subject to possible adjustments in the redemption ratio) for 98,998,139 new France Telecom S.A. shares; and
- 87,022 from the Supplier Tranche, redeemable (subject to possible adjustments in the redemption ratio) for 30,970,773 new France Telecom S.A. shares.

- Bonds Convertible and/or Exchangeable into New or Existing Shares of France Telecom S.A. – September 2004

Further to a resolution of the board of directors on September 1, 2004 and decisions of the Chief Executive Officer on September 1 and 2, 2004, France Telecom S.A. issued 445,564 bonds convertible and/or exchangeable into new or existing France Telecom S.A. shares maturing on January 1, 2009, with a nominal value of €2,581 per bond, for a total amount of €1,150,000,684.

Each bond bears interest at a rate of 1.60% per annum and entitles the holder to request at any time from October 20, 2004 until the seventh day of trading preceding the normal or anticipated maturity date, the attribution of France Telecom S.A. shares at a ratio of one hundred (100) shares per bond, subject to adjustments necessary in the event of other financial transactions completed by France Telecom S.A.

France Telecom S.A. may at its discretion remit new shares or existing shares, or a combination of the two.

France Telecom S.A. has undertaken to the lead underwriters of the accelerated offer of the shares offered by the French State and ERAP (see section 3.3.2 "*Changes in Major Shareholders over the Past Three Years*") and to the underwriters of the bonds not to issue, offer or sell, for a period of 270 days, shares or other securities giving access to the share capital of France Telecom without the approval of such underwriters. This undertaking is subject to certain exceptions, including issues or transfers related to acquisition transactions or external growth, those for employees or issues or transfers of a cumulative maximum of 20 million shares. A similar undertaking has been given by the French State and ERAP to the underwriting syndicate responsible for the private placement of the shares sold by the French State and ERAP.

The bonds are listed on the Eurolist of Euronext Paris S.A. under the code ISIN FR0010113357.

- Options to Subscribe for and Purchase Shares

At the date of this document, France Telecom S.A. has not implemented any share subscription and/or purchase plans. However, within the framework of the mixed public offer relating to Wanadoo shares that was authorized by the *Autorité des marchés financiers* on March 9, 2004, France Telecom S.A. undertook to ensure the liquidity of shares resulting from the exercise of the share subscription options of Wanadoo that were not contributed to the offer, according to a Wanadoo share valuation mechanism based on the exchange ratio for the offer (seven France Telecom shares for 18 Wanadoo shares).

This undertaking, which was effective as of the closing of the offer on April 19, 2004 resulted, upon the merger of Wanadoo S.A. and France Telecom S.A. on September 1, 2004, in the assumption by France Telecom S.A. of Wanadoo's commitments to holders of Wanadoo share options at a ratio of seven France Telecom shares for 18 Wanadoo, shares subject to any additional adjustments that may occur following future financial operations. At December 31, 2004, 10,285,794 options were outstanding with a weighted average exercise price of €19.71.

In addition, upon completion of the tender offer followed by a compulsory purchase of the shares of Orange, France Telecom S.A. offered Orange stock option holders and holders of Orange shares obtained upon exercise of stock options following the offer, the possibility of entering into a liquidity contract.

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The Orange shares covered by the liquidity contract are automatically transferred to France Telecom S.A. either upon the exercise by the holder of their related options or at the end of the lock-up period in respect of the options that had already been exercised. The shares are exchanged on the basis of the exchange ratio existing during the public exchange offer adjusted where necessary on the basis of changes to the share capital or shareholders' equity of France Telecom as described in the liquidity contract, pursuant to standard practices, i.e. 0.445 France Telecom shares for one Orange share at December 31, 2004.

In consideration for the Orange shares, France Telecom may choose to remit (i) new or existing France Telecom shares; (ii) a cash payment equal to the value of the corresponding number of France Telecom shares on the basis of the exchange rate ratio such that the value is determined by reference to the average trading rate of France Telecom shares over the 20 trading days preceding the implementation of the transfer of Orange shares, in accordance with the terms of the liquidity contract, or (iii) a combination of cash and shares. At December 31, 2004, 98,938,143 Orange options were outstanding with a weighted average exercise price of €8.77.

3.2.4 AUTHORIZATION TO ISSUE SECURITIES

On November 16, 2004, France Telecom renewed its Euro Medium Term Notes issue program of €30 billion. The program was authorized by the *Autorité des marchés financiers* under visa no. P.04-201.

Pursuant to the terms of Article L. 228-40 of the French New Commercial Code resulting from Ordinance no. 2004-604 of June 24, 2004, the authorization to issue bonds or similar securities is now the responsibility of the board of directors, unless the by-laws reserve this power to the shareholders' meeting (which is not the case in the by-laws of France Telecom S.A.) or the shareholders' meeting resolves to use such power.

Pursuant to these new provisions, the board of directors at their meeting of October 27, 2004, resolved to authorize the Chairman and Chief Executive Officer to issue, on one or more occasions, at his sole discretion, in France, abroad and/or on the international market, bonds or similar securities, notably fixed-term or perpetual subordinated bonds, or any other securities that confer, in a single issue, the same right of claim against France Telecom S.A., with or without warrants giving the right to the allotment, acquisition or subscription of other bonds, similar securities or other securities conferring such a claim right against France Telecom S.A. The terms and conditions of this authorization are identical to the authorization granted by the combined ordinary and extraordinary shareholders' meeting held on May 28, 2002, valid for a period of 5 years and capped at €30 billion. However, since this cap had already been used at October 27, 2004, the board of directors chose to cap its authorization at €15 billion. This authorization is valid for one year from the day of the decision by the board.

In light of this decision, the board of directors expects to propose a resolution at the shareholders' meeting to be convened for April 22, 2005 terminating the authorization granted on May 28, 2002.

At January 31, 2005, the total value of the debt securities (bonds and EMTN) issued on the basis of this authorization amounted to €1,100 million.

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3.2.5 CHANGES IN SHARE CAPITAL

The table below indicates the changes in the share capital of France Telecom S.A. over the last five years up to December 31, 2004:

Date	Change in Capital Stock		Capital Stock Value	Total Number of Shares Outstanding
	Par Value	Premium		
January 20, 2000 Conversion of bonds ⁽¹⁾	€ 5,360	€ 101,847	€ 4,098,463,604	1,024,615,901
August 22, 2000 Contribution in kind ⁽²⁾	€ 516,806,968	€ 17,597,277,260	€ 4,615,270,572	1,153,817,643
January 10, 2001 Conversion of bonds ⁽³⁾	€ 57,200	€ 1,086,875	€ 4,615,327,772	1,153,831,943
July 8, 2002 Payment of dividend in shares ⁽⁴⁾	€ 134,751,824	€ 527,553,391	€ 4,750,079,596	1,187,519,899
July 31, 2002 Capital increase reserved for members of company savings plan (PEE) ⁽⁵⁾	€ 18,718,164	€ 43,319,656	€ 4,768,797,760	1,192,199,440
September 12, 2002 Cancellation of treasury shares ⁽⁶⁾	(€ 8,162,864)	-	€ 4,760,634,896	1,190,158,724
February 25, 2003 Cancellation of treasury shares ⁽⁷⁾	(€ 12,000,000)	-	€ 4,748,634,896	1,187,158,724
April 15, 2003 Capital increase through a public offering ⁽⁸⁾	€ 4,148,822,900	€ 10,690,635,974	€ 8,897,457,796	2,224,364,449
July 28, 2003 Capital increase reserved for members of company savings plan (PEE) ⁽⁹⁾	€ 29,402,512	€ 57,119,007	€ 8,926,860,308	2,231,715,077
October 17, 2003 Public exchange offer for Orange shares ⁽¹⁰⁾	€ 682,402,092	€ 2,910,309,016	€ 9,609,262,400	2,402,315,600
December 31, 2003 Conversion of bonds ⁽¹¹⁾	€ 4,912	€ 75,893	€ 9,609,267,312	2,402,316,828
April 9, 2004 Conversion of bonds ⁽¹²⁾	€ 4,580	€ 70,621	€ 9,609,271,892	2,402,317,973
April 29, 2004 Exchange offer for shares of Wanadoo ⁽¹³⁾	€ 259,187,180	€ 1,073,196,515	€ 9,868,459,072	2,467,114,768
December 31, 2004 Exercise of stock options ⁽¹⁴⁾	€ 874,632	€ 2,426,026	€ 9,869,333,704	2,467,433,426

(1) Recognition of the issue of 1,340 new shares, with a par value of €4 each, following the request to convert 134 convertible bonds issued in the bond issue of November 28, 1998.

(2) Issue of 129,201,742 new shares approved by the shareholders' meeting held on August 22, 2000, each with a par value of €4, in favor of the Vodafone Group as compensation for the contribution to France Telecom S.A. of securities in the English company Orange plc, with a par value of 20 pence each, representing around 45% of its (issued) share capital, for a total value of €18,114,084,228.40.

(3) Recognition of the issue of 14,300 new shares with a par value of €4 each following the request for conversion in 2001 of 1,430 convertible bonds issued in the bond issue of November 28, 1998.

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- (4) Issue of 33,687,956 new shares with a par value of €4 each at the price of €19.66 per share, pursuant to the decision of the combined ordinary and extraordinary shareholders' meeting held on May 28, 2002 to give shareholders the option to receive the dividend of €1 for the financial year 2001 in cash or in shares. The price of €19.66 corresponds to 90% of the average opening price of shares listed on the Premier marché of Euronext Paris S.A. during the twenty trading days prior to May 28, 2002, minus the net dividend amount.
- (5) Issue of 4,679,541 new shares reserved for the members of the France Telecom Group company savings plan (2,298,125 shares of which were subscribed at a unit price of €22.85 and 2,381,416 were freely attributed) decided by the board of directors of France Telecom S.A. on May 28, 2002 and recognized by the decision of the Chairman of the board of directors on July 31, 2002.
- (6) Capital reduction through the cancellation of 2,040,716 treasury shares decided by the board of directors on September 12, 2002. These shares, which were purchased by France Telecom S.A. through the 2002 FT Reinvestment FCPE, consisted of the rights that current and former employees belonging to France Telecom S.A.'s company savings plan decided to reinvest at the time of their subscription for new cash shares in July of 2002.
- (7) Capital reduction through cancellation of 3,000,000 shares decided by the board of directors on February 25, 2003 prior to the issue of perpetual notes redeemable for France Telecom S.A. shares.
- (8) Issue of 1,037,205,725 new shares through the free attribution of warrants to subscribe for shares (BSAs) at the rate of one BSA per share held; 20 BSAs held entitled the holder to subscribe to 19 shares at the unit price of €14.50. As the BSAs assigned to 95,363,219 treasury shares were neither exercised nor resold by France Telecom S.A., 1,091,795,500 BSAs were exercised (5 BSAs were not exercised due to the exchange ratio used). Pursuant to an underwriting agreement, a banking consortium purchased and exercised all of the BSAs that had not been exercised. At the end of the subscription period, the shares thus issued were placed on the market with bookbuilding, and the difference between the placement price and the subscription price, i.e., €4.275 per BSA, was paid out to BSA sellers. The gross amount of the capital increase was €15,039,483,012. Taking into account issue costs and bank commissions, the net proceeds from the capital increase were €14,839,458,874.
- (9) Issue of 7,350,628 new shares reserved for members of the France Telecom S.A. Group's company savings plan (of which 5,596,476 shares subscribed at a unit price of €15.46 and 1,754,152 shares were freely attributed at a ratio of 1 share for every 3 shares subscribed, with a maximum subscription limit of €9,500) as decided by the Chairman of the board of directors upon delegation by the board of directors on March 24, 2003, and recognized by decision of the Chairman of the board of directors on July 28, 2003.
- (10) Issue of 170,600,523 new shares to supplement the delivery of 95,363,219 existing France Telecom S.A. shares in exchange for Orange S.A. shares in a public exchange offer approved by the board of directors on August 31, 2003 at an exchange ratio of 11 France Telecom S.A. shares for 25 Orange S.A. shares. Based on the France Telecom S.A. closing share price of October 16, 2003, the date on which the results of the exchange offer were published by the CMF, the gross amount of the capital increase was €3,625,261,114. Taking into account issue costs and bank commissions, the net proceeds of the capital increase were €3,592,711,107.
- (11) Recognition of the issue of 1,228 new shares following the request for conversion, during 2003, of 101 convertible bonds issued as part of the November 28, 1998 bond issue.
- (12) Recognition of the issue of 1,145 new shares following the request for conversion, during 2004, of 94 convertible bonds issued as part of the November 28, 1998 bond issue.
- (13) Issue of 64,796,795 new shares to redeem the Wanadoo S.A. shares in the public exchange offering of February 25, 2004, including an exchange of 7 France Telecom shares for 18 Wanadoo S.A. shares. On the basis of the exchange rate of the France Telecom S.A. share on April 28, 2004, the date at which the decision of the *Autorité des marchés financiers* recorded the end of the offer, the gross value and the increase of share capital amounted to €1,344,533,496. Including issue fees and banking commissions, the net proceeds of the share capital increase were €1,332,383,695.
- (14) Recognition of the issue of 218,658 new shares following the exercise in 2004 of stock options of Wanadoo, which were assumed by France Telecom S.A. following its merger with Wanadoo completed on September 1, 2004.

CHAPTER 3

3.3 DISTRIBUTION OF SHARE CAPITAL AND VOTING RIGHTS

3.3.1 DISTRIBUTION OF FRANCE TELECOM S.A. SHARE CAPITAL

Distribution of share capital and voting rights at January 31, 2005⁽¹⁾:

Holder	Number of Shares and voting rights	%
French State	543,133,294	22.01
ERAP	470,499,986	19.07
Total of French State and ERAP	1,013,633,280	41.08
Public	1,381,283,181	55.98
Employees ⁽²⁾	72,416,965	2.94
Total	2,467,333,426	100.00

(1) Includes the offer reserved for employees and former employees of France Telecom by the French State for which settlement occurred on January 20, 2005 (see 6.3.2. "Group Savings Plan").

(2) Includes only employees holding France Telecom S.A. registered shares directly or through a company savings plan, and those shares purchased in the offering by the French State reserved for employees, which cannot be freely sold until January 20, 2007.

As of January 31, 2005, to the knowledge of France Telecom S.A., the members of the board of directors and the Executive Committee of France Telecom S.A. together held 172,298 shares representing less than 0.01% of France Telecom S.A.'s share capital.

To France Telecom's knowledge, no shareholder other than the French State or ERAP held, directly or indirectly, more than 5% of the capital or voting rights at December 31, 2004.

The estimated number of shareholders, based on the last survey of identifiable bearer securities conducted on November 12, 2003, is approximately 1.8 million.

3.3.2 CHANGES IN MAJOR SHAREHOLDERS OVER THE PAST THREE YEARS

To France Telecom S.A.'s knowledge, the major changes in shareholding that have occurred over the last three years were the result of:

- the repurchase by France Telecom S.A. on March 25, 2002 of 49,729,861 shares held by the Vodafone group following the contribution of Orange plc securities to France Telecom S.A. in August of 2000;
- the transfer by Deutsche Telekom of 20,492,292 shares, representing its entire equity interest in France Telecom S.A. to institutional investors on June 19, 2002;
- the share capital transactions described in the previous section and, in particular, the subscription by ERAP for 638,216,466 shares in the context of the capital increase of April 15, 2003;
- the transfer by France Telecom S.A. on October 24, 2003 of 95,363,219 existing France Telecom S.A. shares to Orange S.A. shareholders in consideration for Orange S.A. shares acquired in the public exchange offer;
- The sale by the French State of 267,716,480 shares in France Telecom S.A. (amounting to 10.85% of the share capital) held directly or indirectly through ERAP, by means of a private placement with qualified investors in France and institutional investors outside of France on September 7, 2004; and
- The additional sale by the French State of 28,652,981 shares pursuant to an offer reserved to employees and former employees of France Telecom for which settlement occurred on January 20, 2005.

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The distribution of the share capital on the dates of the shareholders' meetings of France Telecom S.A. has evolved as follows in terms of percentage of equity interest:

	Shareholders' Meeting Convened to Approve the Accounts for the Financial Year Ended December 31, 2001 (May 28, 2002)		Shareholders' Meeting of February 25, 2003		Shareholders' Meeting Convened to Approve the Accounts for the Financial Year Ended December 31, 2002 (May 27, 2003)		Shareholders' Meeting of October 6, 2003		Shareholders' Meeting Convened to Approve the Accounts for the Financial Year Ended December 31, 2003 (April 9, 2004)		Shareholders' Meeting of September 1, 2004	
	Shares	Voting Rights	Shares	Voting Rights	Shares	Voting Rights	Shares	Voting Rights	Shares	Voting Rights	Shares	Voting Rights
French State	55.4	60.6	56.4	61.5	30.2	31.6	30.1	31.5	27.9	27.9	27.9	27.9
ERAP					28.7	30.0	28.6	29.9	26.6	26.6	26.6	26.6
Public	30.6	33.5	32.3	35.2	34.9	36.4	34.9	36.4	43.2	43.2	43.2	43.2
Employees ⁽¹⁾	3.1	3.3	3.0	3.3	1.9	2.0	2.1	2.2	2.3	2.3	2.3	2.3
Deutsche Telekom	1.8	1.9										
SITA	0.6	0.7										
France Telecom S.A.	8.5	-	8.3	-	4.3	-	4.3	-	-	-	-	-
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(1) Includes only employees holding registered shares directly or under a company savings plan.

3.3.3 INDIVIDUALS OR LEGAL ENTITIES EXERCISING OR THAT MAY EXERCISE CONTROL OVER FRANCE TELECOM S.A.

Except for the French State, which holds directly or indirectly 41.1% of the share capital and voting rights, no individual or legal entity, directly or indirectly, individually, jointly or in concert, exercises or can exercise control over France Telecom S.A.

3.3.4 SHAREHOLDERS' AGREEMENTS

To France Telecom S.A.'s knowledge, there is no agreement, pact or any other contract between its shareholders concerning their equity interest in France Telecom S.A.

In addition, France Telecom S.A. is party to a number of agreements, the most important of which are mentioned in the appropriate sections of Chapters 4 and 5 of this document. These agreements do not contain clauses that could, as of this date, have a significant impact on the financial situation and results of France Telecom S.A., with the exception of those described in this document. Any potential off-balance sheet commitments linked to equity interests appear in Note 28 of the Notes to the Consolidated Financial Statements.

3.3.5 PLEDGE OF REGISTERED SHARES

The number of pledged France Telecom S.A. registered shares at December 31, 2004 is not significant.

Orange S.A. and its subsidiaries have pledged a number of their investment securities to financial lending institutions to secure bank loans and credit lines. At December 31, 2004, the principal securities pledged were the investment securities held by Orange in its consolidated subsidiaries in Egypt, Botswana, the Dominican Republic, as well as its unconsolidated subsidiaries in Portugal and Moldavia (see Note 28 of the Notes to the Consolidated Financial Statements).

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3.4 MARKET FOR FRANCE TELECOM S.A. SECURITIES

3.4.1 TRADING HISTORY OF SECURITIES

France Telecom S.A. Shares

France Telecom S.A. shares are traded on the Eurolist (formerly the *Premier marché*) of Euronext Paris (ISIN code: FR 0000133308) and in the form of American Depositary Shares (ADSs) on the New York Stock Exchange (Code 35177Q10).

The published share prices reflect the evolution of France Telecom's total stock market capitalization and are therefore automatically adjusted to account for the increase in the number of shares composing the share capital.

The table below tracks the changes on a monthly basis in the share price and trading volume for the shares of France Telecom S.A. on the Eurolist market of Euronext Paris S.A. and the ADSs on the New York Stock Exchange since January 1, 2004.

	Euronext Paris S.A.				New York Stock Exchange			
	Price		Trading Volume (daily average)		Price		Trading Volume (daily average)	
	High (€)	Low (€)	Securities	Capital (€)	High (US \$)	Low (US \$)	Securities	Capital (US \$)
January 2004	25.00	22.64	8,281,821	196,362,762	31.56	28.49	166,100	4,951,566
February 2004	24.15	21.82	10,134,499	228,632,121	29.96	27.27	138,526	3,964,337
March 2004	22.83	19.84	9,793,348	206,151,669	28.23	24.47	87,548	2,294,108
April 2004	22.30	19.90	9,471,051	198,187,323	26.62	23.95	87,386	2,195,660
May 2004	20.49	18.01	9,564,997	185,147,559	24.73	22.25	143,095	3,331,824
June 2004	21.81	19.07	11,300,643	231,284,950	26.28	23.56	135,541	3,363,043
July 2004	21.73	19.33	6,230,109	126,803,464	25.85	23.68	91,910	2,291,316
August 2004	20.59	18.81	5,411,329	106,829,370	24.85	23.27	87,764	2,121,256
September 2004	20.55	18.95	14,977,897	295,515,533	25.39	23.24	143,524	3,501,124
October 2004	22.75	20.13	9,519,115	202,432,475	28.75	25.63	144,257	3,829,013
November 2004	23.70	21.75	8,934,932	203,544,053	31.38	28.24	137,138	4,057,228
December 2004	24.79	23.17	8,174,588	196,730,026	33.48	31.59	162,891	5,299,659
January 2005	24.98	22.92	9,541,494	229,175,044	32.44	29.91	176,900	5,569,520

Sources: Euronext Paris and Bloomberg

The table below shows annual changes in the price of France Telecom S.A.'s shares on the Eurolist market of Euronext Paris and ADSs on the New York Stock Exchange from 2000 to 2004.

	Euronext Paris S.A. (Price €)		New York Stock Exchange (Price US\$)	
	High	Low	High	Low
2000	189.65	78.46	209.94	80.75
2001	87.99	23.38	93.40	25.44
2002	41.71	5.85	43.25	6.84
2003	24.45	14.55	28.75	18.32
2004	25.00	18.01	33.48	22.25

Sources : Euronext Paris and Bloomberg

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The table below shows quarterly changes in the price of France Telecom S.A.'s shares on the Eurolist market of Euronext Paris and ADSs on the New York Stock Exchange in 2003 and 2004.

	Euronext Paris S.A. Price €		New York Stock Exchange Price US\$	
	High	Low	High	Low
First Quarter 2003	21.65	14.55	27.00	18.32
Second Quarter 2003	22.83	18.20	26.18	22.08
Third Quarter 2003	24.45	19.73	27.34	22.65
Fourth Quarter 2003	23.00	19.80	28.75	23.16
First Quarter 2004	25.00	19.84	31.50	24.47
Second Quarter 2004	22.30	18.01	26.62	22.25
Third Quarter 2004	21.73	18.81	25.85	23.24
Fourth Quarter 2004	24.98	21.75	33.48	25.63

Sources: Euronext Paris and Bloomberg

France Telecom S.A. Bonds Exchangeable for Existing France Telecom S.A. Shares – November 2001

The table below tracks, for 2004, the changes in the price and trading volume of the €3.5 billion France Telecom S.A. bonds exchangeable for existing France Telecom S.A. shares, with a fixed rate of 4.00% and maturity of 2005, listed on the Luxembourg Stock Exchange (ISIN code: FR0000487571). This issue was redeemed in full before maturity on December 13, 2004.

	Price (%)(¹)	
	High	Low
January 2004	101.30	99.00
February 2004	101.30	101.15
March 2004	101.25	101.13
April 2004	101.20	100.95
May 2004	100.90	100.80
June 2004	100.75	100.60
July 2004	100.65	100.50
August 2004	100.55	100.48
September 2004	100.40	100.30
October 2004	100.25	100.13
November 2004	100.15	100.05
December 2004	100.00	100.00

(1) Based on: issue price = 100%.

Source: Luxembourg Stock Exchange.

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France Telecom S.A. Bonds Mandatorily Exchangeable for STMicroelectronics N.V. Shares with maturity in 2005

The table below tracks the changes in the price and trading volume for 2004 of €0.4 billion France Telecom S.A. bonds mandatorily exchangeable for STMicroelectronics N.V. shares, with a fixed interest rate of 6¾% and maturity of 2005, listed on the Luxembourg Stock Exchange (ISIN code: FR0000480378) issued in August 2002.

	Price (%) ⁽¹⁾	
	High	Low
January 2004	122.00	119.13
February 2004	117.38	114.50
March 2004	116.13	106.80
April 2004	110.38	105.75
May 2004	106.38	105.50
June 2004	105.50	103.13
July 2004	98.20	94.75
August 2004	94.13	83.13
September 2004	88.45	86.10
October 2004	88.13	84.88
November 2004	90.60	89.45
December 2004	90.30	87.40
January 2005	86.45	79.70

(1) Based on: issue price = 100%.

Source: Luxembourg Stock Exchange.

France Telecom S.A. Contingent Value Rights

The table below tracks the changes for 2004 in the price and trading volume of France Telecom S.A. contingent value rights (CVRs) listed on Euronext Paris S.A. (ISIN FR0000610685). The payment of the contingent value rights occurred on July 8, 2004.

	Price (€)		Transaction Volume (daily average)	
	High	Low	Securities	Capital (€)
January 2004	14.91	14.78	1,093,522	16,263,257
February 2004	14.98	14.88	1,183,460	17,677,907
March 2004	15.00	14.95	807,642	12,104,280
April 2004	14.99	14.96	65,127	975,323
May 2004	15.03	14.97	525,749	7,883,070
June 2004	15.1	14.97	519,198	7,803,557

Source: Euronext Paris.

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Bonds Convertible and/or Exchangeable into New or Existing Shares of France Telecom S.A. – September 2004

The table below tracks the changes in the price and trading volume of €1.15 billion France Telecom S.A. bonds convertible and/or exchangeable into new or existing shares of France Telecom S.A., with a fixed rate of 1.6% and maturity of January 1, 2009, listed on the Eurolist market of Euronext Paris (ISIN FR0010113357).

	Price		Trading Volume (daily average)	
	High	Low	Securities	Capital (€)
September 2004	2,600	2,525	836	2,159,393
October 2004	2,690	2,577	3,295	8,695,830
November 2004	2,730	2,526	1,322	3,542,787
December 2004	2,821	2,510	1,969	5,439,627
January 2005	2,870	2,620	1,790	4,917,234

3.4.2 INSTITUTION PROVIDING SECURITIES SERVICES FOR FRANCE TELECOM S.A.

BNP Paribas Securities Services.

3.5 DIVIDENDS

The dividends distributed over the last five financial years (excluding tax credits) were as follows:

Dividend for Financial Year:	Dividend Per Share (€)	Total Dividend (€)
1999	1.00	1,024,614,561
2000	1.00	1,074,954,829
2001	1.00	1,055,588,601
2002	–	–
2003	0.25	600,579,207 ⁽²⁾
2004	0.48 ⁽¹⁾	1,184,320,044 ⁽³⁾

(1) Subject to the approval of the annual general shareholders' meeting.

(2) Excluding distributions relating to the shares to be issued as consideration for the capital contribution of Wanadoo shares.

(3) On the basis of the number of shares as at December 31, 2004 (see section 3.2.1 "Share Capital").

The board of directors decided on February 9, 2005 to propose the distribution of a dividend of €0.48 per share for the financial year 2004.

In 2003, France Telecom made a distribution of €0.25 for each share. Within the framework of the mixed tender offer for Wanadoo shares launched on February 25, 2004, France Telecom also distributed €0.25 for each share issued in connection with the public offer for Wanadoo shares up to a maximum of €35 million, and subject to the express condition precedent of the payment and delivery of the shares issued in connection with the offer.

Payment of dividends is assured by Euroclear France.

Future dividends will depend on France Telecom S.A.'s ability to generate profits, its financial position, and on any other factor deemed relevant by the board of directors. France Telecom wishes to progressively bring its distribution policy nearer that of other European telecommunications companies.

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Dividends not claimed within five years of the date of payment revert to the French State.

On March 3, 2003, France Telecom S.A. issued two tranches of perpetual notes redeemable for shares (TDIRAs). See section 3.2.3 "*Share capital authorized and not issued and securities issued giving rights to capital*". If no dividend has been approved by the shareholders or if no interim dividend has been decided by the board of directors for a period of 12 months prior to a scheduled interest payment date, France Telecom S.A. has the right to postpone the payment of the interest due on that date. Interest thus deferred will itself bear interest at the Euribor 12-month rate. The deferred interest must be paid in full – including the related accrued interest – at the interest payment date following any decision to distribute a dividend or interim dividend, and before redemption of the TDIRAs (see Note 26 of the Notes to the Consolidated Financial Statements).

Chapter 4

INFORMATION ABOUT THE BUSINESS AND FUTURE PROSPECTS OF THE COMPANY

4.1 HISTORY AND DEVELOPMENT

Formerly a part of the French Telecommunications Ministry, France Telecom S.A. was created as a public sector operator on January 1, 1991. Having subsequently been changed into a *société anonyme* (French corporation) under French law n° 96-660 of July 26, 1996, France Telecom S.A. is governed by French law on *sociétés anonymes*, subject to the specific laws that apply to it (see sections 3.1.2 "Legal status and applicable law" and 4.13 "Regulations").

France Telecom's shares have been listed on the Eurolist of Euronext Paris S.A. and on the New York Stock Exchange ("NYSE") since October 1997, when the French State sold 25% of its shares to the public and France Telecom employees. In September 2004, the French State sold 10.85% of the capital of France Telecom which resulted in the transfer of France Telecom to the private sector. As of December 31, 2004, the French State held, directly or indirectly, 42.25% of France Telecom's capital.

In recent years, France Telecom's business and the regulatory and competitive environments in which it operates have undergone significant changes that have affected the structure of its revenues, as well as its business and its internal organization. All sectors of the telecommunications market in France were opened to competition as of January 1, 1998 (with the exception of the local communications sector which was opened to competition on January 1, 2002), whereas France Telecom previously had a monopoly on the provision of fixed line services. In addition, competition has evolved according to the decisions made by the French telecommunications regulator, the *Autorité de Régulation des Télécommunications* (the "ART").

In the context of this deregulation and heightened competition, from 1999 to 2002 France Telecom pursued a strategy of introducing new services and accelerating its international development through external growth. By pursuing this strategy, France Telecom extended its activities towards new areas of telecommunications services, including wireless telephony, the Internet and data transmission services in France and internationally. Also as part of this strategy, France Telecom made many strategic investments (acquisitions, minority investments, UMTS licenses). In particular, it acquired Orange plc. in 2000, Global One and Equant in 2000 and 2001, acquired interests in NTL between 1999 and 2001, in the Polish operator TP S.A. in 2000 and 2001 and in MobilCom in 2000, and it acquired UMTS licenses in various European countries.

For the most part, these strategic investments could not be financed through equity, which resulted in a significant increase in Group debt and a downgrading of France Telecom's debt rating by rating agencies.

Upon his appointment as the head of France Telecom on October 2, 2002, Thierry Breton immediately commissioned a team of experts to carry out a complete review of the France Telecom group's businesses and financial situation (the "State of France Telecom S.A." mission ("*Mission Etat des Lieux*").

Based on the results of this "State of France Telecom S.A." mission and with effect from December 5, 2002, France Telecom launched the "Ambition FT 2005" Plan for the 2003-2005 period.

4.2 STRATEGY

4.2.1 "AMBITION FT 2005" PLAN

The France Telecom management team was reorganized at the end of 2002, firstly adopting a simpler organizational structure which clearly distinguishes the operating divisions and the central functions with responsibility for the whole Group, and secondly, by giving a greater degree of accountability to senior managers. This team is responsible for implementing the "Ambition FT 2005" Plan in order to fundamentally transform the France Telecom Group, based on three major priorities:

- "TOP": a program to improve operational performances which strives to free up more than €15 billion in net cash generated by operating activities less net cash used in investing activities during the period from 2003 to 2005. This free cash flow will be allocated to reducing debt. In operational terms, "TOP"'s goal is to attain a level of excellence in the performance of all processes of the company by 2005. See section 4.2.2 "'TOP' Program".
- "15+15+15": a plan to strengthen the Group's financial structure:
 - more than €15 billion in net cash generated through the "TOP" program and allocated to reduce debt, as described above;
 - €15 billion in additional equity, with the participation of the French State in its capacity as shareholder pro rata to its shareholding or approximately €9 billion;

CHAPTER 4

- €15 billion from refinancing the Group's debt.

- A strategy focused on customer satisfaction and integrated operational management of the Group's assets which are leaders in their principal markets with strong brands such as France Telecom, Orange, Wanadoo and Equant. The Group will consider divesting itself of assets with weak strategic or financial positions, or those for which majority control is impossible. It will strive to develop strategic partnerships in areas that are not part of its core business and where it cannot attain critical mass on its own.

These three initiatives will be implemented in parallel, with the objective of gaining greater strategic and financial flexibility and achieving a net consolidated debt/operating income before depreciation and amortization ratio of between 1.5 and 2 by the end of 2005.

Confidence in France Telecom's management and the credibility of the announced plan made it possible to refinance debt over the period from December 2002 to February 2003 in an amount of more than €14 billion.

As the financial pressures in the short term have decreased and the preliminary results of the "TOP" program have exceeded its initial objectives, the Group was able to increase its share capital by almost €15 billion on April 15, 2003. France Telecom's liquidity crisis has therefore been resolved and its equity capital position has been strengthened.

The implementation of the "TOP" program has enabled substantial cash flows (free cash flow) to be generated in 2003 amounting to €6.4 billion excluding asset disposals. As a result of anticipated results being exceeded since 2003, France Telecom has generated new margins for maneuver such that it has decided to increase its efforts in terms of innovation and to launch a new growth initiatives program called the "TOP Line" program. See section 4.2.5.1 "Accelerating the momentum of growth and integration".

In line with the strategy defined in the "Ambition FT 2005" Plan, France Telecom launched a public exchange offer (*offre publique d'échange*) in September 2003 and subsequently in November 2003, a tender offer (*offre de retrait*) followed by a compulsory purchase of Orange S.A. shares it did not already hold. On completion of such operations and since April 2004, France Telecom has held 100% of Orange S.A.'s share capital.

In February 2004, with a view to integrating the Wanadoo access and portal services into France Telecom and improving the Group's position in the broadband market, France Telecom launched a public share exchange tender offer (*offre publique d'achat et d'échange*) for the Wanadoo S.A. shares it did not already hold, and subsequently in June 2004, a tender offer followed by a compulsory purchase. On completion of these operations and as of July 2004, France Telecom held 100% of Wanadoo S.A.'s share capital. Wanadoo S.A. and Wanadoo France, which principally acted as Internet access providers, were merged into France Telecom in September 2004.

In total, these operations resulted, at the level of cash flows for 2004, in a €2.8 billion investment to repurchase the minority interests in Orange and Wanadoo.

Moreover, the shares in PagesJaunes S.A., whose business falls within the Directories sector, were listed and admitted to trading on the *Premier Marché* of Euronext Paris in July 2004. That operation enabled France Telecom to realize, in July 2004, income from asset disposals of €1.4 billion. As of December 31, 2004, France Telecom held 62.0% of PagesJaunes S.A.'s capital (see section 7.1 "Recent events").

In 2004, free cash flow, excluding asset disposals, amounted to €2.9 billion. This amount takes into account the impact of the repurchase of minority interests in Orange and Wanadoo (€2.8 billion) and the exceptional payment of €2 billion in connection with payment of the Equant contingent value rights (*certificats de valeur garantie*).

The improved performance under the "TOP" program will remain a major priority in the coming years.

Moreover, the Group continues to streamline its asset portfolio as planned. Some non-strategic assets were sold in 2003, including Casema, Eutelsat, Wind, CTE (Salvador) and Telecom Argentina. During 2004, the following shareholdings or subsidiaries were sold: a 28% shareholding in the capital of NOOS, a decrease from 49% to 10% of the shareholding of BITCO (Thailand), Orange Denmark, a 49% shareholding of Radianz (a subsidiary of Equant) and the disposal of 3.3% of the capital in STMicroelectronics.

The disposals relating to NOOS and BITCO were made for a symbolic amount. The other disposals (principally Orange Denmark, Radianz and STMicroelectronics) produced overall income of €1.3 billion.

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In addition, France Telecom undertook in 2004 to sell France Telecom Câble and its cable networks, which required various approvals to be obtained, as well as its residual indirect 36% interest in TDF. This transaction was finalized at the end of January 2005.

Overall, in connection with the "Ambition FT 2005" Plan, France Telecom was able in 2003 and 2004 to reduce the level of net debt and improve the ratio of net debt to operating income before depreciation and amortization, in line with the target level for a ratio of less than 2 by the end of 2005 (see chart below). France Telecom has specified its objective of reducing net financial debt, based on French GAAP, by at least €30 billion between the end of 2002 and the end of 2005.

	2004	2003	2002
Net financial debt (in billions of €)	43.9	44.2	68.0
Operating income before depreciation and amortization (in billions of €)	18.3	17.3	14.9
Ratio of Net debt to Operating income before depreciation and amortization	2.41	2.55	4.56

This ratio is established and based on French GAAP, and net debt at December 31, 2004 takes into account the consolidation in 2004 of certain items previously shown off-balance sheet (Tele Invest and Tele Invest II, which respectively held 10% and 3.57% of the Polish operator TP S.A.'s capital, and the vehicles used in the context of receivables securitization programs, amounting to a total of €3.7 billion).

For reference purposes, the following chart sets out an analysis of cash flows for the financial years 2002, 2003 and 2004.

Cash flow (in millions of euro)	2004	2003	2002
Net cash provided by operating activities	12,818	11,322	11,839
Net cash used in investment activities ⁽¹⁾	(5,564)	(3,737)	(11,514)
Net cash provided by operating activities less net cash used in investing activities (Free cash flow)	7,254	7,585	325
Change in short-term marketable securities ⁽²⁾	(1,601)	1,833	0
Free cash flow, excluding the change in short-term marketable securities ⁽²⁾	5,653	9,418	325
Proceeds from the sales of investment securities	(2,716)	(3,046)	(1,436)
Free cash flow excluding sales of investment securities	2,937	6,372	(1,111)

(1) In 2004, investment transactions include, in particular:

- €2,015 million for the repayment of the Equant CVR; and
- €2,842 million in connection with the repurchase of minority interests in Orange (€469 million) and Wanadoo (€2,373 million).

(2) Investing net cash in SICAVs (short term marketable securities) is considered for accounting purposes as net cash used in investing activities.

For the calculation of free cash flow excluding asset disposals, these short term marketable securities are nevertheless considered as cash and included in this amount.

For more information on changes in net financial debt and cash flow, see section 1.4 "Financial debt and capital resources, liquidity and cash-flows" of the Financial Report.

4.2.2 "TOP" PROGRAM

France Telecom's return to a healthier financial situation depends above all on improvements in its operational performances. The "TOP" program is France Telecom's plan for improving its operational performance. It strives to enable the France Telecom Group to achieve optimal levels of performance for each of its activities by 2005 and to generate more than €15 billion in free cash flow over the period from 2003 to 2005, which will be allocated to reducing debt.

Since the beginning of 2003, France Telecom has been positioning itself to complete this program. Each member of the Executive Committee is responsible for one program. Each program is broken down into projects. Each operating division therefore manages a certain number of projects specific to it.

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There are also cross-company projects that encompass the different functions of the Group. These are programs concerning purchasing, investments, general overheads, working capital requirements, the information system, research and development, communication expenses, logistics and real estate.

A central steering unit, initially reporting to the Chief Financial Officer, and which has become a Division in its own right since April 2004, provides the operational divisions with support to help them achieve their objectives, ensures the coherence of the whole of the "TOP" program, organizes reporting and informs the Executive Committee of any deviations. It proposes, where necessary, corrective measures or the launching of new projects.

Along with those working directly on the projects, all of France Telecom's employees have been mobilized to become involved in the "TOP" program. France Telecom's executives have a major role in mobilizing their teams. To emphasize their responsibility for the success of the program, the Executive Committee has decided to base the variable part of managers' salaries principally on the results of the "TOP" program. In addition, in order to increase France Telecom's reactivity and to accelerate its rhythm, the target results and budgets of all the divisions and functions, as well as the variable part of their managers' salaries, are redefined every six months.

During the launch phase, at the beginning of 2003, priority was given to activities that would provide rapid results (for instance, the reduction of general overheads: reduced usage of external consultants and temporary employees, a new travel policy, reduction of communications expenses). The projects then entered, from the beginning of 2004, the deployment stage entailing a restructuring of processes, a systematic attempt to share resources and the implementation of synergies with the goal of increasing the Group's operational performance on a long-term basis.

The main "TOP" Program projects

The following are examples of the most significant projects in the "TOP" program:

- In connection with **purchases**, the "TOP Sourcing" project has dealt with more than €9 billion in purchases relating to 80 categories of purchases. This resulted in the reduction of the portfolio of the suppliers concerned by nearly 70% and led to savings of more than €700 million for 2003; the figure for 2004 is estimated at around €1,700 million. The target is to achieve savings of €4 billion over the period from 2003 to 2005 (see section 4.9 "Suppliers").
- In relation to **investments**, the establishment of corporate governance mechanisms, such as the investment committees, has allowed investments in productivity and growth programs to be prioritized. Investment expenditure was focused on growth sectors, such as the development of ADSL and investments in the 2G and 3G wireless sector. Thus, the Group's level of investment will ensure long-term growth in key sectors.
- In order to quickly reduce the level of **operational expenses, excluding depreciation and amortization**, savings were produced from external expenses, due in particular to "life-style" reductions (a new strategy concerning expenses related to travel, consulting and temporary work). The actions taken by the "savings trackers" network and the spread of best practices further contribute to more efficient management.
- The "**reengineering**" of operational processes and the **internalization** of activities that were previously outsourced allows for a better optimization of resources and a more efficient control over costs. Examples include the streamlining of access costs at Equant, the streamlining of international traffic delivery at Orange in the United Kingdom, the improvement of maintenance operations on the fixed line network in France and the streamlining of the information system of Orange France. Furthermore, certain "lean management" programs have been put in place in connection with network intervention; subsequently, this measure has been deployed in the customer on-site assistance units (*unités d'intervention*), in particular by making use of portable tools (*outils nomades*) to optimize the technicians' rounds. Transpac also used this method. In connection with networks, Networks Planning Groups (NPG) have been set up in 10 countries to optimize investments and network operating costs.
- With regard to **information systems**, actions undertaken within the framework of the "TOP" program since the beginning of 2003 have been continued, and emphasize increasingly those projects that align information systems with the integrated operator strategy.

Information system expenses for the Group (part of operational expenses excluding depreciation and amortization of tangible and intangible investments) were maintained in 2004 at a level similar to that for 2003 (an increase of 3%), itself a reduction of 20% as compared to 2002. Taking into account the growth in revenues, the ratio of information system expenses to revenues fell very slightly.

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Under "TOP", a specific convergence program was launched with regard to information systems and networks, entitled "TOP IT&Network (IT&N)". At the beginning of 2004, the "Free Oxygen" exercise made it possible to reallocate nearly €80 million in information system investments towards convergence projects and information systems for new services such as ADSL television or Voice over IP. In order to direct the convergence of information systems at the Group level, "IS alignment committees" decide on the priorities for the convergence of business and information systems for the main functional areas, as well as the major phases for such convergence. These committees reviewed the four main areas of application in 2004: CRM (customer relationship management), invoicing, delivery of services and network management.

Simultaneously, the concentration and reduction in the number of projects at France Telecom S.A. continued (a decrease of 10% in 2004 as compared to 2003) and 4% of the projects already in place at France Telecom S.A. were stopped or frozen in 2004.

The concentration of calculation centers has increased substantially (the number of calculation centers in France decreased by 30% in 2004 and the program was launched elsewhere in Europe, particularly in Poland). The program will continue in 2005, especially in relation to Orange. The consolidation of facility management in France, particularly between France Telecom S.A. and Orange France, has continued, and the rate of standardized computer workstations exceeded 80% in France.

- The priorities of the project to **decrease working capital requirements** are to reduce receivables and inventories and to control supplier debts. Based on operating working capital requirements of €4.5 billion in 2002, the reduction in working capital requirements was €1.3 billion in 2003 and €0.7 billion in 2004, i.e. an aggregate of €2 billion by the end of 2004 compared with the objective to decrease operating working capital requirements by €1.5 billion for the entire period from 2003 to 2005.

Main Group-wide transformation programs

During the first half of 2004, to strengthen responses to changes in customer requirements, in the first instance, as well as to accelerate the synergy of the various Group business segments, the "TOP" projects were restructured into four main Group-wide transformation programs based around four themes: Marketing and Branding, Customer Facing, IT&Network (IT&N), and Support Functions.

- The aim of the "Marketing and Branding" program is to develop the integrated operator strategy through a marketing and branding policy based on the convergence of products and services. It defines converging products and services, the branding structure for the entire Group, and customer segmentation. It contributes towards establishing the Group's customer relations policy.
- The "Customer Facing" program is the transformation program for the Group's customer relations policy. Its goal is to set up a single customer relations policy for the integrated Group and to achieve excellence in this domain. It aims to offer superior quality of service, simplify access to products and services, develop a deep understanding of the client, reduce the time involved in bringing products and services to market while minimizing the costs of distribution and service channels.
- The "IT&N" program develops solutions for networks and information systems and provides a framework for the integrated operator by promoting the development of new converging services. The objective is to improve the services offered to customers and thus provide France Telecom with a competitive edge. It aims to extract maximum benefit from the synergies within the Group in relation to information system applications, service platforms, network operation and purchases from other operators. It also establishes the Group governing principles applicable to both networks and information systems.
- The "Support Functions" program allows the support functions (Human Resources, Finance, Communications, Legal, Real Estate, Purchasing, Supplies, Logistics) to guarantee coherence within the Group, while minimizing costs. Their goal is to provide services to the operating divisions while striving to pool services, achieve excellence and act as a business partner on a daily basis by contributing their expertise. The program defines a target structure for those functions based, in particular, on examples taken from other groups of a similar size and whose activities resemble those of France Telecom. It closely analyzes the key procedures required in terms of efficiency, speed and cost. Finally, it determines the action plans needed to develop skills in such areas.
- At the close of 2004, a fifth program, "Innovation Everywhere", was launched for the purpose of encouraging innovation throughout the Group apart from Research and Development, technology and marketing. The aim of the program is to showcase management and results of innovation within the Group, add to existing activities, make managers more accountable with regard to innovation, encourage and value innovative behaviors in all areas and propose, experiment with and implement new methods.

For a detailed analysis of the "Results of the "TOP" Operational Improvements Program", see the Financial Report, section 1.1.2.2.

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4.2.3 A GROWING MARKET

France Telecom's strategy is a response to the climate of change in the telecommunications service sector, which is a growing market underpinned by a high rate of innovation and use of new technologies.

According to EUROSTAT estimates, the proportion of Gross Domestic Product or GDP represented by overall telecommunications expenditure (services and equipment) has tended to stabilize in recent years, which would indicate that telecommunications service activities are growing at a rate comparable to that of GDP.

	2004	2003	2002
European Union (15 countries)	3.2 %	3.2 %	3.1 %
Germany	3.0 %	3.0 %	2.9 %
France	2.5 %	2.5 %	2.6 %
United Kingdom	3.7 %	4.0 %	3.3 %
Italy	3.2 %	3.2 %	3.1 %
Japan	4.3 %	4.3 %	4.3 %
United States	3.9 %	3.3 %	3.4 %

Source : EUROSTAT "structural indicators ", 2005.

Annual data regarding expenditure on material, equipment, software and other services relating to telecommunications, as a percentage value of GDP (gross domestic product).

Trends in the world market

The world market for telecommunications services, valued at \$1,098 billion by Idate, grew by 6% in value in 2004 compared to 6.6% in 2003. Based on forecasts for the coming years, growth is expected to continue at an annual rate of approximately 5% between now and 2008 (source: Idate).

The momentum of the sector is mainly driven by Internet and data services (14.4% increase in value in 2004 and an expected annual 12.1% increase for the period from 2005 to 2008), and wireless telephony (12.6% increase in value in 2004 and an expected 7.7% increase annually for the period from 2005 to 2008). The number of mobile telephones in service exceeds the number of fixed lines. In 2004, there were 1.6 billion mobile telephones compared to 1.2 billion fixed telephone lines throughout the world (Idate estimate).

Steady growth in Europe

In 2004, the European market continued to grow more quickly in value than the North American market (4.1% increase compared to 2.3% increase, according to Idate). Idate believes that this trend should continue in 2005 (3.5% increase in Western Europe compared to a 2.5% increase in the United States). Wireless telephony has become the sector's biggest segment in Europe with 52.4% of the market in 2004 (46% in 2003). The continued growth of wireless services will be spurred on by higher speed services (GPRS then UMTS) along with the arrival of new services (MMS, content), with expected growth of more than 4.4% in value per year between 2005 and 2008. However, the Internet and broadband should remain the most dynamic segment with an average growth rate estimated at 8.4% per annum between 2005 and 2008 for all five principal Western European countries (source: Idate).

Germany and the United Kingdom are still the biggest markets in Europe (with 21.7% and 17.1% of the Western European market, which included 17 countries), followed by France and Italy (with 14% and 13.3% respectively) (source: Idate).

4.2.4 FRANCE TELECOM'S STRATEGIC VISION

France Telecom has a complete portfolio of activities, including fixed line, data, wireless and Internet services, covering all customer segments (consumers, small and medium sized businesses, multinationals) and all types of usage (personal, domestic and professional) in most situations (home, office, mobile).

France Telecom intends to take advantage of its position as leader in France and Poland and its leading positions in the United Kingdom by number both of wireless customers and personal Internet users, as well as in Europe in these same areas. France

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Telecom's strategy consists in using these major strengths to achieve profitable growth based on the new model for the telecommunications industry, as explained below, while implementing the integrated operator model.

4.2.4.1 A new telecommunications industry model

During the recent period of development of new methods of communication and the gradual process of learning to use them, customers have had to adapt to extremely fragmented services. This is linked to the fact that the telecommunications industry is still compartmentalized among fixed line, wireless and Internet services. The terminals in each case are different, the service platforms independent and customers have to manage these differences on their own:

- customers are required to use several mailboxes (fixed, wireless, Internet) and several address books (stored in the memories of their fixed lines, wireless phones and Internet messaging systems);
- several "identities" are required for the services (telephone numbers, e-mail addresses);
- applications can be incompatible with those of their contacts (as is currently the case with instant messaging programs); and
- there are numerous online payment methods, which are not universally accepted by businesses.

France Telecom believes that these integration issues reduce customers' ease of use and impede the optimization of efficiency gains from the increasingly numerous and sophisticated services and tools, resulting in a risk of a slowdown in market growth. France Telecom wants to anticipate the structural changes in the industry and introduce a new model for providing its customers with telecommunications services. This means integrating networks and services in order to offer customers a single set of services regardless of the network, platform or terminal they use. Customers need to be offered terminals that are ergonomically simple and familiar. The integrated offer that meets this strategic vision will, for example, include:

- single sign-on points;
- messaging services that can forward messages to each other according to the customer's instructions;
- notification that an address book contact is present and available; and
- access to services on any access network or terminal.

This would be a major change in model which will allow customers to define and personalize their services. The services would then become multi-access. The focal point then shifts from the network to the user: the customer is at the center of his own network.

Several technological breakthroughs will encourage this revolution:

■ Widespread use of the IP protocol on all networks

The IP protocol will be the means for a greater degree of inter-operability between the various networks and types of services. This will begin to challenge the "silo-based" structure of the present networks (fixed line voice, fixed Internet and wireless) each formed from specialized terminals accessing dedicated services using separate infrastructures and platforms. It will be possible to make terminals, then platforms and services and large parts of the networks common to the various categories of services.

■ Widespread use of broadband

Technologies such as ADSL, Wi-Fi, gigabit Ethernet and UMTS currently offer very high speeds on all fixed or wireless networks at a competitive price.

In parallel, developments in customer terminals, such as multimedia PCs, digital cameras and camcorders, multimedia mobile phones with built-in cameras and game consoles, are leading to the need to exchange very high volumes of data, which require high speeds to provide satisfactory ease of use.

■ Mobility everywhere

Technology now satisfies the expectations of continuous personal communication capacity: the speed and functionality capacities of wireless networks will be considerably extended by the commissioning of UMTS while local wireless technologies (Wi-Fi) are being introduced.

■ Innovative multi-access terminals

With the appearance of innovative terminals equipped with multimedia facilities, built-in storage and operating systems, services can be made increasingly independent of the type of terminal. In parallel, technical solutions make it possible to

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connect various types of terminals to different types of networks. For example, a wireless phone can be connected to a fixed line network through Bluetooth, a PC can be made wireless through GPRS/UMTS or Wi-Fi, and a television can be connected by ADSL.

Domestic networks will play a major role in this greater flexibility in the allocation of services to terminals and of terminals to networks.

■ Open systems facilitating inter-operability of networks

The inter-operability of networks will be made easier, not just by the widespread use of the IP protocol by the networks themselves, but also by the implementation of open platforms such as authentication platforms and transaction platforms, with Application Program Interface (API) and very flexible activation mechanisms such as web services.

France Telecom has introduced major innovations in order to make this transition from the “old world”, structured around narrowband fixed line access, broadband Internet access, wireless access and data transmission networks, towards a “new world” that will be organized around personal usage, domestic usage and corporate communications services.

In terms of the evolution in the telecommunications industry, these technological advances lead to a convergence of the businesses of Internet access providers and telecommunications operators.

■ Evolution of the business of Internet access providers and telecommunications operators

After the introduction of the Internet, when Internet access providers sought, above all, a “media” economic model which develops clientele through online publicity and e-commerce, it is now clear that Internet access providers must integrate their business activities with those of telecommunications operators in order to profit together from broadband services by offering:

- new, advanced Internet services (online games, photo albums, image communications);
- image services (Television through ADSL, video-on-demand);
- advanced telephony services (personal communications, videophone); and
- advanced wireless services (Image messaging, videophone, UMTS).

Broadband access is also transforming telecommunications operators whose goal is to provide new services, such as games, Voice over IP, videophone, television or a secured Internet connection for households.

These two evolutions in the business of Internet access providers and telecommunications operators lead clearly to a common development strategy for services, based on the spread of broadband access in order to meet these converging needs.

4.2.4.2 France Telecom adopts the model of an integrated operator

France Telecom is adapting its strategy to the new model of the telecommunications industry. The strategy, based on the model of the integrated telecommunications services operator, is structured around the following poles:

- In terms of business activity areas, the core areas will now be wireless services and broadband access services, providing multi-service offerings;
- In terms of services, the three services of the Group are the following:
 - “Personal services”;
 - “Home services”;
 - “Enterprise services”.
- In terms of organization, the Group was restructured in March 2004 (see section 4.3.2 “Structure of the France Telecom Group”) with the creation of five operating divisions (Enterprise Communications Services, or “Enterprise”; Home Communications Services, or “Home”; Personal Communications Services, or “Personal”; Sales and Services France; International) and in 2004 it repurchased the minority shareholdings of Orange S.A. and Wanadoo S.A, merged Wanadoo S.A. and Wanadoo France into France Telecom S.A., and effected the IPO of PagesJaunes (62% of which was held by France Telecom S.A. at December 31, 2004).
- The integrated operator’s model is primarily based on the establishment of an integrated and efficient network and information system in terms of cost and quality of service. In connection with information systems, following an initial phase

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of streamlining and simplification under the “TOP” program in 2003 and 2004, the convergence of the information system is in the process of being completed due to the alignment of billing procedures for online content and customer relationship management (CRM) procedures as well as the consolidation of infrastructures and data processing centers. In connection with networks, following an initial stage of converging fixed line and wireless telephony in the transportation networks, which allowed voice traffic to be carried on a single-circuit switching network and data traffic on a unified ATM packet network, the new infrastructures being developed will allow voice and data traffic to be carried on the same infrastructure, which will lead to a reduction in investment and operating costs.

- In addition, in its role as integrated operator France Telecom relies on:
 - a focus on Research and Development, innovation and content aggregation, which affects all the customer and network divisions, in order to make available to the Group’s customers, at the most opportune moment, products and services that represent cutting-edge technical and commercial innovation;
 - a sales and services force that constitutes a single interface for customers and promotes innovative services while simultaneously minimizing costs through the pooling of services (call centers and customer services),
 - support functions (Human Resources and Finance) that ensure coherence at the Group level, while also minimizing costs.
- Through its customer divisions (“Personal”, “Home” and “Enterprise”), France Telecom, as an integrated operator, is gradually putting in place a unified segmentation of its customer base. It is developing and offers its customers services based primarily on its core activities: wireless technology and broadband, by exploiting the results of group-wide projects designed to offer greater ease of use and total fluidity between various networks (see section 4.2.5.1 “Accelerating the momentum of growth and integration: The “TOP Line” program”).
- Finally, France Telecom is implementing outside France (with priority given to strategic countries such as Poland and the United Kingdom) the methods, techniques and services that it has developed in France in connection with the integrated operator model.

4.2.5 IMPLEMENTING FRANCE TELECOM’S STRATEGY

In order to implement its profitable growth strategy based on the new model for the telecommunications industry, France Telecom will first make use of the transformation undertaken in order to achieve operational excellence.

This is the purpose of the “TOP” program, which is not just a cost-cutting program, but strives to improve France Telecom’s operational performance (efficiency of working practices, excellence in operations and excellence in customer relations) and fundamentally transform the company with a view to implementing the integrated operator model.

On this basis, France Telecom intends to use its first-class portfolio of assets, its innovation potential and its strategic partnerships to successfully implement its integrated operator model and accelerate the momentum of growth. See section 4.2.5.1 “Accelerating the momentum of growth and integration”.

This profitable growth strategy is naturally defined for each market or type of service and for international operations. See section 4.2.5.2 “Main actions for implementing France Telecom’s strategy”.

4.2.5.1 Accelerating the momentum of growth and integration

In the second half of 2003, France Telecom launched a growth initiatives program called “TOP Line” to accelerate the momentum of growth. In order to sustain this momentum, France Telecom is mobilizing its innovation and R&D potential, relying on strategic partnerships and implementing the model of an integrated operator.

The “TOP Line” Program

The “TOP Line” program includes about 50 growth initiatives projects under the responsibility of the operating divisions and 13 cross-company projects striving to develop and launch new services. A member of the Executive Committee is responsible for each project. Some projects will allow France Telecom to work better as an integrated group while other projects relate to innovations that France Telecom will be launching in specific areas such as personal communications, new broadband services, and implementation of company-wide networks.

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The priority for personal communications is to develop applications offering greater ease of use and total fluidity between the various networks. Five projects are being conducted with the goal of offering customers new services:

- management of identity and sign-on procedures independent of the access network (cross-company project: identity/sign-on);
- a single address book that can be used from any terminal or service (cross-company project: address book);
- notification that an address book contact is present and available (cross-company project: contact (*présence*));
- ability to contact someone on their chosen network or terminal regardless of which network or terminal they are being contacted on (cross-company project: availability); and
- simple and universal payment systems (cross-company project: payments).

In the new broadband services field, France Telecom is investing in its network to offer more services to view and communicate still and moving images: ADSL television, photo and video albums, personal telephony, video conferencing and video-on-demand. These services relate to the following cross-company projects: multi-service ADSL, Home Gateway (implemented in 2004 under the name "Livebox"), Videophone, Voice over IP, DRM and Content aggregation.

For the corporate sector, innovations developed by France Telecom will allow employees on business trips to access the whole of their company's information system, messaging system and applications, with the same degree of security that they have in their offices. France Telecom is also extending its activities to the operation of internal corporate networks in order to relieve companies from a considerable increase in the operational workload. Due to widespread use of IP, companies will feel the benefits of the gradual removal of the fragmentation between private networks and public networks. Lastly, France Telecom will offer full network management services to companies on a more frequent basis.

Mobilizing the Group potential for innovation and R&D (see section 4.7 "Research and development")

This strategy of quickly developing its services is mobilizing the Group's innovation and R&D potential in all the main areas of communications technology:

- Network technologies: very high speed transmission on fixed line networks, optimized use of the Hertz spectrum, new generations of IP networks;
- Functional middleware: communications middleware (identity, presence, localization, contact list, profile management), security technologies, payment mechanisms, technologies to manage conditional access and rights; and
- Application middleware: development, integration and distribution of applications; development interfaces ("API"), home gateways, home networks, image processing.

All this expertise is accessible to all the France Telecom companies and provides them with a competitive advantage.

Innovation is therefore one of the Group's main priorities. Accordingly, France Telecom will be increasing its R&D efforts. In terms of operational expenses before amortization and depreciation plus tangible and intangible investments, these efforts should represent about 1.5% of the consolidated revenues of the Group in 2005 as compared to approximately 1.3% in 2004 and approximately 1.1% in 2003.

Partnerships to develop new services and emphasize France Telecom's individuality

France Telecom intends to remain focused on its core business: network deployment and operation, development and marketing of its network services and end-to-end connection services, in all fixed line or wireless technologies, all technical protocols and in all configurations of use whether in public or private networks. In addition, a fundamental aspect of France Telecom's expertise is to assist customers in using its networks and services by providing the consulting and integration services required.

France Telecom intends to rely on strategic partnerships to create a competitive advantage, or to integrate new technologies where a critical size to develop these advantages could not be achieved alone. The priorities of the strategic partnerships will be in four areas:

- networks and information systems support technologies;
- terminal equipment (for example in the wireless sector with signature devices developed by suppliers according to ergonomic specifications defined by Orange);

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- content (for example with regard to new offers on ADSL); and
- distribution channels, in order to increase sales, develop customer loyalty and make it easier to learn how to use these new services.

4.2.5.2 Main actions for implementing France Telecom's strategy

The Group's strategy of profitable growth consists of basing its development on the satisfaction of the customers' needs and expectations in three main areas:

- "Personal services", essentially consisting of wireless services. In this area, the key to France Telecom's strategy is reinforcing the growth of personal communications services through an intimate knowledge of customers' needs, with a view to offering them the services that interest them to make the best of multimedia applications. See section 4.2.5.2.1 "Reinforcing the growth of personal communications services ("Personal services)".
- "Home services", provided predominantly in the customer's home. The key strategy of the Group in this area consists in enhancing such services through broadband (see section 4.2.5.2.2 "Enhancing home communications services ("Home services") through broadband").
- "Enterprise services", whose goal is to satisfy the totality of the needs of companies through better solutions that combine both performance and innovation, in France and internationally (see sections 4.2.5.2.3 "Development of enterprise communications services ("Enterprise services") and 4.2.5.2.4 "Equant's successful integration").

This strategy is implemented internationally, mainly through internal growth and a focus on the most promising assets, in particular, the strategic asset constituted by the Polish operator, TP Group (see section 4.2.5.2.5 "International strategy").

4.2.5.2.1 Reinforcing the growth of personal communications services ("Personal services")

In increasingly competitive markets, the personal communications services (or "Personal services") division, which encompasses the entire Orange subsidiary, aims to reinforce its growth through three methods: intimate knowledge of the customer's requirements, new services available in wireless broadband, and strengthening of the Group's excellent operational performance by way of integration and convergence of services.

In depth knowledge of customer needs: Offering a unique and differentiated experience

After the pragmatic development of networks, winning and securing the loyalty of the best customers and improving performance, the "Personal" strategy is focused on a sales and marketing approach that is as close as possible to customer requirements. Orange's goal is to increase the average revenue per user in terms of both voice and multimedia services and to continue its strategy of obtaining and retaining customers by focusing on the most valuable markets.

In order to achieve this, the "Personal" division applies a standardized segmentation strategy based on analysis of customer needs in all countries in which the division operates. It enables the specific range of needs of each customer to be taken into account, from the definition and specification of handsets to the services offered. Together with portable handset manufacturers, in 2004 the "Personal" division thus developed an exclusive range ("Orange Signature") with optimized ergonomics to facilitate the use of multimedia services. More than 20 exclusive "Signature Devices" handset models have been launched on the market. They represented more than 25% of new handsets sold in 2004. The "Orange Signature" program now extends to all types of handsets in order to provide Orange customers with a unique user experience.

This differentiation policy also appears in the "Orange World" multimedia services portal through a customized and customizable approach (23% of Orange World customers have personalized their home page) and a rich and dynamic editorial line.

Arrival of broadband in wireless telephony – a new growth sector

The Personal division has launched its broadband services in France and the United Kingdom ("*Orange Intense*" in France). The Personal division, believes that the best approach combines various means of cordless access so that each customer receives the highest level of service depending on his or her location and the terminal being used. The Personal division combines its wireless broadband telephony strategy with UMTS, EDGE and Wi-Fi technologies.

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The Personal division thus positions wireless telephony as a new medium which offers more images, sounds and live relays. In France, it is already possible via UMTS technology to watch television using one's mobile telephone (11 channels). Orange has demonstrated in the multimedia sector its ability to make use of various partnerships to supply services through business models allowing for the remuneration of partners, such as "SMS+" in France and Orange Gallery. This policy encourages the development of innovative services on its networks.

In the corporate market, the Personal division intends to strengthen its position, in particular through the use of integrated offers such as Intranet and e-mail access via wireless telephony. The Group therefore launched, in 2004, a personal services solution providing corporate customers with permanent access to their universe of communications, built around fixed line, wireless or Wi-Fi access: "Orange Business Everywhere".

Operational excellence through integration and convergence: "One Orange within One FT"

France Telecom's repurchase of all the minority interests in Orange S.A. improves integration within the Group. The Personal division actively contributes to all group-wide company programs, making it possible to realize the integrated operator strategy.

Orange is investing in its network and equipment to improve all customer services and offer unique and innovative services by adding intelligence to the network. This policy is applied in a pragmatic manner using standardized and shared infrastructures and platforms within the France Telecom Group and between the various Orange operations.

Amongst the new services, video telephony is representative of a new generation of converging services which are available and can be operated over all of France Telecom's networks: wireless services via Orange Intense, fixed line services via MaLigneVisio and Internet via Wanadoo Visio.

4.2.5.2.2 Enhancing home communications services ("Home services") through broadband

The development of broadband is the foundation of the new integrated services offered by the Group and is a major priority for the Group because it enables the development of an entire range of new "Home services", particularly Internet access, broadcast or on-demand television and new communications services (videophone, Voice over IP), while producing a return on all of the capital spending already incurred in both the [copper pair] network and the carrier network.

4.2.5.2.2.1 The "broadband for everyone" plan and new uses for broadband

The "broadband for everyone" plan

The "broadband for everyone" plan announced by France Telecom's Chairman aims to make broadband technologies available throughout all of France. The objective regarding ADSL coverage, which reached 90% at the end of 2004, has been broadened and accelerated to provide broadband coverage to 96% of the population by the end of 2005 and 100% coverage by the end of 2006. In order to implement this strategy in areas which are too far away from a telephone exchange to receive ADSL, France Telecom launched alternative cordless technologies coupling Wi-Fi or satellite, as well as Wimax, a technology combining Wi-Fi and Wireless IP.

The growth of the ADSL base is expected to continue at a high rate. Broadband Internet access will become the norm in France. The goal is for more than 65% of all households connected to the Internet to be connected via broadband at the end of 2005, compared to approximately 50% at the end of 2004.

In addition, the Group is continuing the strong expansion of ADSL in Spain, the United Kingdom and the Netherlands by putting together an offering based on unbundling and capitalizing on the development of new services implemented in France.

This strong growth of broadband enables France Telecom to develop a whole range of new services (the "Home services") developed around the "Livebox" home gateway, including:

- new communications services: videophone via MaLigne Visio and Voice over IP;
- Internet access and access to all multimedia entertainment and information services,; and
- television by broadcast or on demand via MaLigne TV.

All household communications controlled via "Livebox"

In July 2004, France Telecom launched "Livebox", a new version of the "home gateway" which, connected to the fixed line telephone socket, provides broadband access for household communications services. Whether surfing the Internet, watching

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television via ADSL, communicating via videophone, or playing networked games, each person is able to take advantage, with the greatest of ease and safety, of multimedia equipment, Voice over IP telephony, personal computers, televisions, cine-cameras and video game consoles.

Equipped with an ADSL modem and Ethernet, Wi-Fi and Bluetooth communication interfaces, "Livebox" adapts to all types of terminals and constitutes a single means of access to a world of entertainment, uses and services, etc, that is at the forefront of the latest technologies.

"Livebox", which evolved in connection with the "TOP Line 'gateway +'" project and which involved all entities within the Group, is the central piece of equipment around which the integrated operator home services have been developed.

New communications services

In the second half of 2004, France Telecom launched MaLigne Visio, which enables a person speaking on an ordinary telephone line to see persons to whom he or she is speaking through a videophone (a new generation of "telephone" incorporating a camera and a screen). This service is already available to approximately 75% of the French population throughout mainland France at the same price as that for premium flat rate offers (*offres d'abondance*) on Public Switched Telephone Networks.

This service constitutes one of the first examples of France Telecom's strategy as an integrated operator. In this respect, it is possible to "videophone" Wanadoo broadband web users that subscribe to Wanadoo Visio or users of Orange Intense, a third-generation wireless telephony service provided by Orange and launched at the end of 2004 via the UMTS network.

Moreover, the first Voice over IP services were launched starting in August 2004 with two pricing options: unlimited use or single price call. These Voice over IP services have been very successful given that, by the end of 2004, Wanadoo had approximately 144,000 customers.

Internet access and access to all content services

In parallel with extended coverage, France Telecom offers upgrades to significantly higher speed services of up to 8 Mbit/s (soon to be increased to 16 Mbit/s) that include ancillary services such as anti-spam and anti-virus services (the "*débitMax*" option).

Centered around ADSL, traditional Internet usage (i.e. access to content, communications services (e-mail and chat), online games and storage of personal content such as a digital Photo Album) will be enriched by greater interactivity through the use of Voice and video over IP.

In addition, customers will have direct access to content and multimedia services via MaLigne Visio: weather reports, sport and cinema information, assistance with school work entertainment and horoscopes.

Television by broadcast or on demand via MaLigne TV

The "MaLigne TV" service was launched at the end of December 2003 in Lyon and has been available in Paris since the end of March 2004. MaLigne TV gives access, via an ADSL line, to a multi-channel television package provided by TPS or Canal Satellite and makes it possible to watch on-demand programs on television while using the telephone or broadband Internet. In 2005, a video on-demand service will be added to that service.

At the end of 2004, 75,000 customers had already chosen this form of pay television. France Telecom foresees strong development of these services which will be available to around 10 million households by the end of 2005.

Working towards a range of multi-service offerings

Higher ADSL speeds allow the various services described above to be made available. As a result of the merger of France Telecom and Wanadoo, they can be offered simultaneously and in an integrated manner. The customer will therefore be able to choose between a range of multi-service offerings and will in time be able to enhance them by adding new options such as:

- On October 15, 2004, the Home division launched a service coupling access to MaLigne TV with access to compatible ADSL Internet with the Voice over IP service mentioned above, and
- On December 15, 2004, the Home division launched a service coupling MaLigne Visio with ADSL Internet access.

4.2.5.2.2.2 Developing innovative offers for fixed line consumer services

Besides its strategy to develop ADSL, and in order to optimize the utilization of the fixed line network through innovative offers, France Telecom has developed new loyalty-building price packages that are based around four main poles (innovation, premium

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flat rate services (*abondance*), simplicity and transparency), through the most comprehensive range of unlimited voice communications on the market, including the "Single Price Call" ("l'Appel à Prix Unique") (unique in France) and new integrated services such as the voice-recognition address book "*Mes Contacts*".

In connection with premium flat rate services (*abondance*), in order to meet the specific communication use needs of each type of household, France Telecom launched the "*l'illimité voix RTC*" (unlimited Public Switched Telephone Networks) range for three, five, ten, twenty or all numbers, twenty four hours a day and seven days a week, or evenings from 6:00 pm onwards and weekends.

In the voice communications field, France Telecom's customers are price and quality conscious. France Telecom selects the technology that best meets their requirements with a seamless voice-Internet package (Public Switched Networks or Telephone Voice over IP). It guarantees the convergence of offerings and pricing and assists its customers by providing them with the best products as and when they become available on the market.

Concurrently, France Telecom's goal is to increase the sale and rental of handsets for the purpose of replacing and updating household equipment and encouraging the use of services. The new ranges give preference to handsets compatible with new services (such as SMS, caller ID, etc.) and DECT cordless handsets. Thus, in partnership with Alcatel, Siemens and Sagem, six new handsets with color screens were launched in June 2004. The videophone handsets have been on sale and available for rental since November 2004.

4.2.5.2.3 Development of enterprise communications services ("Enterprise services")

In a difficult economic climate, France Telecom is offering its customers solutions that combine performance and innovation.

France Telecom's broadband service offers companies broadband connections to their sites so they can exchange a growing amount of data quickly and securely. This service helps bring the company closer to its customers, employees, partners and suppliers.

France Telecom, as an integrated operator, supplies corporate customers with all telecommunications services such as consultancy, engineering, adaptation and roll-out of network infrastructures, managed WAN or LAN networks, network outsourcing, equipment integration and user support.

To address the expectations of its corporate customers, France Telecom uses the following axes:

- integrating the latest technologies (multi-service DSL, Gigabit Ethernet, MAN, Wi-Fi, Voice over IP);
- using IP widely as a unifying means of intra- and inter-company exchanges;
- designing an Intranet solution suitable for small- and medium-sized businesses;
- creating a complete catalogue of network services so that the company does not need to manage the network, ranging from equipment integration (PBX) and virtual private networks to full outsourcing of infrastructure;
- taking into account all the possibilities for mobility of the company's employees, regardless of the terminal or the network they are using or their geographical position: solutions to connect to the company's applications when mobile (e.g. e-mail, directories, applications, etc.) from a wireless or Wi-Fi network; enlargement of the customer base using "Business Everywhere" solutions;
- offering application solutions that rely on France Telecom's network solutions (network security services, hosting of messaging systems and websites);
- offering businesses solutions to manage their relationships with their own customers (customer relations management, call centers); and
- developing partnerships with the leading market players to offer complete solutions.

4.2.5.2.4 Equant's successful integration

France Telecom announced on February 10, 2005, that it had signed a definitive agreement with Equant for the acquisition by France Telecom of all of the assets and liabilities of Equant for an aggregate amount of €578 million for the portion not owned by France Telecom. The transaction is still subject to certain conditions including the approval of Equant's shareholders at an extraordinary general meeting of shareholders.

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This transaction represents a further stage in France Telecom's strategy as integrated operator, by making it possible to:

- accelerate the implementation of a unified strategy for the corporate market that is consistent with the integrated operator model;
- make the most of Equant's key assets: an international customer base, worldwide distribution and networks, unmatched quality of service and acknowledged leadership in IP VPN technology, and
- meet the changing needs of corporate customers through the deployment of integrated solutions and services, converging offerings and infrastructures and a single customer interface.

If this transaction is completed, France Telecom believes that it will represent a long-term response to the structural challenges faced by Equant as an independent entity, and will enable France Telecom to reaffirm its commitment to its corporate customers and to consolidate its leadership in this market.

For more information regarding France Telecom's acquisition of the totality of Equant's assets and liabilities, see Note 31, "Subsequent events" in the Notes to the Consolidated Financial Statements and section 7.1 "Recent events".

4.2.5.2.5 International strategy

France, the United Kingdom and Poland are clearly considered to be vital and of high strategic importance for France Telecom. The Group has a strong competitive presence in these countries, which are economically stable and in which the Group is already well advanced in terms of the goals described above.

In addition, France Telecom considers Europe to be an extension of its domestic market.

In order to focus on its most strategically important and profitable assets, in 2003 France Telecom began to re-examine all its subsidiaries and shareholdings in order to decide whether to keep them, applying two types of criteria:

- strategic criteria:
 - market growth and profitability;
 - quality and sustainability of the competitive position;
 - potential synergies with other assets; and
 - control of the company or any definite opportunity to acquire control.
- financial criteria:
 - operating income before depreciation and amortization;
 - operating income before depreciation and amortization less tangible and intangible investments (excluding acquisitions of licenses);
 - impact on the rating issued by credit rating agencies, and in particular the impact on the consolidated net debt/operating income before depreciation and amortization ratio; and
 - potential for creating value through disposals or partnerships.

This analysis resulted in the sale, in 2003, of activities such as Casema, Eutelsat, Wind, CTE (El Salvador), and Telecom Argentina. In 2004, France Telecom disposed of Orange Danemark and reduced its holding in BITCO (Thailand) to 10%.

France Telecom believes that, in any event, strengthening the competitive position of its current operations and rapidly improving the profitability of these operations are its top priorities, and that these actions will improve its attractiveness and ability to act in the event of further development of the European market.

4.3 GENERAL INFORMATION

Before analysing the Group's main activities (see section 4.4), this section includes:

- a chart of all the Group's customers (customers of controlled companies) at December 31, 2004, at which date they totalled nearly 125 million (section 4.3.1);
- the structure of the France Telecom Group, in its form as revised in March 2004 (section 4.3.2);

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- a simplified Group organizational chart at December 31, 2004, limited to the principal operating subsidiaries at that date (section 4.3.3),
- a description of the segments, as they are used in this 2004 *Document de Référence*, presented in the same order and containing the same information as in the 2003 *Document de Référence* and as they were used for the reporting of the Group in 2004. The segmentation will be adapted in 2005 according to changes in the Group's structure and operations. See section 4.3.4.

4.3.1 CHART OF ALL THE GROUP'S CUSTOMERS (CONTROLLED COMPANIES)

At December 31, 2004 France Telecom serviced nearly 125 million customers. The chart of all the Group's customers (in thousands) at December 31, 2004 is set out below for controlled companies:

At December 31, 2004 (in thousands)

Wireless services	
France	21,241
Europe (outside France)	35,103
The world (outside Europe)	6,972
Total	63,315
Fixed line services	
France	33,784
Europe (outside France)	15,050
The world (outside Europe)	867
Total	49,700
Internet services	
France	5,038
Europe (outside France)	5,983
The world (outside Europe)	54
Total	11,075
Cable	
France	872
Total	
France	60,935
Europe (outside France)	56,135
The world (outside Europe)	7,892
Total	124,962

Definitions of customer types are set out below for each category of service:

Wireless services customers

Wireless services customers are deemed to be customers if they own a SIM card or hold a prepaid card and have made at least one call and who have not exceeded the date after which they are contractually precluded from receiving calls.

Fixed line telephony services customers

This number is the aggregate of standard analog lines and ISDN access lines in service (including fully unbundled lines), each ISDN channel being treated as one line. ISDN stands for Integrated Services Digital Network.

Internet access customers

Internet access customers are deemed to be customers if they have taken out a paid monthly subscription (under a fixed price plan) or if they actively use a free access account, i.e. access customers having registered activity during the last month as identified by actual consumption.

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Cable network customers

This number is the aggregate of customers holding a subscription to television and/or Internet services via cable.

4.3.2 STRUCTURE OF THE FRANCE TELECOM GROUP

The Group structure was simplified in December 2002 by distinguishing between operational divisions and central functions with responsibility for the whole of the Group. The Group's structure was revised in March 2004 in order to implement the strategy of the integrated communications services operator. This structure is made up of five operating divisions, five activities divisions and support functions.

In connection with its two major business activities, wireless telephony and broadband, France Telecom, in its role as integrated operator offering communications services, intends to provide its individual, home or corporate customers with an extensive and consistent range of services regardless of the various types of existing networks.

The five operating divisions are focused around customer needs and corresponding markets.

- The Enterprise Communications Services Division ("Enterprise") is responsible for the development and sale of communications services to corporate customers throughout the world. It notably includes Equant.
- The Home Communications Services Division ("Home") is responsible for the development of all home-based communications services including, in particular, broadband services via fixed line telephony in Europe.
- The Personal Communications Services Division ("Personal") is responsible for the development of communications services aimed at individuals via wireless media. It includes the whole of the Orange subsidiary.
- The Sales and Services France Division is responsible for the distribution within France of all of the Group's products intended for the consumer and small- and medium-sized business markets. It also represents the Group in communications with the local authorities.
- The International Division is responsible for the monitoring and development of the TP S.A. Group and other subsidiaries of the Group abroad, excluding foreign subsidiaries of Orange, Equant and PagesJaunes, as well as any subsidiaries connected to the Wanadoo brand.

The five activity divisions are responsible for improving the Group's operational performance.

- The Networks, Operators and Information System Division: in accordance with recent and future technological advances, this division incorporates network and information systems activities. More specifically, it is responsible for the development and management of France Telecom's networks, all types of technologies included, for the sale of services to third-party operators and for the development and maintenance of all the Group's information systems.
- The Research and Development Division, which is comprised principally of France Telecom R&D, is responsible for the activity of the Group's research programs and promotion of intellectual property. It plays a driving role in all innovation developments.
- The Purchasing Division is responsible for optimizing purchasing and operating expenses relating to investment.
- The "TOP" Program Division is responsible for implementing the "TOP" program and ensures that it is properly applied within the Group.
- The Content Grouping Division is in charge of partnerships with content suppliers and is responsible for coordinating the development of related technological platforms.

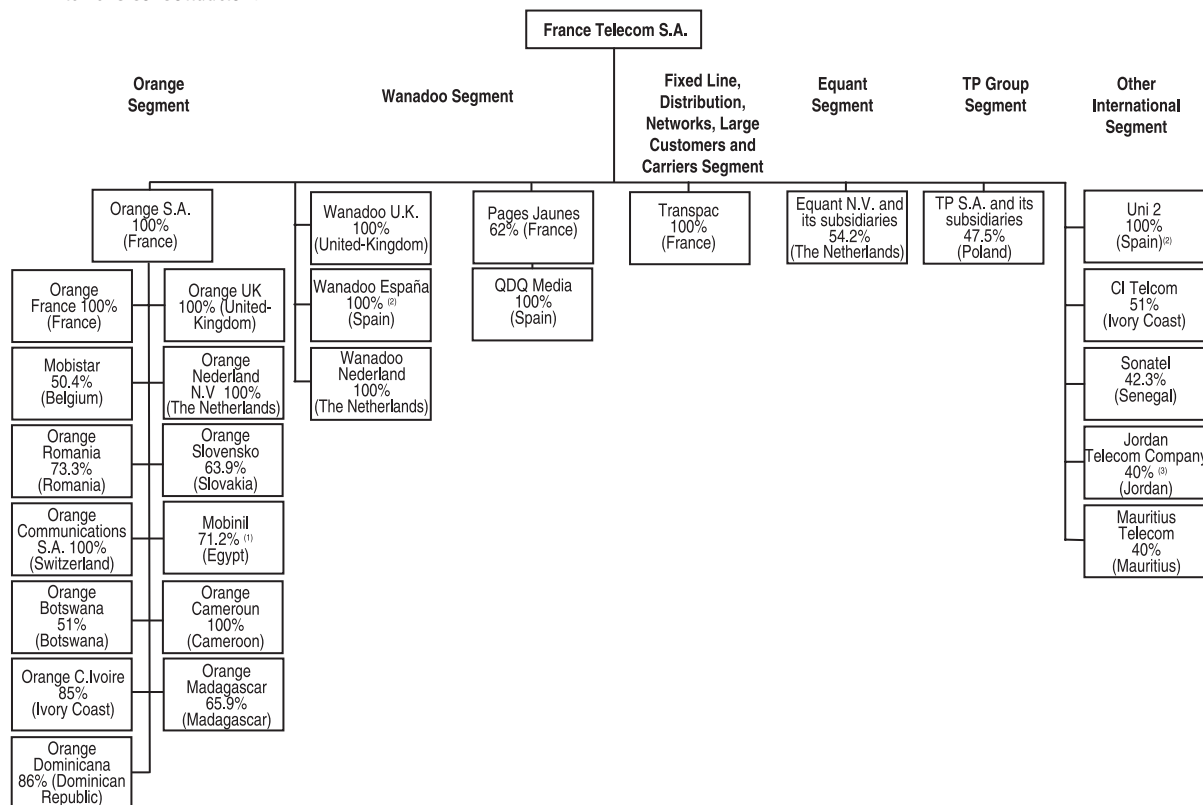
The five support functions service the operating divisions and the activity divisions and ensure the coherence of the Group's policies (Finance, Human Resources, Animation and Evaluation of Group Management Networks and Internal Communications, General Secretary, External Communications). Taking into account the strategic importance of regulation, the regulatory group reports directly to the Chairman and Chief Executive Officer.

In addition, in March 2004 a member of the Executive Committee was put in charge of ensuring coordination of Group policies relating to: marketing and branding in accordance with the "Ambition FT 2005" plan, as an extension of the establishment of the "FT 2005 missions" relating to financial rebalancing and value creation; technologies, strategic partnerships and new uses; as well as the development and optimization of human resource skills.

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4.3.3 SIMPLIFIED GROUP ORGANIZATIONAL CHART AS AT DECEMBER 31, 2004

The following diagram shows the main operating subsidiaries and shareholdings of France Telecom S.A. as at December 31, 2004. The percentage holdings shown for each company are the percentages controlled directly or the percentage control of the relevant operating company or, where jointly controlled, the percentage used for the proportional integration in connection with the consolidation.



(1) Orange and Orascom Telecom have joint control of MobiNil. Therefore, in accordance with French GAAP, MobiNil's financial and operational data is consolidated on a proportionate basis at 71.25%, the percentage of MobiNil controlled by France Telecom.

(2) At the end of 2004, Uni2 absorbed Wanadoo España.

(3) This percentage represents the share of the capital held by France Telecom in Jordan Telecommunications Company through Jitco, which holds 40.0% of Jordan Telecommunications Company and which is itself 88.0% owned by France Telecom.

4.3.4 DESCRIPTION OF SEGMENTS

In the first half of 2003, France Telecom created the following six business segments (which are used throughout the *Document de Référence*) in order to reflect the Group's development and the structure of operations on the basis of the different activities and subsidiaries:

- Orange;
- Wanadoo;
- Fixed Line, Distribution, Networks, Large Customers and Operators;
- Equant;
- TP Group, and
- Other International.

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■ “Orange” segment

The “Orange” segment covers all wireless telephony activities (in France, the United Kingdom and the rest of the world), which were transferred to Orange S.A. in 2000 following France Telecom’s acquisition of Orange plc. at the end of August 2000. This segment corresponds to Orange S.A. and its subsidiaries that as of March 2004 constitute the Personal Communications Services (or “Personal”) division. Following a public exchange offer (*offre publique d’échange*) launched in September 2003, and a subsequent tender offer (*offre publique de retrait*) followed by a compulsory purchase (*retrait obligatoire*), since April 2004 France Telecom owns all of the capital and voting rights of Orange S.A. Orange is one of the leading providers of wireless communications services worldwide. Orange owns controlling or minority interests in wireless telecommunications companies operating in 15 countries around the world, mainly in Europe (including France and the United Kingdom).

The “Orange” segment is divided into four components: Orange France, Orange UK, Orange Rest of World and Support Functions.

- Orange France is the leading wireless operator in France based on the number of active customers, with market share (including French overseas departments and territories) at December 31, 2004 of 47.7% (source: ART).
- Orange UK is one of the leading wireless operators in the United Kingdom based on the number of active customers at December 31, 2004, with market share of approximately 24% as estimated by Orange UK.
- Orange Rest of World comprises the activities of Orange’s subsidiaries in the following countries: Belgium, the Netherlands, Romania, Slovakia, Switzerland, Egypt, Botswana, Cameroon, Ivory Coast, Madagascar and the Dominican Republic. Orange has withdrawn from Sweden and Luxembourg, and it sold off its Danish subsidiary, Orange A/S, in October 2004.

■ “Wanadoo” segment

The “Wanadoo” segment brings together activities relating firstly to “Access, Portals and e-merchants”, and secondly to “Directories”, both of which were grouped within Wanadoo S.A. and its subsidiaries as of Wanadoo S.A.’s incorporation and subsequent IPO in 2000. These activities fall within the Home Communications Services Division (or “Home” division).

In February 2004, in order to integrate Wanadoo’s access and portal services within France Telecom and improve the Group’s position in the broadband market, France Telecom launched a public share exchange tender offer (*offre publique d’achat et d’échange*) for the Wanadoo S.A. shares it did not already hold, and in June 2004, a subsequent tender offer (*offre publique de retrait*) followed by a compulsory purchase (*retrait obligatoire*). Upon completion of such offers and as of July 2004, France Telecom owned all of Wanadoo S.A.’s share capital. Wanadoo S.A. and Wanadoo France, each of which principally acted as an Internet access provider, were merged into France Telecom S.A. in September 2004. Their business activity constitutes the essential activity of the sub-segment “Access, Portals and e-merchant”.

Moreover, the shares in PagesJaunes S.A. were listed and admitted to trading on the *Premier Marché* of Euronext Paris in July 2004. France Telecom held 62.0% of the share capital of PagesJaunes Group (the new name of PagesJaunes S.A.) as at December 31, 2004. The business activities of PagesJaunes Group and its subsidiaries essentially correspond to the sub-segment “Directories”. See section 7.1 “Recent events”.

■ “Fixed Line, Distribution, Networks, Large Customers and Operators” segment

The activities of telecommunications services operator in France (excluding wireless services and Internet access, which fall under the two preceding segments) make up the core activities of the “Fixed Line, Distribution, Networks, Large Customers and Operators” segment. They fall within three operating divisions (Enterprise Communications Services; Home Communications Services; Sales and Services France) or the five activity divisions (Networks, Operators and Information System; Research and Development; Purchasing; “TOP” Program; Content Grouping) or support functions. These services are mainly performed by France Telecom S.A.

■ “Equant” segment

In order to meet the data transmission needs of multinational businesses, France Telecom acquired 100% of the share capital of Global One in March 2000, and in June 2001, became the majority shareholder of Equant N.V. (“Equant”), a Dutch company, holding approximately 54.1% of the share capital at December 31, 2004. At that time, Equant provided services to 220 countries and territories. Equant is one of the leading suppliers worldwide of global IP, data, network outsourcing and application development services for multinational businesses (source: Gartner). Equant N.V.’s shares are listed on the Eurolist market of Euronext Paris S.A. and on the New York Stock Exchange (NYSE).

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In order to accelerate the implementation of a unified strategy for the corporate market in accordance with the integrated operator model, on February 10, 2005, France Telecom announced that it had signed a definitive agreement with Equant for France Telecom to acquire all of Equant's assets and liabilities. If this transaction is completed, France Telecom believes that it will provide a long-term response to the structural challenges faced by Equant as a stand-alone entity, and will enable France Telecom to reaffirm its commitment to its corporate customers and consolidate its leadership in this market. For more information regarding France Telecom's acquisition of all of Equant's assets and liabilities, see Note 31 "Subsequent events" in the Notes to the Consolidated Financial Statements and section 7.1 "Recent events".

■ "TP Group" segment

In October 2000, a consortium led by France Telecom acquired a 35% holding in TP S.A, the parent company of the Telekomunikacja Polska S.A. Group ("TP Group"). In October 2001, the consortium increased this holding to 47.5%. Following the IPO of TP S.A. in November 1998 and sales by the Polish government, the Polish government holds approximately 4% of the share capital of TP S.A. The remaining 48.5% is held by other private investors. The Polish partner in the consortium, Kulczyk Holding, sold to France Telecom the TP S.A. shares held by Tele Invest and Tele Invest II, approximately 10% of TP S.A.'s share capital in October 2004, and the balance of its interest in TP S.A.'s share capital, (3.57%) in January 2005. Since the end of January 2005, France Telecom therefore directly holds 47.5% of TP S.A.'s share capital. TP Group forms part of the "International" Division.

TP Group is the leading telecommunications service provider in Poland (source: URTiP, the Polish regulatory authority), offering a broad range of services that include fixed line telephony, line leasing, radio communications and Internet services. TP Group is also the majority shareholder in PTK Centertel, one of three wireless operators in Poland, with the balance of PTK Centertel's share capital (34%) being held by France Telecom. TP S.A. is listed on the Warsaw Stock Exchange and the London Stock Exchange.

■ "Other International" segment

In addition to TP Group, Equant, the Orange S.A. and PagesJaunes S.A. subsidiaries and subsidiaries under the Wanadoo brand, France Telecom carried out telecommunications activities in international markets. These activities are managed by the International Division. They mainly concern the incumbent operators in countries outside Europe, such as Sonatel in Senegal; CI Telcom in the Ivory Coast; JTC in Jordan and Mauritius Telecom in Mauritius. These last two companies are jointly controlled with partners and consolidated proportionately. France Telecom is also an alternative operator in Europe through Uni2 in Spain. In accordance with the policy set forth under the "Ambition FT 2005" Plan, France Telecom is carrying out a strategic review of its activities and interests in foreign markets. In 2003, it sold its operations and shareholdings in El Salvador (CTE), in the Netherlands (Casema) and in Argentina (Telecom Argentina).

4.4 PRINCIPAL ACTIVITIES

4.4.1 ORANGE

4.4.1.1 General description of Orange

4.4.1.1.1 History and development

In 1989, France Telecom formed a new division to manage its wireless telecommunications network and activities.

In 1991, France Telecom obtained a GSM900 license (which uses the Global System for Mobile Communications, or GSM, norm), in France which was extended to GSM1800 in 1998. It began operating its GSM900 digital network in 1992. France Telecom concurrently began to expand its international wireless activities, after acquiring GSM licenses, and launched operations, mainly in Europe.

En 1994, Microtel Communications Ltd., the predecessor of Orange plc., obtained a license to operate a digital GSM1800 network and began operating its GSM1800 network in 1994 in the United Kingdom.

After several transactions following which Vodafone owned the share capital of Orange plc., France Telecom finalized the acquisition of Orange plc. in August 2000 at a cost of €35.5 billion on a historical basis. In addition, France Telecom assumed the

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debt of €6.6 billion owed by a wholly-owned subsidiary of Orange plc., Orange 3G Limited, in connection with obtaining a third-generation license based on UMTS technology in the United Kingdom.

Following this acquisition, France Telecom merged its existing wireless telecommunications activities with those of Orange plc. into a new wholly-owned group whose parent company is Orange S.A., a corporation (*société anonyme*) formed under French law. The associated legal transactions were finalized in December 2000.

In February 2001, Orange S.A. shares were listed for trading on the *Premier marché* of Euronext Paris S.A. and on the London Stock Exchange (LSE), following the offer of approximately 13% of the capital of Orange S.A. At December 31, 2002, France Telecom held 86.3% of Orange S.A.'s capital. In September 2003, France Telecom filed a public exchange offer (*offre publique d'échange*) to acquire the Orange shares it did not already hold. This transaction, which was a natural stage of development for the France Telecom group in line with the "Ambition FT 2005" Plan was aimed at:

- better satisfying the growing needs of France Telecom customers for integrated services on a fixed line/wireless platform;
- developing a growth strategy based on developing new innovative services; and
- implementing a strong cooperative model between the various business activities of the France Telecom Group in key areas such as strategy, development of new services, customer relationship management and centralized purchasing.

As a result of the public exchange offer, and subsequent tender offer (*offre publique de retrait*) followed by a compulsory purchase (*retrait obligatoire*), since April 2004 France Telecom has held 100% of the capital and voting rights in Orange S.A.

4.4.1.1.1.2 Activities

Orange's activities are mainly centered around voice transmission on digital networks using the GSM norm. The company believes that it is at the forefront of developments in technology increasing the speed and efficiency of its networks. For example, the roll-out of the General Packet Radio Services ("GPRS") system has allowed Orange to successfully launch its photo messaging service and provide Internet access and multimedia services via mobile phones. Most of Orange's subsidiaries offer GPRS technology, although content and services vary among the subsidiaries.

Orange intends to remain one of the leaders of the wireless communications market through continued innovation. In particular, in association with several mobile phone manufacturers, Orange has developed an exclusive range of mobile telephones (the "Orange Signature") which provide easier access to data transfer, photo messaging and generally to the multimedia services available on the Orange network.

Orange has been involved in several UMTS license attribution processes in Europe in order to offer third-generation services. Orange's controlled subsidiaries hold UMTS licenses in France, the United Kingdom, Belgium, the Netherlands, Romania, Slovakia and Switzerland. Orange's minority-controlled subsidiaries have been awarded UMTS licenses in Austria and Portugal.

Orange believes that the expansion of third-generation services is a strategic priority with high growth potential in the future. Orange is striving to become a market leader in third-generation services in Europe. In 2003 and 2004, Orange invested in the deployment of its UMTS network, and launched new services based, in particular, on this network in France (the "Orange Intense" services) and the United Kingdom, prior to the end of 2004 as scheduled. In addition, Orange deployed the EDGE technology on certain of its European networks.

The Orange segment had revenues of €19.7 billion in 2004 (€17.9 billion in 2003 and €17.1 billion in 2002). At December 31, 2004, Orange had 54 million customers worldwide for all of its controlled activities (49.1 million customers at December 31, 2003 and 44.4 million customers at December 31, 2002).

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The following tables list the countries in which Orange currently has operations, the operators, the percentage of each operator held by Orange, the total number of customers and the frequencies it is authorized to use in each of these countries for its activity. Unless otherwise stated, the number of customers refers to the number of active customers. The definition of an active customer varies according to the local market and by subsidiary, particularly for minority shareholdings.

France and the United Kingdom			Total number of customers at December 31, (in millions)				
Country	Operator	Percentage controlled by Orange S.A.(%) ⁽¹⁾	2004	2003	2002	2G licenses	3G licenses ⁽⁵⁾ Allocation date/Renewal date
France	Orange France (mainland)	100.0	20.5	19.6	18.5	GSM900/1800	August 2001/ August 2021
	Orange Caraïbe	100.0	0.6	0.6	0.5	GSM900/1800	–
	Orange Réunion	100.0	0.2	0.2	0.1	GSM900/1800	–
United Kingdom	Orange UK	100.0	14.2	13.6	13.3	GSM1800	September 2000/ December 2021

Rest of the World			Total number of customers at December 31, (in millions)				
Country	Operator	Percentage controlled by Orange S.A.(%) ⁽¹⁾	2004	2003	2002	2G licenses	3G licenses ⁽⁵⁾ Allocation date/Renewal date
Belgium	Mobistar	50.4	2.8	2.6	2.3	GSM900/1800	March 2001/ March 2001
Netherlands	Orange Nederland	100.0	1.8	1.3	1.0	GSM900/1800	July 2000/ December 2016
Romania	Orange Romania	73.3	4.9	3.3	2.2	GSM900	–
Slovakia	Orange Slovensko	63.9	2.4	2.1	1.7	GSM900/1800	June 2002/ July 2022
Switzerland	Orange Communications S.A.	100.0	1.1	1.1	1.0	GSM1800	December 2000/ December 2016
Egypt	MobiNil	71.25 ⁽³⁾	2.9	2.1	1.6	GSM900	–
Botswana	Orange Botswana	51.0	0.2	0.2	0.1	GSM900	–
Cameroon	Orange Cameroun	70.0 ⁽⁴⁾	0.7	0.5	0.3	GSM900	–
Ivory Coast	Orange Côte d'Ivoire	85.0	0.8	0.6	0.5	GSM900/1800	–
Madagascar	Orange Madagascar	65.9 ⁽⁵⁾	0.2	0.1	0.1	GSM900	–
Dominican Republic	Orange Dominicana	86.0	0.7	0.6	0.4	GSM900	–

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Minority shareholdings ⁽²⁾			Total number of customers at December 31, (in millions)				
Country	Operator	Percentage controlled by Orange S.A.(%) ⁽¹⁾	2004	2003	2002	2G licenses	3G licenses ⁽⁵⁾ Allocation date/Renewal date
Austria	ONE	17.5	1.6	1.5	1.3	GSM1800	November 2000/ December 2020
Portugal	Optimus	20.2	2.1	2.0	1.9	GSM900/1800	December 2000/ January 2016

(1) At December 31, 2004, directly or indirectly.

(2) Orange also holds a minority interest of 28.3% in MobilCom (Germany) and has announced its intention to withdraw from the German market. It sold its holding in Italy (Wind, 2003), Luxembourg, and Sweden (2004). Orange sold its shareholding in its business in Denmark on October 11, 2004 and reduced its interest in TA Orange (Thailand) from 48.9% to 10% in September, 2004. Orange sold its shareholding in India (Bombay) in November, 2004.

(3) Orange jointly controls MobiNil with Orascom Telecom. Accordingly under French GAAP, MobiNil's financial and operating data are proportionally consolidated at 71.25%. MobiNil's total customer base (at 100%) was 4 million at December 31, 2004.

(4) France Telecom holds the remaining 30% of the shares of Orange Cameroun.

(5) Orange holds 51% of Telsea, a holding company which owns 65.9% (percentage appearing in the table) of Orange Madagascar.

4.4.1.2 Controlled wireless operations in France

The table below shows the main features of the French wireless telecommunications market and the activities of Orange France including, unless otherwise stated, French overseas departments.

	At December 31,		
	2004	2003	2002
Market penetration rate in France (in %) ⁽¹⁾	73.9	69.1	64.0
Total users in France (in millions) ⁽¹⁾	44.6	41.7	38.6
Service plan (in millions) ⁽¹⁾	27.4	24.5	21.5
Prepaid (in millions)	17.2	17.2	17.1
Orange France registered customers (in millions) ⁽¹⁾	21.3	20.3	19.2
Service plan (in millions) ⁽¹⁾	12.9	11.7	10.7
Prepaid (in millions)	8.4	8.6	8.5
Market share of Orange France (in %) ⁽¹⁾	47.7	48.8	49.8
Coverage of Orange France network (as a% of the population) ⁽²⁾	99.0	99.0	99.0

(1) Information on the penetration rate, the number of users in France and the market share is provided by ART. At December 31, 2004, Orange France had 21.3 million registered customers (including French overseas departments) and 20 million active customers (including French overseas departments) (19 million active customers at December 31, 2003 and 18.8 million active customers at December 31, 2002). The ART defines active customers as those who have made or received a call over the past three months, whether billable or not, excluding SMS (source for active customers: ART).

(2) According to Orange France estimates, excluding French overseas departments.

On December 31, 2004, France was the fourth largest market for wireless telecommunications in Western Europe after Germany, Italy and the United Kingdom. The French market grew by 6.8% in 2004 (8% in 2003 and 4.3% in 2002).

The penetration rate of 73.9% (69.1% at December 31, 2003 and 64% at December 31, 2002) is still one of the lowest in Western Europe (Source: Mobile Communications). This figure is explained by the high penetration rate of fixed line telephones in

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France. Nevertheless, the priority for Orange France in the French market has shifted from customer acquisition to creating value and developing customer loyalty.

At December 31, 2004, Orange France had approximately 21.3 million registered customers, including French overseas departments, (20.3 million at December 31, 2003 and 19.2 million at December 31, 2002) with a market share of 47.7% (48.8% at December 31, 2003 and 49.8% at December 31, 2002) (Source: ART).

Prior to June 2001, Orange France offered its services under three main brands: Itinérís, OLA and Mobicarte, which have all been rebranded "Orange". According to Orange France, the spontaneous brand recognition of the "Orange" brand was 87% as of the fourth quarter 2004. At December 31, 2004, the Orange France network covered an estimated 99% of the French population (excluding overseas departments) the same as in 2003 and 2002.

GSM licenses

Orange France holds a GSM license issued for a term of 15 years, from March 25, 1991 to March 2006.

In accordance with the terms of the license, the renewal conditions of the Orange France license (as well as that of SFR, its main competitor) should be set two years in advance, i.e.: no later than March 2004. To this end, a request for comments was issued by ART in July 2003 on the basis of the retention of the currently awarded frequency allocations upon renewal.

Orange France was informed of the renewal conditions on March 25, 2004, by the French Telecommunications Minister. The main changes, which come into force on March 25, 2006, and which also apply to SFR, are as follows: an obligation to provide direct coverage to 98% of the population and an obligation to provide 99% full coverage by providing coverage to undeveloped areas (*zones blanches*) in addition to standards specifying the quality and availability of the enhanced network, particularly with regard to data transmission. The frequency usage fee will be composed of a fixed amount of €25 million per annum and a variable amount equal to 1% of revenues realized using such frequencies. Moreover, certain new obligations will apply to all wireless operators: obligations to provide local mayors and the public with information on the setting up of radio transmission facilities, services for the disabled, measures against theft of handsets and the obligation to systematically inform the subscriber, free of charge, of the handset unlocking procedure at the latest at the end of a period of the customer's contract period, where applicable, and in any event not exceeding a period of six months.

With regard to covering undeveloped areas, France Telecom signed the July 15, 2003 convention which sets out the first phase of this operation: coverage of approximately 1,800 *communes* (French local districts) with financing shared among the wireless operators and the local authorities. A supplemental agreement was executed on July 13, 2004 relating to the second phase of this operation and concerns approximately 1,200 *communes* with financing provided solely by the wireless operators.

In the French overseas departments, Orange Caraïbe operates a GSM network in Guadeloupe, Martinique and Guyana under the Orange brand. Orange Caraïbe had 593,000 customers at December 31, 2004, compared to 577,000 customers at December 31, 2003 and 546,000 customers at December 31, 2002. In early December 2000, Orange Réunion launched GSM services in Réunion where it competes with the existing operator. At December 31, 2004, Orange Réunion had 177,000 customers compared to 159,000 customers at December 31, 2003 and 139,000 customers at December 31, 2002 (source: ART).

UMTS licenses

Four UMTS licenses were awarded in France by way of a beauty contest. Only two operators, Orange France and SFR, applied. They were awarded UMTS licenses from the French State in the first round for tenders. After reviewing the terms of each license, the price was set at a one-off license fee of €619 million paid by Orange France in September 2001 and an annual license fee equal to 1% of the operating revenues from the UMTS network. Only Bouygues Télécom submitted a bid following the second call for tenders for two other UMTS licenses. Therefore, a total of three UMTS licenses were awarded in France, Bouygues Telecom having obtained its license under similar conditions to Orange France and SFR. The UMTS license awarded to Orange France in August 2001 was for a term of 20 years from the date of its award. This provides, *inter alia*, that Orange France must roll out the UMTS network from mid-2003 (58% coverage rate in voice and data at 144 Kbit/s, 7% coverage of the population at 384 Kbit/s) through mid-2009 (98% and 17% coverage of the population respectively). The ART review of the schedules for roll out of UMTS by Orange France and SFR, notably due to delays in the availability of network and terminal equipment, started in August 2003. The ART published its findings on its website in March 2004 together with the revised obligations applicable to Orange France and SFR:

- on the basis of the industrial circumstances surrounding the development of UMTS, no sanction procedure will be applied to Orange France and SFR; and

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- the commercial launch must commence no later than December 31, 2004, with a target roll-out of 58% coverage of the population by the end of 2005.

The revised obligations will be included in the individual authorizations to be issued by the ART to Orange France and SFR once the new regulatory framework has been implemented in full.

4.4.1.2.1 Orange France products

Orange France offers two types of service plans: contract plans (paid in arrears), and prepaid plans targeted at different categories of users.

Contract plans

Orange France offers two categories of contract plans: an “adjustable” contract plan and a “mobile account” contract plan. Every customer has the option to be billed per second starting from the first second. The adjustable plan with the “Optima” service is designed for high volume users and the bill automatically adjusts to the most advantageous monthly plan, from a selection of plans varying between 2 and 15 hours. The Optima service is free for the first two months. The subscriber can then either choose to keep the automatic adjustment feature by continuing with the Optima service, or choose from one of the other Orange France plans offering different price options, simply by calling customer service. In either case, the customer may change service plans from month to month at no extra charge. Orange France also offers services tailored to the individual needs of students, families and businesses.

The “mobile account” contract plan is designed for occasional users. These users have the choice of three options: the “one-hour mobile account service plan”, the “subscription with mobile account” or the “SMS Orange plug with mobile account service plan”. The one-hour mobile account service plan is all-inclusive with automatic roll-over of unused minutes to the next month.

If the fixed rate is exceeded, customers may recharge their mobile account with an additional amount if they wish to continue using their phones. Credit charged to a mobile account is valid for an unlimited period. The subscription with mobile account contract allows users to pay a low subscription fee and buy the minutes they need by recharging an account (the mobile account) by debit/credit card, Mobicarte recharging cards or by direct debit from a bank or post office account. The SMS Orange plug with mobile account service plan targeted specifically at young users, comprises 150 Short Message System (SMS) text messages and one hour’s access to the exclusive Orange plug services (budget management services, information and practical services, and support). This system, designed to attract teenagers, also offers subscribers the opportunity to make calls by recharging their mobile account.

The adjustable plans are for a minimum period of 12 or 24 months. Customers who opt for 24 months get a discount on the subscription rate. The “mobile account” offers are for a minimum period of 12 months. After the end of the minimum contract period, subscriptions can be cancelled with one month’s prior notice.

Pre-paid accounts

The Orange France pre-paid service, “*La Mobicarte*”, is offered on a “no-bill, no-contract” basis.

In conjunction with the introduction of the “Orange” brand in France, Orange France reduced the price of Mobicarte, launched a loyalty program and offered a pre-paid roaming option for travel in Europe. Following the introduction of the euro, Orange France launched a new price plan, “the made-to-measure plan” allowing customers to choose a time slot with a 50% price reduction and a new range of credit recharge amounts (€15, €25 + €5 and €35 + €10) with free credits for the €25 and €35 credit recharge amounts.

New Orange multimedia products: Orange World

At the end of October 2003, Orange launched “Orange World”, a multimedia package including a service portal, a choice of two monthly service plan prices (€6 and €10) and a wide range of handsets. Orange World offers easy access to multimedia services and makes it possible to browse the Orange World portal and the Internet via mobile telephone. The Orange World service plans also include SMS and MMS.

In June 2004, three new service plan prices (costing €20, €60 and €120 per month, respectively) were added with a view to encouraging usage via laptop computers and wireless broadband connections via Wi-Fi hotspots. Orange World also offers the possibility of paying on a consumption basis, which will enable the customer to be billed monthly on the basis of his/her actual usage measured in Kilo-octets.

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During 2004, the "Orange World" portal expanded through the launch of new services including video, on-line diaries (Blog) or the "Rencontres (Lonely Hearts)" and "Top/pas Top (rating)" columns, and through entering into of partnerships, particularly in the fields of reality television and sports. The launch of a third generation network that offers very high speeds also contributed to the emergence of new applications. The portal therefore provides access to a broad portfolio of services-related content:

- video makes it possible to keep up-to-date with news headlines via mobile telephone, view sports events such as football, and watch video clips or even film trailers;
- in June 2004, Orange launched a new service on Orange World: the Blog. The Blog is a multimedia version of a personal diary. Community services such as Chat or Blog enables customers to keep in touch or meet new people;
- finally, in 2004, through the partnership strategy pursued in 2004, Orange World enables its customers to share in major sporting and media events such as "Stars Wars", "Premier League" and "Champions League", the "Davis Cup", "Roland Garros" and "Star Academy";
- the launch of the UMTS network at the end of 2004 now enables Orange customers to watch live television ("TV Live") and to have access to an ever-increasing number of videos through the Orange World third generation portal;

As at December 31, 2004, Orange had approximately 1.7 million customers who subscribed to Orange World or "Orange sans limite" (unlimited access) options and approximately 4 million customers using multimedia services.

Orange Intense

On December 9, 2004, Orange France launched the "Orange Intense" range of plans for "mobile" use of third generation wireless telephones and "PC Orange Intense" for use from a personal computer.

The "Orange Intense" plans consist of a voice and video (*visio*) call credit and a Multimedia Pass including a usage credit for sending SMS (up to 100), MMS (up to 25) or data transfers (up to 25 Mo of data). The range consists of four voice and video call monthly plans: three hours for €55; five hours for €75; ten hours for €125 and twenty hours for €195. All these plans provide free voice calls to both fixed line telephone numbers and Orange mobiles after the first three minutes of the call. This range was launched as a limited series, to 50,000 customers. As part of the launch, another limited series plan was offered to 10,000 customers. For €99, customers receive five hours of voice and video calls, the Multimedia Pass and free calls to all Orange mobile and fixed line telephone numbers.

The "PC Orange Intense" range consists of three data transfer monthly plans of three hours for €24; ten hours for €50 and twenty four hours for €90.

Orange Business Solutions

Orange France strives to support businesses - very small, small and medium sized businesses, large businesses or multinationals - in their day-to-day activities by offering mobile solutions that are efficient and competitive for business needs.

To this end, Orange France offers businesses:

- voice services that include plans suited to all forms of use:
- management services to help optimize management of the mobile phone base and to contain costs;
- value added services such as a wireless virtual private network (Orange VPN) and a unified fixed line/wireless VPN service, in addition to a walkie-talkie service, Talk Now;
- wireless data solutions that enable e-mails to be received on mobile phones and PDA's: "Orange bureau" (Orange office), Orange's Blackberry, secure services via laptop computer to facilitate mobile working with the Business Everywhere service (which provides access to messaging systems, corporate information, Intranet, divisional applications and the Internet and which incorporates GPRS, Wi-Fi, and since September 2004, third generation technology);
- machine-to-machine services, and
- after-sales service dedicated to businesses.

4.4.1.2.2 Sales, distribution and customer service

Orange France sells its products and services in mainland France through a complete range of distribution channels:

- the France Telecom distribution network which, at December 31, 2004, included 663 points-of-sale (620 at December 31, 2003 and 630 at December 31, 2002);

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- supermarkets and department stores; and
- approximately 1,500 independent distributors.

Orange France is expanding its own point-of-sale network. There were approximately 150 “*Mobistore*” outlets at December 31, 2004 (100 at December 31, 2003 and 110 at December 31, 2002). Orange France “Enterprise” services are marketed through networks that specialize in selling services to corporate customers: five Large Customer agencies and eleven Corporate agencies operated by France Telecom as well as approximately 80 independent speciality distributors.

Mobicarte rechargeable cards are mainly sold through retailers: principally through tobacconists, and France Telecom points-of-sale.

Orange France customers have access to the 6,500 customer service specialists working in customer centers operated by the France Telecom Group (Orange France and France Telecom) and by external service providers any day of the week. Customer service facilities can also be accessed at France Telecom points-of-sale and *Mobistore* outlets.

Lastly, subscribers can also access customer service facilities via the Orange mobile Internet portal to see billing information and to alter or switch their price plan.

4.4.1.3 Controlled wireless operations in the United Kingdom

The table below shows the main features of the wireless telecommunications market in the United Kingdom and the activities of Orange UK:

	At December 31,		
	2004	2003	2002
Market penetration rate in the United Kingdom (%) ⁽¹⁾	100.9	89.15	81.9
Total users in the United Kingdom (millions) ⁽¹⁾	60.2	53.2	49.0
Service plan (millions) ⁽²⁾	19.9	16.9	15.9
Prepaid (millions) ⁽²⁾	40.3	34.8	33.1
Orange UK active customers (millions) ⁽²⁾	14.2	13.65	13.3
Service plan (millions) ⁽²⁾	4.7	4.5	4.2
Prepaid (millions) ⁽²⁾	9.5	9.2	9.1
Market share of Orange UK (%) ⁽³⁾	approximately 24	25.6	27.2
Coverage of Orange UK network (% of population) ⁽²⁾	99.4	99.4	99.4

(1) Source: Mobile Communications, 2004 figures provided by Orange UK and its competitors’ publicly available figures.

(2) Information provided by Orange UK.

(3) Source: Mobile Communications for 2003 and 2002. Estimates provided by Orange UK for 2004.

At December 31, 2004, in terms of the number of users, the United Kingdom was Western Europe’s second-biggest wireless market after Germany. The wireless telecommunications market in the United Kingdom grew by approximately 13% in 2004 after 4.4% in 2003 and 8% in 2002 (source: Mobile Communications).

The number of mobile phone users in the United Kingdom has grown almost 23% in two years from 49 million at December 31, 2002 to approximately 53.2 million at December 31, 2003 and then 60.2 million at December 31, 2004, representing approximately 100.9% of the United Kingdom population (89.15% at December 31, 2003 and 81.9% at December 31, 2002).

At December 31, 2004, Orange UK had approximately 14.22 million active customers (13.65 million at December 31, 2003 and 13.3 million at December 31, 2002) (source: Orange UK) with an estimated market share of approximately 24% of active customers in the United Kingdom (25.6% at December 31, 2003 and 27.2% at December 31, 2002) (source: Mobile Communications for 2003 and 2002). The 2004 figure is an estimate by Orange UK based on its own data and, after adjustment, on data released publicly by its competitors or estimated by Orange UK with regard to its competitors’ data as yet unreleased).

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GSM and UMTS Licenses

A GSM license was awarded to Orange UK in February 1994 and continues on an annual rolling basis.

Orange UK has one of the biggest mobile telephone networks in the United Kingdom. At December 31, 2004, According to Orange UK, the network covered approximately 99.4% of the population (99.4% at December 31, 2003 and 99.4% at December 31, 2002).

On September 1, 2000, Orange 3G Limited, a wholly-owned subsidiary of Orange UK, was awarded one of five UMTS licenses for a period of 20 years at a cost of approximately €6.6 billion. This license covers two 10MHz bands of spectrum and one band of 5MHz spectrum. For operational reasons, the license was revoked and reallocated to Orange UK. The conditions of the license provide, *inter alia*, for Orange UK to be able to supply UMTS telecommunications services to at least 80% of the United Kingdom population before December 2007. The UMTS license may be withdrawn in the event of a significant breach of any of these conditions. If a UMTS license is withdrawn, amended or surrendered, refunds of purchase costs are only payable under exceptional circumstances.

The Orange UK 3G network went live in July 2004 with the launch of the Mobile Office Card for businesses. In December 2004, Orange delivered 3G to consumers giving customers access to a broad integrated UK 2G/3G network, the choice of a wide range of handsets, exclusive video entertainment and information services through Orange World, fast access to the mobile Internet and e-mail, easy-to-understand pricing and dedicated customer service support.

4.4.1.3.1 Orange UK service plans

Orange UK offers two types of service plans for individual customers and service plans targeted at businesses. The service plans targeted at businesses are described below under "Orange Business Solutions".

Personal customers

Monthly Plans

The "Your Plan" contract is designed for individual customers who use the talk time included in the plan to make calls to other wireless or fixed line networks in the United Kingdom. In addition, numerous other options have been developed to provide greater customer choice – an off-peak contract which includes 1,000 minutes per month, or Orange Premier which offers a premium service to higher users. In addition, packages of text, multimedia messaging, roaming and international calls are available.

Orange believes that it offers the best value for money in the United Kingdom, and has developed the "Orange Value Promise", which enables Orange to offer a wider choice of tariffs than any other network. If a customer or potential customer of Orange UK thinks that a contract being offered by a different United Kingdom operator would suit him better than one of Orange UK's offers, Orange UK undertakes to provide him with an equivalent service on the Orange UK network and to bill this customer essentially the same as its competitors. "Orange Value Promise" offers the equivalent of a selection of non-promotional tariffs to customers subscribing to a monthly service contract with an O2, Vodafone or T-Mobile retailer.

Customers subscribing to a monthly service plan can normally terminate their plan giving one month's prior notice, subject to a minimum initial period, normally 12 months.

"Pay as you go" plans

The Orange "Pay as you go" plan allows customers to buy a handset and airtime as and when they need it. This plan does not currently include any fixed costs, top-ups have no expiry date and there is no minimum commitment period. There are several quick ways in which customers can top-up their account: credit or debit card, cash payment, ATM, swipe card or voucher.

Orange now offers three "Pay as you go" service plans providing flexibility and choice. "Choose your own off-peak" offers customers competitive rates for peak and off-peak hours and the opportunity to choose from a range of off-peak time bands. "Talk and save" offers sliding rates geared to larger-scale users. While "Fixed rates all day" provides simple flat rates for calls across call types throughout the day. These service plans are supplemented by Orange "Extras", a series of value bundles offering customers the opportunity to bulk buy text, voice or Orange World access at a reduced rate. Orange "Extras" must be used within one month of purchase but there is no minimum commitment period for any of the "Pay as you go" service plans.

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Orange Business Solutions

In 2002, Orange UK launched “Orange Business Solutions”, a fully integrated business unit designed to meet the wireless needs of medium-sized businesses, key companies and public sector organizations. “Orange Business Solutions”, which is responsible for total end-to-end management of its customers, offers a wide portfolio of business-specific products and services, including a flexible range of voice options, Orange business messaging, wireless messaging and a whole series of other innovative wireless services. Orange also supports the needs of small businesses, offering voice and simple data services to enable effective mobile working.

During 2004, Orange launched the 3G network with the 3G Mobile Office Card for all business customers. The Mobile Office Card allows laptop users to connect wirelessly to the internet, e-mail and company systems up to seven times faster than a fixed-line dial-up Internet connection. Business Solutions customers now also have access to European M2M Connect, the product was launched across the UK, France and Belgium during 2004, allowing customers to make use of the web based platform for machine to machine communications. Talk Now was launched for Business Solutions customers providing push to talk style functionality on the Handspring Treo 600 handset. In 2004 small business customers benefited from the launch of enhanced e-mail solutions with the launch of consultancy services and the launch of PC Messenger providing a desk-top based text messaging platform.

Orange UK provides a full range of flexible voice and data service plans to meet the needs of all businesses. This includes shared talk plans, flat rate data packages including GPRS and UMTS and international roaming packages.

Orange World

Orange has developed a broad portfolio of content accessible through the Orange World portal – all of which can be personalized to ensure that it is relevant for the customer. Entertainment and information services include Sky News video feeds (updated every five hours); exclusive video clips from films such as Star Wars films; film trailers and movie clips from cinema blockbusters; music and ring-tone downloads from Warner music, EMI, BMG, Universal Music, Ministry of Sound; console-style games including Tom Clancy’s Splinter Cell, EA Sports™ FIFA 2005 and Tiger Woods PGA® Tour 2005; exclusive inside access to Chelsea, Everton, Liverpool as well as a host of other football clubs; and practical applications such as Traffic TV. This latter service, launched exclusively by Orange and developed in conjunction with Trafficmaster and regional road transport agencies, gives customers a comprehensive picture of traffic conditions on the UK’s motorways and trunk roads and direct access to videos of road conditions from selected motorway CCTV cameras across the UK.

At December 31, 2004, “Orange World” users accounted for approximately 2.4 million active customers (compared to 1.6 million at December 31, 2003).

4.4.1.3.2 Sales and distribution

Orange UK sells its products and services in the United Kingdom through a wide range of distribution channels:

- Orange UK retail stores, which only market Orange and France Telecom products. In 2004, the number of retail stores rose to 264 compared to 253 in 2003 and 245 in 2002.
- General retailers continued to register a significant proportion of new Orange customers.
- Distributors and specialist retailers offer the various types of Orange UK services and Orange “Pay as you go” cards along with services and products. In 2004, there were approximately 90 such outlets carrying Orange UK services and products.
- A dedicated sales force managed by Orange UK Business Solutions to acquire and retain corporate customers.
- Customers can also obtain Orange UK products and services and purchase accessories on the Orange UK website, “www.orange.co.uk”.4.4.1.4

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4.4.1.4 France Telecom's controlled wireless operations in Europe

4.4.1.4.1 Belgium

The following table shows the main characteristics of the wireless telecommunications market in Belgium and the activities of Mobistar.

	At December 31,		
	2004	2003	2002
Penetration rate in Belgium (%) ⁽¹⁾	82.6	76.0	73.7
Total number of users in Belgium (millions) ⁽¹⁾	8.5	7.8	7.6
Active Mobistar customers (millions) ⁽¹⁾	2.8	2.6	2.3
Mobistar market share (%) ⁽¹⁾	33.0	33.4	30.3
Mobistar revenues (millions of euros)	1,344	1,167	1,004
Mobistar network coverage (% of population) ⁽²⁾	99.0	99.0	99.0

(1) Information supplied by Mobile Communications, January 2005.

(2) Information supplied by Mobistar.

Orange provides wireless services in Belgium through Mobistar. Mobistar was formed in 1995, awarded its GSM900 license in the same year and launched its services in August 1996. At December 31, 2004, Orange indirectly held 50.38% of Mobistar's capital. The remaining capital is held by the Belgian company Telindus (4.63%) and by Bruficom (4.03%) (according to the most recent stock ownership report signed by Bruficom), with the balance of 40.97% being held by members of the public following the initial public offering of Mobistar shares on Euronext Brussels in October 1998.

Mobistar was the second operator to enter the Belgian market and had the second highest market share at December 31, 2004 (source: Mobile Communications).

In order to improve its network quality and capacity, Mobistar installed a GSM1800 network in 2001. Mobistar rolled-out its GPRS network with estimated 99% population coverage in January 2001. In May 2001, Mobistar was the first operator to launch a commercial GPRS services offer geared towards the Belgian business market. Mobistar has offered GPRS terminals since May 2001 and GPRS services to home customers since August 2002. It launched MMS services in January 2003. In 2003, in collaboration with Banksys and Gemplus, Mobistar launched m-banxafe, Belgium's first national wireless payment application (compatible with all the country's banks). Since September 2003, Mobistar's customers have had the option of downloading Java games on their mobiles.

Mobistar distributes its services through major retail outlets and over 100 specialized retail shops.

During 1998, Mobistar was awarded fixed line telephony licenses and infrastructure licenses and, as a result, offers an indirect access telephone service to individuals and to small- and medium-sized businesses. Mobistar also provides fixed line telephony services, high speed data transmission services and wireless telecommunications services to businesses.

On March 2, 2001, Mobistar obtained a 20-year UMTS license from the Belgian government based on a bid of €150 million. The terms and conditions of the license provide that among other things Mobistar should roll-out its network between 2005 and 2011. Mobistar fulfilled its first commitments by introducing the technology in Belgium in September 2003. This initial stage was validated by the regulator. Under the license conditions, the license could be withdrawn and penalties applied if the licensee fails to meet its obligations. The next stage in the launch of UMTS for Mobistar is the roll out, before January 1, 2006, of a network covering 30% of the population. In order to reach this objective, sites have been acquired to fulfill the coverage obligation despite recurring difficulties in obtaining the necessary administrative authorizations.

4.4.1.4.2 Denmark

During the first nine months of 2004, Orange provided wireless and fixed line services in Denmark through its subsidiary Orange A/S. The transfer to TeliaSonera of 100% of the shares in Orange's business in Denmark was completed on October 11, 2004

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subsequent to the signing of a share purchase agreement on July 7, 2004. Upon completion, a brand transition agreement was signed which allows TeliaSonera to use the Orange brand for a period of 12 months. See section 4.5 "Divestitures".

4.4.1.4.3 Luxembourg

Orange Communications Luxembourg S.A. is a wholly-owned subsidiary of Orange. It was incorporated in May 2002 and awarded a fifteen year UMTS license in Luxembourg in June 2002. Two other licenses were also awarded at that time. Orange paid an initial price of €60,000. Following the arrival of a fourth market player (Voxmobile), Orange determined that the Luxembourg market was becoming too small to hold four operators. Orange therefore decided to withdraw from Luxembourg and the Minister for Telecommunications was informed of, and duly noted, this decision. The legal entity, Orange Communications Luxembourg will be closed in 2005.

4.4.1.4.4 The Netherlands

The following table shows the main characteristics of the wireless telecommunications market in the Netherlands and the activities of Orange Nederland B.V.

	At December 31,		
	2004	2003	2002
Penetration rate in the Netherlands (%) ⁽¹⁾	94.6	82.9	74.6
Total number of users in the Netherlands (millions) ⁽¹⁾	15.1	13.3	11.9
Orange Nederland N.V. active customers (millions) ⁽¹⁾	1.8	1.3	1.0
Orange Nederland N.V. market share (%) ⁽¹⁾	11.6	10.0	8.6
Orange Nederland N.V. revenues (millions of euros)	592	465	400
Orange Nederland N.V. network coverage (% of population) ⁽²⁾	99.9	99.9	99.0

(1) Source: Mobile Communications, January 2005.

(2) Information provided by Orange Nederland N.V.

Orange provides wireless services in the Netherlands through its wholly-owned subsidiary, Orange Nederland N.V. Formed in 1997, Orange Nederland N.V. was awarded a GSM1800/EGSM license in February 1998 and started operating its network in January 1999. On March 31, 2003, Orange Nederland N.V. changed its name (abandoning Dutchtone N.V.) and rebranded its activities under the Orange name.

At December 31, 2004, according to its own estimates, Orange Nederland N.V. covered 99.9% of the population of the Netherlands (source: Orange Nederland N.V.) and had a 11.6% market share (source: Mobile Communications/Orange Nederland estimate) with approximately 1.8 million active customers (source: Orange Nederland N.V.).

At December 31, 2004, Orange Nederland N.V. is one of five key players in the competitive wireless telephony market in the Netherlands. The implementation of Orange services such as Orange World, of signature devices, the strong Orange brand and a focus on customer service, have helped to establish growth in terms of controlled subscribers of 35% from December 31, 2003 to December 31, 2004, which has been the highest in the market.

Orange Nederland N.V. owns 45 shops and also runs an on-line shop.

In July 2000, Orange Nederland N.V. was awarded one of the five UMTS licenses sold, by auction, at a cost of €436 million. The term of the license is 15 years. It relates to two 10MHz spectrums and one 5MHz spectrum. The terms and conditions of the license provide that Orange Nederland N.V. must, among other things, be able to cover all cities in the Netherlands by the beginning of 2007. The license could be revoked if the licensee fails to meet its obligations.

In April 2002 Orange Nederland N.V. and T-Mobile Netherlands B.V. entered into a joint venture for the deployment, operation and maintenance of UTRAN (UMTS Radio Access Network). The joint venture was incorporated under the name Rann B.V.. Recent technical developments allowing greater synergies with existing 2G sites have resulted in the decision to dissolve the joint venture and to follow an independent strategy for the roll out of the UMTS network. Rann B.V. is currently in liquidation.

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4.4.1.4.5 Romania

The following table shows the main characteristics of the wireless telecommunications market in Romania and the activities of Orange Romania.

	At December 31,		
	2004	2003	2002
Penetration rate in Romania (%) ⁽¹⁾	45	31.55	22.75
Total number of users in Romania (millions) ⁽¹⁾	10.3	7.0	5.1
Orange Romania registered customers (millions) ⁽¹⁾	4.9	3.3	2.2
Orange Romania market share (%) ⁽¹⁾	48	47.1	43.5
Orange Romania revenues (millions of euros)	624	467	393
Orange Romania network coverage (% of population) ⁽²⁾	96.5	95.0	95.0

(1) Information provided by Mobile Communications for 2002 and 2003. 2004 figures provided by Orange Romania.

(2) Information provided by Orange Romania.

Orange provides wireless services in Romania through its subsidiary Orange Romania. Orange Romania was formed and awarded a 15-year GSM900 license in 1996. At December 31, 2004, Orange Romania estimated that it covered approximately 96.5% of the Romanian population and, with approximately 4.9 million active customers, had the country's first largest market share before MobiFon/Connex. Orange holds 73.26% of the capital in Orange Romania, with the remaining 20.67% being held by a consortium headed by AIG and 6.07% by other minority shareholders.

Orange Romania was the fourth wireless operator to enter the Romanian market and currently ranks first on this market.

The Ministry of Communications and Information Technology issued on August 30, 2004 an invitation to bid for the award of 3G 15-year licenses. On November 12, 2004, the first two winners were announced, i.e. Orange Romania and Mobifon (Connex). Minimum coverage is required for Bucharest and 10 cities by 2011. The spectrum release fee is US\$ 35 million. A yearly fee for spectrum usage is payable of €1.2 million per block of FDD frequencies and €0.6 million per block of TDD frequencies is also due.

4.4.1.4.6 Slovakia

The following table shows the main characteristics of the wireless telecommunications market in Slovakia and the activities of Orange Slovensko.

	At December 31,		
	2004	2003	2002
Penetration rate in Slovakia (%) ⁽¹⁾	76.9	68.3	53.2
Total number of users in Slovakia (millions) ⁽¹⁾	4.1	3.7	2.9
Orange Slovensko active customers (millions) ⁽¹⁾	2.4	2.1	1.7
Orange Slovensko market share (%) ⁽¹⁾	57.0	56.1	59.8
Orange Slovensko revenues (millions of euros)	480	392	315
Orange Slovensko network coverage (% of population) ⁽²⁾	99	98.5	98.0

(1) Mobile Communications for 2002 and 2003. 2004 figures provided by Orange Slovensko.

(2) Orange Slovensko estimates.

Orange provides wireless service in Slovakia through its subsidiary Orange Slovensko. Orange Slovensko was formed in 1996 and awarded its GSM900 license the same year. In August 2001, Orange Slovensko's license was extended to GSM1800. At December 31, 2004, Orange Slovensko estimated that its network covered 99% of the Slovakian population and that it had the largest market share in the country with approximately 2.4 million active customers. Orange holds 63.9% of Orange Slovensko's share capital, the remainder being held by private investors.

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In addition, Orange Slovensko was awarded a UMTS license in June 2002 for approximately 1.5 billion Slovakian krone (approximately €35 million) and an annual fee of 0.08% of license-generated revenue. The UMTS license is for a period of 20 years from the date of issue. Under the terms of the license, Orange Slovensko may be required by another national operator to achieve network coverage of 20% by 2006 in order to enter into a roaming agreement with that operator.

4.4.1.4.7 Sweden

Orange Sverige owned a 15-year UMTS license in Sweden, which was awarded in December 2002. In May 2003, Orange Sverige A.B. terminated the joint venture agreement with Europolitan Vodafone and Hi3G, relating to 3Gis and all associated contracts, that it had entered into in January 2002. Following such termination, the parties started an arbitration which was settled by means of an agreement signed on March 23, 2004. On December 29, 2003, Orange Sverige signed a license transfer agreement with Svenska UMTS License II A.B. The object of the transfer concerns the licenses held by Orange Sverige, the UMTS license, as well as the permits for the use of radio frequencies. The execution of the transfer did not occur following the refusal by the Swedish Regulator to approve the said transfer. Subsequently, Orange Sverige asked the regulator to revoke its license, which was done in November 2004.

4.4.1.4.8 Switzerland

The following table shows the main characteristics of the wireless telecommunications market in Switzerland and the activities of Orange Communications S.A.

	At December 31,		
	2004	2003	2002
Penetration rate in Switzerland (%) ⁽¹⁾	90.8	84.8	78.9
Total number of users in Switzerland (millions) ⁽¹⁾	6.5	6.1	5.7
Orange Communications S.A. active customers (millions) ⁽²⁾	1.1	1.1	1.0
Orange Communications S.A. market share (%) ⁽¹⁾	17.4	17.8	16.9
Orange Communications S.A. revenues (millions of euros)	834	775	694
Orange Communications S.A. network coverage (% of population) ⁽²⁾	98.7	98.6	97.8

(1) Source: Mobile Communications, January 2005.

(2) Estimates of Orange Communications S.A.

Orange provides wireless services in Switzerland through its subsidiary Orange Communications S.A., which was formed in January 1998 and awarded its GSM1800 license in May 1998. At December 31, 2004, Orange Communications S.A. held a market share of approximately 17.4% with 1.14 million active customers and estimated that its network covered 98.7% of the Swiss population. Orange holds 100% of the capital and 100% of the voting rights in Orange Communications S.A.

Orange Communications S.A. was the third operator to enter the Swiss market and was third in terms of market share at December 31, 2004 (source: Mobile Communications).

In December 2000, Orange Communications S.A. was awarded a 15-year UMTS license at a cost of 55 million Swiss francs (approximately €35 million). This license relates to two 15MHz spectrums. Three other licenses were awarded to SwissCom Mobile A.G., TDC Schweiz A.G. and 3G Mobile A.G. Under the license terms, Orange Communications S.A. must, *inter alia*, be able to cover 50% of the population before the end of 2004, which has been achieved. The license could have been revoked if the licensee had failed to meet its obligations. Penalties could have been applied of up to 10% of the revenues for the year preceding the awarding of the license. There is now no risk of having to pay any penalty, or of the license being revoked.

4.4.1.4.9 Liechtenstein

Orange (Liechtenstein) A.G., a subsidiary of Orange Communications S.A., holds a license to operate a GSM1800 network in the Principality of Liechtenstein and operates under the brand name "Look". Orange (Liechtenstein) A.G. and Orange Communications S.A. estimate that they have a joint market share of approximately 20%. Orange (Liechtenstein) A.G. also holds a UMTS license in Liechtenstein.

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4.4.1.5 Other minority-owned wireless operations in Europe

4.4.1.5.1 MobilCom (Germany)

Orange holds 28.3% of the capital of MobilCom. According to information provided by MobilCom, the remainder of the capital is held by the public and by a fiduciary who holds less than 5%. MobilCom was created in 1991 and its shares have been listed on the Frankfurt Stock Exchange since 1997.

MobilCom is developing its activities in fixed line telephony, in providing Internet access, through its subsidiary *freenet.de* A.G., and in wireless telephony, by reselling the services of the four network operators in Germany.

For the description of relations between France Telecom and Mobilcom, see Note 22 (Point 22.5) of the Notes to the Consolidated Financial Statements.

4.4.1.5.2 ONE GmbH (Austria)

The ONE consortium was awarded the third Austrian wireless license in 1997. Orange holds approximately 17.5% of the share capital of ONE GmbH. The other members of the consortium are the German conglomerate E.ON and the Norwegian and Danish wireless telecommunications operators, respectively Telenor and Tele Danmark.

ONE launched its digital GSM1800 service in 1998 under the "ONE" brand name. At December 31, 2004, ONE covered, according to its own estimates, 98% of the Austrian population, the same coverage as in 2003 and 2002. ONE had 1.6 million active customers at December 31, 2004 (1.5 million active customers at December 31, 2003 and 1.3 million active customers at December 31, 2002). At December 31, 2004, ONE had a total market share of 19.8% (20.2% at December 31, 2003 and 20.1% at December 31, 2002) compared to 40.8% for MobiKom Austria (43.2% at December 31, 2003 and 45.1% at December 31, 2002), 25.4% for T-Mobile (27.9% at December 31, 2003 and 30.3% at December 31, 2002), 11.6% for Teling (8.6% at December 31, 2003 and 4.5% at December 31, 2002) and 2.4% for 3 Austria (0.3% at December 31, 2003) (source: Mobile Communications, January 2005). At December 31, 2004, the Austrian market had approximately 7.9 million wireless customers (7.3 million users at December 31, 2003 and 6.7 million users at December 31, 2002), *i.e.*, a penetration rate of approximately 96.31% (89.5.1% at December 31, 2003 and 82.2% at December 31, 2002) (source: Mobile Communications).

ONE was awarded a twenty-year UMTS license on November 20, 2000 in consideration of a usage fee of €120 million. Under the license, ONE was required to provide 25% coverage of the population by December 31, 2003, which requirement has been satisfied, and 50% coverage by December 2005. Failure to comply will result in financial penalties or in the license being revoked.

4.4.1.5.3 Optimus (Portugal)

Orange provides wireless services in Portugal through its minority shareholding in Optimus. Optimus, formed in 1997, was awarded its GSM900 and GSM1800 licenses in the same year and opened its network in 1998.

Orange owns 20.18% of Optimus's share capital, and 10.09% of the voting rights. The remainder of the voting rights is held as follows: 52.34% by Sonae Telecom SGPS S.A., 29.76% by 093X, Comunicações Celulares S.A., 2.77% by Maxistar Comunicações Pessoais S.A. and 5.04% by Parpublica, Participações Publicas, SGPS.

At December 31, 2004, Optimus's network, based on its own estimates, covered approximately 99% of the Portuguese population, the same coverage as in 2003 and 2002. At the same date, Optimus had approximately 2.1 million registered customers (2.0 million registered customers at December 31, 2003 and 1.9 million registered customers at December 31, 2002) (source: Mobile Communications).

The market penetration rate in Portugal was 106.4% at December 31, 2004 (97.5% at December 31, 2003 and 90.5% at December 31, 2002), with approximately 10.6 million wireless customers in Portugal (9.7 million customers at December 31, 2003 and 9.0 million customers at December 31, 2002) (source: Mobile Communications). Optimus was the third operator to enter the Portuguese market and is third in terms of market share with a market share of 20.1% at December 31, 2004 (20.5% at December 31, 2003 and 20.5% at December 31, 2002) compared to 32.7% for Vodafone (formerly Telecel) (30.1% at December 31, 2003 and 32.4% at December 31, 2002) and 47.2% for TMN (48.1% at December 31, 2003 and 47.1% at December 31, 2002) (source: Mobile Communications).

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When the Portuguese government awarded four UMTS licenses in December 2000, Optimus was awarded one for €100 million. The license is valid for a period of 15 years. The terms of the license provide, *inter alia*, that Optimus must cover 20% of the population by July 1, 2005. If Optimus fails to fulfill the obligations set out in its license, the license may be suspended or revoked.

4.4.1.6 Other interests in wireless operations outside Europe

Majority interests

Egypt: Orange holds 71.25% of MobilNil (MobilNil Telecommunication S.A.E.), which in turn holds 51% of Egyptian Company for Mobile Services ("ECMS"), an operating company that operates under the MobilNil brand name. Orange holds 71.25% of MobilNil and the Egyptian group Orascom Telecom and holds 28.75%. Orascom Telecom also directly holds 16.6% of ECMS. The remaining 32.4% of ECMS's capital is listed on the Cairo and Alexandria Stock Exchange.

ECMS was established in 1998 and was awarded its GSM900 license the same year. At December 31, 2004, based on its own estimates, ECMS's network covered approximately 91% of Egypt's population, the same coverage as at December 31, 2003 and at December 31, 2002). ECMS estimates that it had a market share of approximately 53.6% (approximately 52.4% at December 31, 2003 and at December 31, 2002) with approximately 4 million active customers at December 31, 2004 (3 million active customers at December 31, 2003 and 2.3 million active customers at December 31, 2002), *i.e.*, 2.9 million active customers for Orange's share (2.1 million active customers at December 31, 2003 and 1.6 million at December 31, 2002). ECMS believes that it is the leader in this market. (Source for 2003 and 2002: EMC World Cellular Database. Source for 2004: the company's estimates).

Botswana: Orange has a 51% shareholding in Orange Botswana, which launched its GSM900 network in June 1998 under the name of Vista Cellular. Orange Botswana has been operating under the "Orange" brand since March 2003. Orange Botswana had approximately 194,000 active customers at December 31, 2004 (approximately 163,000 active customers at December 31, 2003 and approximately 137,000 active customers at December 31, 2002) and held second place in terms of market share among the two operators present in this market (second in 2003 and 2002) (Source for 2003 and 2002: EMC World Cellular Database. Source for 2004: the company's estimates).

Cameroon: Orange holds a direct 70% shareholding in Orange Cameroon (France Telecom owns the remaining 30%) which launched its GSM900 service in January 2000 under the Mobilis name. Orange Cameroon has operated under the "Orange" brand since June 2002. Orange Cameroon had approximately 748,000 active customers at December 31, 2004 (approximately 539,000 active customers at December 31, 2003 and approximately 320,000 at December 31, 2002). Orange Cameroon held first place in terms of market share among the two operators present in this market (also first in 2003 and 2002) (Source for 2003 and 2002: EMC World Cellular Database. Source for 2004: the company's estimates).

Ivory Coast: Orange has an 85% shareholding in Orange Côte d'Ivoire, which launched its GSM900 network in 1996 under the Ivoiris brand. Orange Côte d'Ivoire has operated the GSM900/1800 license since January 2002. Orange Côte d'Ivoire has operated in the Ivory Coast under the "Orange" brand since May 2002. At December 31, 2004, Orange Côte d'Ivoire had approximately 845,000 active customers (approximately 586,000 active customers at December 31, 2003 and approximately 497,000 active customers at December 31, 2002) and held first place in terms of market share among the three operators present in this market (first in 2003 and 2002) (source for 2004: EMC World Cellular Database). The current events in the Ivory Coast constitute a risk for Orange's operations there. (See section 4.18 "Risk factors").

Madagascar: Orange has a 51% shareholding in Telsea, which holds 65.9% of Orange Madagascar (formerly Société Malgache de Mobiles). Telsea launched its GSM 900 network in 1998 under the Antaris name. Orange Madagascar has operated under the "Orange" brand since June 2003. Orange Madagascar had approximately 169,000 active customers at December 31, 2004 (144,000 active customers at December 31, 2003 and approximately 99,000 active customers at December 31, 2002). Orange Madagascar held second place in terms of market share among the three operators present in this market (first in 2003 and in 2002). (Source for 2003 and 2002: EMC World Cellular Database. Source for 2004: the company's estimates).

Dominican Republic: Orange has a 86% shareholding in Orange Dominicana, which launched its GSM900 network in 2000 under the "Orange" brand. At December 31, 2004, Orange Dominicana estimated the number of its active customers at approximately 704,000 active customers (approximately 562,000 active customers at December 31, 2003 and approximately 433,000 active customers at December 31, 2002) and that it held second place in terms of market share at December 31, 2004 among the six operators present in this market (second place at December 31, 2003 and third place at December 31, 2002). (Source for 2003 and 2002: EMC World Cellular Database. Source for 2004: the company's estimates).

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In January 2005, Orange's co-shareholder gave notice that it intended to exercise its option to sell its 14% shareholding in the capital of Orange Dominicana. The option price will be determined by an independent bank.

Minority interests

Thailand: On September 29, 2004, following an agreement entered into on March 2, 2004, Orange and its co-shareholders finalized the disposal of 39% of Orange's shareholding in Bangkok Inter Teletech Company Limited (BITCO) in Thailand for one (1) Thai baht. Orange, therefore, reduced its shareholding in the capital of BITCO from 49% to 10%. BITCO owns 99.86% of TA Orange Co. Ltd., a company that has a concession to operate a GSM1800 network. In connection with that transaction, Orange was released from its obligations and undertakings under the revolving credit facility (*crédit relais*) entered into by TA Orange in 2002 (see Note 28 "Contractual obligations and off-balance sheet commitments" of the Notes to the Consolidated Financial Statements).

Furthermore, the book value of the BITCO securities consolidated under the equity method was amortized and set at zero at December 31, 2003.

India (Mumbai): In November 2004, Orange sold its 26% shareholding in the capital of BPL Mobile Communications. BPL Mobile Communications had launched its wireless network at the end of 1995 in the metropolitan area of Mumbai.

4.4.1.7 Licensing agreements

The "Orange" brand was first launched in the United Kingdom in 1994 and has since been licensed in Europe to Orange companies in France, the Netherlands, Romania, Slovakia, Switzerland and outside Europe in Botswana, Cameroon, Ivory Coast, Madagascar and the Dominican Republic for a period of 10 years. In Thailand, following the disposal of part of Orange's indirect interest in TA Orange to True (formerly known as TelecomAsia), a new trademark license was granted to TA Orange for a transitional period of three years commencing September 29, 2004. In Denmark, following the sale of Orange's wireless operations to TeliaSonera, a new trademark license was granted to Holmbladsgade 139 A/S for a 12 month transitional period commencing October 11, 2004. These licenses in Thailand and Denmark generate no income.

Under these "Orange" brand licensing agreements, Orange assists its licensees in promoting the brand in local markets by giving them access to equipment and support services. The licensing agreements provide that Orange UK shall retain its title to the intellectual property rights attached to the brand and receive a percentage of the licensees' operating income.

Moreover, prior to the acquisition of Orange plc. by France Telecom, the "Orange" brand was licensed to several companies in the Hutchison Group (the previous majority shareholder of Orange plc.), with respect to its operations in Australia and India, as well as to Partner Communications with respect to its operations in Israel. These licenses are exclusive and do not generate any income. Apart from the agreement concerning Australia, which expires in 2013, the licenses were granted for an indefinite term. However, all these agreements may be terminated on certain terms, such as misuse of the brand or change of control.

4.4.1.8 Roaming

Roaming allows wireless customers to make and receive calls while in the coverage area of a network to which they are not a subscriber and to be billed for this service by their home network. Wireless customers who are roaming can expect to enjoy substantially the same services, features and security while traveling as they do with their home network. Orange's roaming service was entirely created using the GSM technical standard and policies and procedures established by the GSM Association.

Orange's roaming policy is set in accordance with local market conditions by the individual Orange companies. The roaming rates reflect the wholesale charges between operators and the pricing policy applied by each operator for its customers. Orange is gradually rolling out flat rate roaming tariffs through its European operations. These flat rates provide greater clarity to the end-users and allow customers to better understand and predict their roaming expenditure. Orange is proactively approaching the business market with innovative roaming proposals adapted to the needs of each major account.

Over the last year Orange has provided a high level of seamless customer service on its European networks. Customers now have seamless access to their voice mail, whilst traveling, on the Orange networks and receive calling line identification for incoming calls. Orange has delivered this seamless customer experience through its close cooperation with France Telecom Network, Operators and Information System Division which ensures high quality interconnection amongst the Orange operations. Orange is progressively expanding both the footprint and range of seamless services with a primary focus on the Freemove Alliance partners.

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By virtue of the Orange roaming strategy, of which the involvement in the Freemove Alliance is a significant driving force, Orange has been able to maintain healthy growth in its total roaming revenue. The increasing roaming usage by prepaid customers as well as growing SMS and GPRS roaming continue to contribute to this growth.

In view of the ongoing challenges of the wholesale roaming market, Orange is currently charging, across Europe, one of the lowest GPRS roaming wholesale prices in a determined move to encourage data roaming within the industry.

Orange is focusing on boosting usage and achieving seamless customer experiences in its non-European operations across the globe with the aim of achieving a quality of service similar to that in Europe during the course of 2005.

4.4.2 WANADOO

In 2000, France Telecom grouped its business activities as a provider of Internet service, portals and e-merchant with its directories business, both in France and abroad, within a company known as Wanadoo S.A., using the brand name encompassing the Internet service provider activities. Wanadoo S.A. was listed on the *Premier Marché* of Euronext Paris in July 2000 by way of a capital increase subscribed to by the public and representing 10% of its capital.

At December 31, 2003, following certain external growth activities achieved principally through increases in Wanadoo S.A.'s share capital, France Telecom held 70.6% of the capital and 71.1% of the voting rights in Wanadoo S.A..

In February 2004, with a view to integrating Wanadoo's access and portal services within France Telecom and to improving the Group's position on the broadband market, France Telecom launched a public share exchange tender offer (*offre publique d'achat et d'échange*) for the Wanadoo S.A. shares it did not already hold, and subsequently, in June 2004, a tender offer (*offre publique de retrait*) followed by a compulsory purchase (*retrait obligatoire*). On completion of such activities and as of July 2004, France Telecom owned all of Wanadoo S.A.'s share capital. Wanadoo S.A. and Wanadoo France, which principally acted as Internet access providers, were merged into France Telecom in September 2004.

Moreover, the shares in PagesJaunes S.A., whose business activities fall within the "Directories" sub-segment, were listed on the *Premier Marché* of Euronext Paris in July 2004. Following that operation, France Telecom held 62% of the capital in PagesJaunes Group (the new name of PagesJaunes S.A.). See section 7.1 "Recent events".

Activities within the "Wanadoo" segment comprise the following:

- firstly, "Access, Portals and e-merchant" activities, that are now carried out within France Telecom S.A. or its subsidiaries, particularly the foreign subsidiaries using the "Wanadoo" brand; and
- secondly, directory activities carried out by PagesJaunes Group. and its subsidiaries.

4.4.2.1 Access, Portals and e-merchant

The Internet service provider activities (access, content, services and e-merchant) of the company that was formerly Wanadoo are still carried on by France Telecom under the Wanadoo brand.

Wanadoo estimates that it has the largest market share of the European Internet broadband market in terms of subscribers. The growth in the number of Wanadoo's customers and single visitors is set out in the following table:

Wanadoo	December 2004	December 2003	December 2002	Source
Number of Internet customers in Europe (in millions active customers)	9.5	9.15	8.5	France Telecom
Number of broadband subscribers in Europe (in millions)	4.4	2.45	1.4	France Telecom
Number of single visitors (in millions)	18.9 ⁽¹⁾	17.16	14.3	Nielsen - Panel Home

(1) December 2004 (except the Netherlands which was at June 2004)

At December 31, 2004, Wanadoo was the leader in the Internet service provider market in France and in the United Kingdom and second in Spain and in the Netherlands (sources: Idate). According to France Telecom's estimates, this ranking is still valid in December 2004.

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Internet access

Through its marketing innovation and its knowledge of the market, Wanadoo differentiates its services according to the profiles of its customers and potential customers, and technological developments (switched telephonic network up to 64Kbit/s, ADSL, cable and launch of the satellite surf pack in November 2004 for areas not covered by DSL), enabling everyone to benefit from the best technology.

The primary objective of the Group is to encourage broadband upgrades for its customers via the success of its ADSL offers. The speed offered via ADSL access increased vastly in 2004 with the launch of a new 2Mb/s service in June, followed by the launch of the “*eXtense DébitMax*” package in November that offers the maximum speed available via ADSL (up to 8 Mb/s) depending on the technical specifications of each line.

The choices available to Wanadoo customers include:

- in France, a narrowband unlimited access service (“*Wanadoo accès libre*”) and a complete range of “inclusive” packages from five to 100 hours in France;
- “Pay-as-you-go” and “Anytime” for international narrowband services;
- broadband offers based on slightly different modes according to the country and complemented by a large range of services and customer commitments.

The rates indicated in the following paragraphs were those in use at the end of 2004.

In France, in order to encourage all web users to sign on for broadband, Wanadoo lowered the prices for its broadband *eXtense* range by on average €5 per month on October 12, 2004. This price reduction applied to all Wanadoo customers. The range, which boasts eight service packages complemented by the “*débitMax*” option, meets varying needs at prices ranging from €19.90 including tax/per month (the 12 month “*eXtense 512k/5 Go Fidélité*”) to €39.90 including tax/per month (“*débitMax*”).

In the United Kingdom, Wanadoo UK offers 1Mb/s broadband with three options: a maximum of monthly traffic of 2 Gibabits for £17.99 per month, of 6 Gigabits for £22.99 per month and 30 Gigabits for £27.99 per month. Customers who are not eligible for 1Mb/s can access 512kb/s.

In all countries in which it operates, Wanadoo distributes its access offer through multiple distribution channels that are remunerated according to the services provided:

- in department stores, retailers and stores specialized in IT or telecommunications;
- by distributing free installation CD-Roms (for instance, in movie theaters) and direct marketing;
- by pre-loading on personal computers or modems; and
- online, via banners that allow users to download the access software.

In France, this sales network, which represents 4,500 sales outlets (mass retailing and computer retailers), is complemented by the distribution network of 663 France Telecom points of sale at December 31, 2004, France Telecom call centers, direct sales and partnerships with computer manufacturers.

In the United Kingdom, this sales network comprises just over 4,500 sales outlets, including 1,300 for Lloyds Pharmacy and 251 for Orange.

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The table below shows the breakdown of customers per type of offer (in thousands of subscribers):

Breakdown of customers per type of offer (in thousands of subscribers)

Country	Offers	December 2004	December 2003	December 2002
France	Low speed	2,069	2,704	2,881
	Broadband	2,969	1,816	1,044
	France	5,038	4,520	3,925
United Kingdom	Low speed	1,790	2,422	2,525
	Broadband	569	158	49
	United Kingdom	2,359	2,580	2,574
Spain	Low speed	1,059	1,310	1,364
	Broadband	379	190	99
	Spain	1,438	1,500	1,463
The Netherlands	Low speed	176	255	288
	Broadband	454	288	157
	The Netherlands	630	543	445
Total ⁽¹⁾	Low speed	5,094	6,700	7,161
	Broadband	4,371	2,453	1,374
	Total	9,464	9,153	8,535

Source: Wanadoo

(1) Including: 9,000 at December 31, 2003 and 128,000 at December 31, 2002 for Morocco and Wanadoo Belgique.

Services and content

France Telecom is the leader of the Internet market in France primarily through its *“Wanadoo.fr”* and *“PagesJaunes.fr”* portals with approximately 9.7 million single visitors in France in December 2004 compared to 8.0 million in December 2003 and 6.35 million in December 2002 (source: Nielsen –Panel Home). With its portals abroad, the Group had more than 18.9 million single visitors in December 2004 (June 2004 data for the Netherlands) compared to 17.2 million in December 2003 (source: Nielsen – Panel Home).

The content and services value creation is based on exploiting the audience potential by the use of two essential income sources: advertising with an Internet advertising sales division and the establishment of paying services.

Online advertising

Wanadoo has an advertising sales division for each of its portals. For pan-European campaigns, Wanadoo also relies on a European partnership of portals, which include the *“Web.de”* portal in Germany and the *“Libero”* portal (Wind) in Italy. This network provides online advertising and direct marketing (e-mailing campaigns).

Fee based services

Growth of the fee-based services is centered around three main poles:

■ *Communications services* with several major innovations in 2004:

- telephony via personal computer launched in April 2004 with free calls between computers and three monthly price packages for calls from computers to fixed line telephones and mobile phones in France and abroad (respectively costing €5, €10 and €15 including tax);
- a Voice over IP service that was marketed from July 12, 2004 and baptized *“Wanadoophone”*, enables customers to have a second VoIP telephone line, with a specific phone number, for calling fixed line numbers in metropolitan France (local and national calls). Use of this service requires a dedicated telephone and a *“Livebox”* (Modem Wi-Fi, see section 4.4.3.1 *“Fixed line*

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telephony”). Two price options are available: pricing on a call-by-call basis for €5 tax inclusive per month and €0.13 per call or an unlimited call plan for €20 tax inclusive per month;

- videophone via a personal computer called “Wanadoovisio” (launched on July 12, 2004), enables customers to communicate, free of charge, via their computers with other computers equipped with a Webcam and speakers and, since December 15, 2004, with fixed line telephony correspondents possessing dedicated videophones and subscribing to MaLigne Visio (see Section 4.4.3.1 “Fixed line telephony”); and
 - new Wanadoo options facilitate communications such as shared space between users of the same Wanadoo account, the Booster option which speeds up the display of web pages and the “Domicile Plus” option for business users who wish to use their Wanadoo access both at home and at work.
- *Protection services*: anti-virus, anti-spam, firewall, parental control, and coupling of protection options.
 - *Entertainment services*:
 - practical services: horoscopes, quizzes and IQ tests, “lonely hearts”, directories and classified advertisements; and
 - game services: video on-demand, games options (“Jeux Wanadoo” launched in June 2004 with more than sixty downloadable games, and “Option Juniors” comprised of content packages for children), partnership with Microsoft in the field of interconnected games consoles (Xbox Live), downloading of ring tones, logos and music.

E-Merchant business

Wanadoo’s e-merchant (or e-business) operations mainly consist of two websites:

- “Alapage.com”, which markets cultural goods (books, CDs, DVDs and CD-Roms) on the Internet; and
- “Marcopoly.com”, which markets equipment (computers, hi-fi, audio-visual and household appliances) on the Internet.

4.4.2.2 PagesJaunes

Directory services are provided by PagesJaunes (renamed PagesJaunes Group in December 2004) and its subsidiaries and are grouped into two units: PagesJaunes in France and PagesJaunes International and its subsidiaries.

PagesJaunes in France

The services provided by PagesJaunes relate to the publication and distribution of directories, sales of advertising space in paper and online directories, services involving the creation and hosting of web sites, as well as the publication of “PagesPro” business directories, sales of on-demand access and of “QuiDonc” reverse phone directory services, and the publishing of the “Europages” European business directory. The company’s income is mainly generated via the sale of advertising space in its paper directories and online services.

During 2004, 583,836 advertisers used at least one of the PagesJaunes media for the purpose of promoting sales of their products and services, i.e. approximately 20% of the corresponding market.

The company’s paper directory activity includes the “PagesJaunes” directory and “l’Annuaire” (telephone directory). PagesJaunes is the publisher of the “PagesJaunes” directory (classified by category) and has signed an advertising sales agreement with France Telecom with regard to “l’Annuaire” (telephone directory classified alphabetically). France Telecom has granted PagesJaunes exclusive rights to canvass and collate the advertising to be incorporated within “l’Annuaire” and the alphabetically classified PagesJaunes 3611 (Minitel) service as well as the technical design, implementation and lay out of such advertising. This agreement is valid until December 31, 2009. Pursuant to that agreement, PagesJaunes is responsible for billing and collecting from the advertisers the cost of the advertising they have subscribed for and acts as agent in such respect (PagesJaunes is liable to France Telecom for the payment of all published advertisements regardless of any inability to pay on the part of the customers).

In addition to its paper directory services, PagesJaunes also provides online services since the launch in 1985 of PagesJaunes 3611 on Minitel. This service has been enhanced by the launch of the “pagesjaunes.fr” web site in 1997 and the development in the same year of a service involving the creation and hosting of web sites. The availability of the PagesJaunes service on Minitel from 1985 has helped both users and advertisers to become familiar with an online telephone directory service. This familiarity then worked in favor of the development of “pagesjaunes.fr”. In 2004, 420,941 advertisers used the PagesJaunes’ online services.

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The table below shows the growth in numbers of advertisers and average revenues per advertiser during the last three years:

	2004	2003	2002
Total number of advertisers ⁽¹⁾	583,836	561,180	560,453
Advertisers in paper directories ("PagesJaunes" or "l'Annuaire" telephone directories)	550,504	532,041	531,270
Advertisers using online services	420,941	401,610	391,842
Of which advertisers using pagesjaunes.fr at the end of December (and as a percentage of the total number of advertisers)	307,953	267,175	231,806
	52.7%	47.6%	41.4%

(1) The number of advertisers includes all advertisers for the relevant year, including those having purchased advertising space in a PagesJaunes media via an advertising agency. These figures are different from those previously provided by Wanadoo in that Wanadoo counted all businesses acting through an advertising agency as a single advertiser.

International and Subsidiaries

These are the services provided by the different subsidiaries of the company, which mainly consist in the publication of consumer directories outside France, development of "Kompas" directories in Europe and the development of activities ancillary to publication of directories (such as the geographical "Mappy" services and direct marketing of "Wanadoo Data"). In 2004, the International and Subsidiaries services provided by PagesJaunes entities accounted for total revenues of €75.7 million, i.e. 7.7% of the PagesJaunes Group's consolidated revenues for 2004.

In Spain, QDQ Media, which was set up in 1997, offers paper directories and online services. In order to market the advertising space in its various media, QDQ Media developed a sales force operating on the ground and, subsequently, from 2001, a telesales unit, which together currently employ approximately 500 people.

QDQ Media, as a directory publisher, currently holds second place in terms of revenues in Spain (source: AMR International, The European Telephone Directory Market, Autumn 2003) and had 74,311 advertisers at the end of 2004.

PagesJaunes, through its subsidiaries, holds the "Kompas" concession in France, Spain, Belgium and Luxembourg. In each of these four countries, PagesJaunes subsidiaries hold sole rights to the "Kompas" brand and classifications, the publication and marketing of advertising space in the "Kompas" directories and the sale of such directories.

Set up in 1999, Wanadoo Data specializes in direct marketing. Wanadoo Data commercializes files characterized as individuals or corporate customers for multi-channel canvassing campaigns (post, telephone, e-mailing, SMS). Wanadoo Data also offers engineering services for processing marketing databases (standardization of postal addresses, de-duplication, cancellation of out-of-date addresses and incorporation of new addresses, enhancement, statistical analyses, geomarketing and hosting services).

Mappy S.A. (formerly Wanadoo Maps), set up in 1995, is currently a major player in online geographical services. Mappy S.A.'s activities center around two product lines: online geographical services and town photographs which are a natural addition to online directories and which encourage growth in their customer audience.

4.4.3 FIXED LINE, DISTRIBUTION, NETWORKS, LARGE CUSTOMERS AND OPERATORS

This segment mainly relates to the operations carried out, chiefly in France, by the operating divisions responsible for fixed line services in France:

- Enterprise Communications Services (excluding Equant): for the development and sales of communications services to corporate customers;
- Home Communications Services: for all communications services in the home, particularly including broadband services;
- Sales and Services France: for distributing all the Group's products in France in the consumer and small and medium sized businesses market;

as well as by the five performance divisions (Networks, Carriers and IT; Research and Development; Sourcing; "TOP" Program and Content Aggregation), and finally by the support functions.

At December 31, 2004, France Telecom had 33.8 million fixed lines in service in France (33.9 million at December 31, 2003 and 34.1 million at December 31, 2002), including approximately 5 million that are served by the Numéris integrated services digital

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network. At December 31, 2004, 6.3 million customers had access to ADSL (3.3 million at December 31, 2003 and 1.4 million at December 31, 2002). At the same date, 10.6 million residential customers (i.e.: a proportion of 41.9%) had entered into contracts with France Telecom for a service plan or for a new subscription price package ("*Le Plan*" or "*Plan Pro*") (9.0 million at December 31, 2003, i.e.: 35.7%, not available in 2002).

The Fixed Line, Distribution, Networks, Large Customers and Operators segment earned revenues of €21.7 billion in 2004 (€21.8 billion in 2003 and €23.1 billion in 2002), before elimination of intra-Group transactions.

Operations of the Fixed Line, Distribution, Networks, Large Customers and Operators segment mainly include:

- fixed line telephony services offered both to the general public and to Enterprises (small- and medium-sized businesses and key companies);
- other services for the general public (payphone and card services, cable television);
- other services to businesses (company network services and radio broadcasting services);
- services to carriers; and
- sales and distribution operations.

4.4.3.1 Fixed line telephony

Fixed line telephony services include (i) network access services and telephone communications services, (ii) online and broadband Internet access services and (iii) the new fixed line services: the integrated operator's images and multi-service packages, mentioned in this section, even where they combine Wanadoo Internet services with fixed line telephony offers.

4.4.3.1.1 Telephone communication and access offers and services

France Telecom's standard fixed line services are subscriptions, local and long distance telephone communications in France and international calling. France Telecom also offers its fixed line subscribers a broad range of value added services.

France Telecom's rates for fixed line telephony are subject to special regulations. See section 4.13.2.8 "Rate policy for fixed line telephony".

In early 1997, France Telecom introduced a price tariff rebalancing program which is still in progress. This rebalancing program resulted in an increase in the monthly subscription rate, a reduction in call rates (rate catalogue or options), and the creation of flat rate call plans.

In connection with the Universal Service call for tender issued by the French State last November, France Telecom submitted a global proposal on January 10, 2005. The ART indicated its approval of that proposal and reported its decision in February 2005.

That proposal provides, with regard to the period 2005 through 2008, for:

- a gradual increase in the subscription rate of 23% in order to align itself with the European average and to finance network growth for the benefit of everyone, with the first stage increasing the monthly rate from €13 to €13.99, tax included, in March 2005;
- an immediate reduction by 7% of the subsidized subscription; and
- a reduction of at least 26% in call rates over the relevant period.

In response to certain requests made by the ART and the French Government, France Telecom gave certain additional undertakings with a view to contributing towards fostering competition in the sector by way of new wholesale subscription and broadband resale offers, as well as measures aimed at improving the competitiveness of unbundled access:

- the unbundling commissioning costs will go from €78.7 exclusive of tax to €50 with regard to full unbundled access and to €55 exclusive of tax with regard to partial unbundling;
- an undertaking has been given to achieve a quality of service for total unbundling that is in line with that for partial unbundling. A list of indicators could be established and communicated to the ART from June 1, 2005, in order to measure the progress that has been made in this respect;

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- the wholesale offer regarding resale of the subscriptions will be transmitted to the ART before the end of September 2005 with a view to achieving actual implementation before the end of the first quarter in 2006 and the ADSL wholesale offer enabling the end customer to benefit from a broadband service without having to pay a subscription, will be put in place in 2005; and
- an undertaking to provide the ART with a new standard offer regarding total unbundling before June 1, 2005. France Telecom has noted that the ART has imposed a condition that France Telecom must reduce the monthly rate by €1 exclusive of tax by the beginning of the summer.

For 2004, the applicable rates are described in the following paragraphs.

4.4.3.1.1.1 Subscriptions and services

Access to the telephone network is provided via the telephone line, for which customers are charged fixed access costs upon the installation of the line and a monthly subscription in consideration of line maintenance and the supply of basic services (inclusion in the telephone directory, access to high quality customer services, use of France Telecom's exclusive services such as, for example, voice-mail, restricted calling line identification on a call by call basis and itemized billing). New services are added on a regular basis.

■ Connection to the telephone network

On June 30, 2003, a single line installation rate was created which put an end to the reduced rate that was previously used for certain types of connection (line renewal within six months in premises which have already been previously equipped).

Call out costs are also billed where the installation of a line requires the onsite presence of a technician. The network access price includes, where the customer's premises do not already possess them, the provision of one (or two) telephone sockets. Call out charges are billed in the following three cases:

- no lines are connected to the customer's premises;
- the customer requests extra lines or sockets; and
- the internal lines servicing the customer's premises are defective.

■ Subscription to the telephone service

France Telecom proposes a range of subscriptions designed to satisfy the various needs of residential, professional and business customers.

The differences mainly concern service commitment levels (warranties related to the time it takes to restore service) and the availability of services related to the line (number identification, for example, or possibility of publication in professional directories).

In April 2004, the range of business contracts was enhanced by the addition of a new contract, the Professional Services Contract, which automatically includes a vast range of services together with a choice of two additional services (to be selected, for example, from caller name identification, a voice-recognition address book, a call transfer, or a call waiting services).

France Telecom last adjusted its subscription rate on July 20, 2002, by increasing it from €12.55 (including tax) to €13 (including tax) for consumers and from €12.65 (excluding tax) to €13.10 (excluding tax) for business contracts.

■ Telephone directory service

France Telecom manages the directory database containing directory information and details of all customers that have subscribed to the operator's fixed line telephone services and publishes the paper telephone directory ("*l'Annuaire*") and the electronic telephone directory (3611 – classified alphabetically). France Telecom has entrusted the advertising sales of "*l'Annuaire*" and the electronic telephone directory to PagesJaunes. See section 4.4.2.2 "*PagesJaunes*". In 2004, France Telecom continued to carry out its universal service obligations with regard to the telephone directory pending the selection of an operator following the call for tenders.

Moreover, France Telecom commercializes this telephone directory database (excluding unlisted customer phone numbers) for the purposes of publication of directories and/or telephone enquiry services, as well as for telemarketing.

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■ Value added services

France Telecom continues its policy of developing services some of which result in the payment of a monthly subscription that contributes to subscription revenues. Thus, for personal customers, France Telecom has for several years now offered value added services such as answering services, call waiting, automatic call back of the last number, call transfer, three-way calling, caller number identification and caller name identification:

- The main pay services available on subscription are call transfer, call waiting, caller name identification and caller number identification (launched in April 2002). The last two services had an aggregate of five million subscribers at December 31, 2004.
- The "Moving home" (relocation) service and the "Keep your number" service, both launched in October 2003 and extended to the French overseas departments in March 2004, and the "New number message" service, are also very popular with customers. In 2004, they were requested by approximately 600,000 customers.
- Innovative services have been launched over the last two years: fixed line SMS in May 2003 and complemented in February 2004 by a fixed price mini-message package, with an unlimited length call package in October 2004, an express messaging service (personalized voice messages) in December 2003 and "Mes Contacts" (a voice-recognition address book associated with an access link to Internet or *Minitel*) in September 2004.

■ Offers and services aimed at corporate customers

For corporate customers, France Telecom offers shortened numbers, toll-free numbers, shared cost numbers, management of calls and telephone conferences, management of bills, new number messages, retention of same number, and private virtual networks with shortened numbers and network management services. The rates for these services are adjusted in relation to the various categories of customer's needs.

4.4.3.1.1.2 National and international calls

Telephone calls are billed either per call according to their duration or on a package basis.

France Telecom continues to develop its package plans and has instituted new diversified pricing packages to meet the varying types of usage and to increase customer loyalty.

■ Calls billed according to duration under the reference price scale

When telephone calls are billed per call, the price includes a fixed cost, plus a price calculated by the second. The fixed cost may be in the form of a time credit (a certain number of seconds included in the fixed cost) or a call connection cost, calculated by the second as from the first second. The part billed on a time basis is based on a variable price depending on the call destinations with the application of a normal rate and a reduced rate depending on the time of day.

Apart from calls made to mobile phones, the reference price scale has not changed significantly over the last few years. On the other hand, new packages have become available.

Reference price scale

The price scale for domestic calls (local and long distance) has not changed since 2001.

In October 2003, France Telecom reorganized the price scale of international calls by reducing the number of zones from 14 to eight and by establishing a pricing per second as from the first second (with the introduction of a call connection cost) for home customers and a single rate for professionals by eliminating off-peak times.

In 2004, as in previous years, France Telecom continued to lower the cost of calls to mobile telephones: on January 1, 2004, for calls to mobile telephones on the Orange and SFR networks and, on March 1, 2004, for calls to mobile telephones on the Bouygues Télécom network.

■ New price packages

In June 2004, France Telecom launched "Le Plan", a new package enabling the customer to benefit from the most advantageous rates for calls to all destinations (mainland France, French overseas departments and international calls and for calls to mobile telephones) for a monthly subscription rate of €1.50 (including tax). The rate applies to calls made round-the-clock and seven days a week (except for calls made to mobile telephones which vary according to the time of day) with a call connection cost. This package replaces "Option Plus". A "Plan Pro" was also launched in August 2004 for professional customers.

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In addition, France Telecom is launching new innovative pricing packages for customers wanting to spend an unlimited time on calls:

- "*L'Appel à Prix Unique*" (single price call), launched in 2003 and revised in July 2004, for calls to fixed line telephones in mainland France, allows customers to make calls for €0.13 (including tax) for a period of two hours in the evenings, the weekend and public holidays, for a subscription of €5 (including tax)/per month.
- "*Les Illimités*" (unlimited length calls), launched in June 2004, are a range of price packages enabling customers to make calls of an unlimited duration to telephone numbers in Metropolitan France (either to a limited number of telephone numbers or to all telephone numbers) for a fixed amount. These packages vary in form from round-the-clock, in the evenings or at the weekend and range from €9 (including tax) per month for three numbers during the evenings and week-ends to €33 (including tax) for "*L'illimité tous numéros 24/24*" (unlimited length calls to all numbers twenty four hours a day).

For large businesses, France Telecom proposes price offers with discounts based on the volume of local calls, long distance national and international calls to and within the limits of pre-defined geographic regions and for customers of private virtual network services, discounts based on internal traffic. Large businesses can also benefit from discounts on calls made on their fixed line telephones to the mobile telephones of their employees using the Orange, SFR and Bouygues networks.

■ Package plans

Since the end of 2000, France Telecom has launched monthly plans with numerous advantages for the general consumer: simplicity of a global service, price and volume of usage known in advance, choice of a package within an open-ended range, no time credit, calculation by the second and validity 24 hours a day and seven days a week.

These plans strive to:

- maintain or increase the income generated per customer;
- absorb the seasonal variation in use and ensure a recurrent income; and
- boost average consumption per customer and the increase in range.

This range of plans is being diversified, broadened and reduced in price.

Following the "*Heures locales*" (local airtime) plan and the "*Heures France*" (France airtime) plan (in 2000), France Telecom launched the "*Heures*" (airtime) plan in February 2004, and subsequently, the "*Heures vers les mobiles*" (mobile telephone airtime) plan in May 2004, a range extended to four plans in August 2004 running from 30 minutes to five hours. A range of international plans for calls to Algeria, Morocco and Tunisia (the "*Heures Maghreb*" (Maghreb airtime) plan) and for calls to Europe and North America, was launched in October 2004.

The range of monthly local call plans for professionals includes: the "*Forfait Local Pro*" (local professional package) and the "*Forfait Local PME*" (local call package for small and medium sized businesses), a range of national monthly packages with "*Forfait France Pro*" and "*Forfait France PME*", package plans covering calls to mobile telephones (since October 2003, with an extension of the range in January and September 2004). In September 2004, the prices for these professional packages were lowered. The "*Forfaits Pros Europe et Amérique du Nord*" (European and North American pro package) was launched in May 2004.

Overall in the general consumer market, the success of the package plans with the customers continues to rise: 10.6 million customers had adopted them by the end of December 2004. Such plans result either in a monthly subscription allowing customers to benefit from a specific price package or in a fixed amount of calls. The evolution of the rate of contract based on package plans is as follows:

	December 2004	September 2004	June 2004	March 2004	December 2003	September 2003	June 2003	March 2003
Rate of contract based on package plans	41.9%	40.8%	39.7%	37.8%	35.7%	32.6%	31.3%	28.9%

To respond to the expectations of small and medium sized businesses, France Telecom associates the following services with its various plans:

- price reductions on calls to pre-selected numbers;
- distinct billing for "New number message" and "Keep your number" services.

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France Telecom also proposes a company telephony service based on a Virtual Private Network ("*Atout RPV*") to key companies. This plan offers:

- a price component, "*Atout RPV Tarif*", which proposes discounts on traffic within the company based on call volumes;
- a service component, "*Atout RPV Service*", which delivers the main functionalities of private networking of the company's sites throughout France.

France Telecom launched the "unified VPN" in November 2003, a first offer of convergent fixed/wireless telephony, also based on a Virtual Private Network. This plan offers a set of homogeneous and convergent business telephony services (private numbering plan, call filtering, referrals, management and additional billing services, web administration), to fixed and mobile telephones, coupled with price offers on calls from fixed or mobile telephones. It is especially designed for small and medium sized companies or small autonomous subsidiaries of major groups.

4.4.3.1.1.3 ISDN

France Telecom has been proposing its ISDN (integrated services digital network) service to residential and professional customers since 1987 under the Numéris brand name. Numéris provides voice, data and image transmission at much higher speeds than ordinary telephone lines, while using the same medium. Numéris customers pay a fixed cost on commissioning that covers the costs of connection and a monthly subscription. The base rates of Numéris calls are the same as for standard calls.

In the residential customers' market, where ADSL has taken over, Numéris continues to be offered and proves to be useful for customers located in areas not yet covered by ADSL. For professionals, "*Numéris Accès de base*" (basic access) enables PABX to be connected and the use of telephony PABX facilities continues to grow. "*Numéris accès primaire*" (primary access) for bigger sites is designed for businesses. Since December 2001, France Telecom has offered "*Numéris Grand Site*" to businesses, a broadband fiber optic voice connection that allows access to a wider range of services with a rate that reduces as use increases. Numéris has now achieved its target expansion level with regard to the customer categories for which it was intended and has approximately 5 million customers.

4.4.3.1.2 Online services and broadband Internet access

Minitel/Télérel

Minitel is an online service accessible via the Télérel network which enables publishers of services to circulate content with added value and to be remunerated each time content is viewed according to the length of time spent viewing it. Access to Minitel services has diversified over recent years:

- range of dedicated terminals, for sale or hire (Minitel mark 1 terminals still held by customers were given to them free of charge, though France Telecom continues to retrieve them);
- browsers for personal computers, including France Telecom's "i-minitel" browser which will shortly be broadband compatible; and
- high speed access (Internet protocol) on the www.minitel.com portal, and via broadband on Wanadoo.

The terminal base is currently spread equally between dedicated terminals (4.2 million) and computers equipped with a browser (4.2 million).

Minitel is gradually losing ground to the Internet (decrease in traffic of 26% in 2004, 23% in 2003 and 21% in 2002), but it is a useful tool that retains a large customer base. Banking and stock exchange services are still the most frequently used by consumers, followed by a multitude of practical day-to-day services (weather, transport, itineraries, ticket sales, car and motorbike price index, games of chance, messaging systems and directories).

Télérel's kiosk model, that was instrumental in the development of online services, has been extended to the Internet since, in 2004, France Telecom launched the "*kiosque MaLigne*" that allows web users to download Internet content against payment on their France Telecom bill: a web user who subscribes to France Telecom is thus able to purchase music and/or games services regardless of his/her Internet service provider.

The Audiotel service consists of a number of calls to a kiosk service (e.g.: number "892") of which a part of the revenues is paid back to the service provider company. This service has grown in 2004 thanks to strong resistance to competition. France Telecom traffic showed growth of 1.7% whereas growth was slow in 2003 at 0.4% and stood at 5% in 2002.

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In May 2004, France Telecom launched a service for its corporate customers called “*Numéros Magiques*” which is a new range of telephone numbers which are very easy to memorize. This service enables corporate customers to stand out in their client relations by prioritizing simplicity of contact and highlighting their brand.

Operator enquiries

■ Universal directory enquiries

As part of its universal service obligations, France Telecom provides a national directory enquiries service via operator that is currently reached through dialing the number “12”. The basic service consists of supplying information on the basis of two separate items of information: a surname or corporate name and a region. Additional services are offered on a paid option basis that enable customers:

- to be connected to the required correspondent;
- to make more than one request for information (up to fourteen telephone numbers per call); and
- to request reverse searches (identification of a correspondent from a given telephone number).

France Telecom’s “12” dial-up service received around 140 million calls in 2004 from fixed line telephones and payphones. The distribution of customers falls broadly around 50% for residential customers and 50% for business and corporate customers.

■ International directory enquiries

France Telecom also provides an international directory enquiries service via operator that is reached through dialing the number “3212”. This service provides information on the basis of two items of information in almost all countries throughout the world as well as being able to connect the caller to the required correspondent in numerous countries. France Telecom’s “3212” dial-up service received just under three million calls in 2004.

Broadband Internet access

France Telecom markets broadband Internet access to customers (ADSL via MaLigne) and wholesale access sold to Internet access providers, including Wanadoo, under the name of IP ADSL.

The capacity of this bandwidth continues to increase: currently 8 Mb/s (making it possible for Wanadoo to launch its *débitMax* option on November 22, 2004), 24 Mb/s using ADSL 2+, which was already available in certain areas of Paris at the end of 2004. It is therefore possible to have easy access to high volume content.

The following table shows the percentage of population covered by ADSL services:

	2004	2003	2002
Coverage of national territory in % of the population	90%	79%	70%

Source: France Telecom

Retail sales (ADSL “*MaLigne*” service) show a steady drop against the development of packaged services (ADSL access with subscription to an Internet service provider) which have more appeal to customers. See section 4.4.2.1 “Access, Portals and e-merchant”.

4.4.3.1.3 New fixed line consumer services: video and integrated operator’s multi-services offers

At the end of 2003, France Telecom launched a television service on ADSL, initially limited to certain regions. In 2004, coverage for this service was extended to more regions within France and the first integrated services were launched. Customers were consequently able to access, through a single product offering, various services such as Internet, telephony, television and images. This is the first step towards achieving the aim of providing access to an extremely easy to use multi-services network that allows household terminals to be easily connected. The multi-service gateway, Livebox, is being marketed for that very purpose.

Livebox, a “multi-service gateway” at home

Launched in August 2004, Livebox is a household gateway connected to the fixed line telephone socket, enabling various types of household terminals to be connected to broadband through various communication interfaces: Wi-Fi, Ethernet and Bluetooth. It is thus possible to:

- connect several personal computers simultaneously and wirelessly to broadband Internet;

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- use telephony over IP (VoIP);
- receive television via ADSL, where the Livebox is linked to a television decoder unit; and
- play online with a games console.

It is equipped with a Bluetooth port which will allow the use of a mobile phone. The Wi-Fi function is integrated and adjustable in order to keep up with changes in Wi-Fi standards, and includes a reinforced protection function. It is compatible with ADSL 2+ speeds. Sold at €99 (including tax) or rented out at €3 (including tax) per month, it has been a great commercial success. At December 31, 2004, the number of Livebox France Telecom rented out in France stands at 234,000.

Livebox was also launched in the United Kingdom in August 2004 and, at the end of 2004, was still the only product of this type on the British market. In October 2004, it was launched in Spain and the Netherlands.

“MaLigne TV” and multi-service package: Internet, Television

To accompany and promote the development of broadband Internet in France, France Telecom launched, with TPS, an experimental television-related offer on ADSL in the Lyon metropolitan area on December 18, 2003. This offer was extended to Paris and certain local districts within the Parisian region from the Spring of 2004 in partnership with TPS and the Canal+ group.

In addition, France Telecom has commercialized, since October 15, 2004, a multi-service package that makes it possible, via the telephone socket:

- to connect the Internet on France Telecom’s broadband (512K, 1Mb, 2Mb) and, for example, to access Internet videophone, online games and photo album;
- to receive TPS or Canal+ Group packages via a digital quality connection, and access on-demand cinema and television services.

This service is available to customers who have the option of subscribing to the “MaLigne TV” service, namely more than 5 million households with regard to the TPSL service and more than 3 million households with regard to “Canal+ Numérique” and “CANALSATDSL” services. The lowest price for this service is €32.90 per month (including the initial TPSL fixed cost) plus €3 per month for the rental of the Livebox (recommended option for access).

“MaLigne Visio”

Launched on November 16, 2004, MaLigne Visio enables a person speaking on an ordinary telephone line to see the person he/she is speaking to via his/her videophone (a new generation of telephone incorporating a camera and a screen). It can also be used to make and receive voice calls, by all traditional fixed line or mobile telephones, and to communicate with users of other videophone services provided by the Group (*Wanadoo Visio* and *Orange Intense*).

The customer must be located in an area covered by ADSL and will receive a new number commencing with “08 73 2”. Since December 15, this service is offered in association with broadband Internet. The service consists of four fixed monthly price packages for an unlimited number of calls to one, three or five telephone numbers or all telephone numbers, from between €19.90 (including tax) per month and €33 (including tax) per month.

4.4.3.1.4 Other general public services

4.4.3.1.4.1 Payphone and card services

With the growth of mobile telephones, payphone and card service activities are steadily decreasing.

This trend has led France Telecom to gradually reduce the number of public telephones as shown in the following table:

	2004	2003	2002
Number of public telephones	183,000	192,000	200,000

France Telecom nevertheless maintains 63,000 telephones installed on public highways, in compliance with and far exceeding its universal service obligations of providing 49,000 (according to the current universal service criteria for local districts with a population of less than 10,000).

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The costs of calls made from public telephones are slightly higher than prices applicable to calls made from private telephones. The costs of national calls (local, long-distance and fixed line calls to mobile telephones within France and the within French overseas departments) was altered in August 2004 in the following manner:

- withdrawal of pricing relating to Peak / Off Peak time slots;
- simplification of call durations pricing; and
- alignment of pricing for calls made to mobile telephones with pricing for national calls.

France Telecom allows its customers who wish to use payphones to pay by various means. The most frequent method of payment is by "télécarte" (a prepaid phonecard equipped with an electronic chip for exclusive payphone use, which comes in a range of three different "Télécartes": with 25, 50 and 120 Telecom Units). Other means of payment are by bank card and France Telecom cards, with which the cost of the call is subsequently charged to the customer's fixed line telephone bill, and "tickets téléphones" (encoded prepaid telephone cards).

Call services using cards, from any fixed line telephone whatsoever, are also offered: the France Telecom card allows a user to make calls from a fixed line telephones in France, from abroad ("France Direct" service) and from mobile telephones using the Orange and SFR networks to fixed line telephones, mobile telephones and payphones; calls are billed to the fixed line telephone account of the person owning the France Telecom card or to a bank card ("CB Phone" service).

"Tickets telephones" allow users to make prepaid calls in France, from fixed line telephones or payphones, by dialing a prefix and a secret code. The market for this activity is highly competitive, especially with regard to international calls, which has resulted in France Telecom lowering its prices in the first half of 2004.

4.4.3.1.4.2 Cable television

France Telecom has commenced operations to sell France Télécom Câble and its cable networks. See Note 28 "Contractual obligations and off-balance sheet commitments", point 28.2.2.2, of the Notes to the Consolidated Financial Statements.

4.4.3.2 Other services to companies

Other services to companies mainly consist of company network services and radio broadcasting services. At the end of 2004, more than 285,000 company sites had access to high speed Internet/Intranet through various France Telecom packages (compared to 245,000 at the end of 2003 and 192,000 at the end of 2002).

4.4.3.2.1 Company networks

Company network services are composed of data network services, DSL company services, fiber optic services and leased lines (especially Transfix services).

Data networks

Data transmission operations mainly consist of data communication services provided to customers in France via the Transpac network and data communication services outside France and sold in France by Transpac to multinational companies based in France via an exclusive distribution agreement with Equant.

The Transpac network serves as a platform for a vast range of services to companies, including VPN IP, Internet access services, e-mail, hosting and security.

France Telecom offers its customers various types of services:

(i) data transmission services to build company Intranets or Extranets, or online services for Internet access providers, with customer services such as after sale service and the production of statistics. Various types of access are available: leased line ("Transfix"), ADSL, ATM, Frame Relay, X.25, PSTN/ISDN/GSM/GPRS. Various protocols are proposed and carried end-to-end; these are mainly IP and Frame Relay protocols. Since 2003 there has been a significant shift in data transmission services from Transfix access to DSL.

(ii) Internet access services that include access to the backbone network dedicated to companies, which is inter-connected with global Internet via the heart of the France Telecom long distance network.

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DSL company services, satellite and Wi-Fi services

DSL company services allow the various sites of a company such as regional agencies, maintenance sites and commercial branches, to be interconnected through ADSL. At the end of 2004, approximately 63% of company sites in France were connected to the Internet by ADSL (compared with 45% in 2003).

For areas that are not connected to ADSL, France Telecom has a wide range of access to broadband Internet via satellite and Wi-Fi and provides, in collaboration with the local authorities, broadband coverage to local districts located in rural areas.

These solutions are now available throughout the whole of France and supplement DSL coverage.

Fiber optic services

France Telecom has been using fiber optic cable at the heart of its national network for several years. It is also the medium generally used to connect the sites of companies that strongly contribute to a value chain production process and that are important nerve centers, such as the registered office, the administrative center, the Research and Development center, the regional office and the main production sites.

At December 31, 2004, approximately 2,000 establishments had access to fiber optic cables which provide them with adaptable, evolving flows of data at increasingly higher speeds (approximately 10,000 at December 31, 2003 and 7,000 at December 31, 2002).

Offers of transport on fiber optic cable are available throughout France, whether it is a matter of interconnecting the local networks of small and medium sized companies, remotely backing up the data bases of large companies or supporting collaborative engineering applications between subcontractors and their customers. They propose speeds of up to several Gbit/s in standard mode.

Short distance interconnection needs are covered in all towns with a population of 10,000. Performance, speed, reliability, flexibility and durability are just some of the qualities of these networks (SMHD, MultiLAN, InterLAN, Intracity) that endeavor to find a solution to geographic distance. Teams and sites can thus immediately share expertise and resources everywhere. The volume of services interconnecting local networks for small and medium sized companies grouped together under the InterLAN range have grown steadily in 2004.

The bandwidth that France Telecom offers telecommunications operators and suppliers of Internet services to build their networks or to support their services is now available in tens of Gbit/s.

France Telecom is continuing to develop the range of very high speed new generation services and deploys "Giga Ethernet" technology that allows a connection speed of 10 Gbit/s. At December 31, 2004, these services were available in ten built-up areas.

In 2004, France Telecom launched a new plan for equipping the territory with broadband for the benefit of all sizes of companies. This service relates to the providing business parks (*zones d'activités économiques*) with broadband and very high speed broadband by way of connecting certain targeted areas.

Leased Lines

France Telecom leases "leased lines" to its professional and business customers that are either digital (digital Transfix lines) or analog. At December 31, 2004, France Telecom leased approximately 246,000 lines in France (292,000 at December 31, 2003 and 327,000 at December 31, 2002), of which 73% were digital Transfix lines (73% at December 31, 2003 and 72% at December 31, 2002). Although the total number of lines leased by France Telecom has decreased since 1997, its total transmission capacity has increased considerably. This trend results to a large extent from the decrease in the number of analog lines and their gradual replacement by high capacity digital lines or by other switched products such as Numéris, X 25, Frame Relay and IP.

Subscribers to France Telecom's leased line services pay initial connection costs in relation to the type of line rented, then a monthly subscription depending on the line (analog or digital), its capacity, its length and the term of the rental. The costs of France Telecom leased lines have regularly decreased each year since 1998. This reduction mainly concerns digital and long distance services.

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Innovative services with high added value

In addition, France Telecom develops innovative services with high added value centered around its customers' concerns and requirements:

(i) Access by itinerant employees to their company environment when on the move. In 2004, France Telecom launched an integrated range of itinerant user services for corporate customers called "Business Everywhere". These services enable unified itinerant user access by linking all the France Telecom group's networks. They include user telephone support services, a single bill and secure access.

(ii) Services relating to information systems. More specifically, France Telecom is developing security, hosting and e-mail services, as well as collaborative working tools.

(iii) Customer relations management. France Telecom has a wide range of corporate customer services for managing incoming and outgoing contacts. In October 2004, France Telecom added to its range by launching a modular, turn-key service in hosted mode enabling small and medium sized businesses to progressively manage all their customer contacts irrespective of the means of communication used (telephone, fax, e-mails, chat, SMS or call-back)

(iv) Total or partial outsourcing of company communication services. This activity consists in operating all or part of its corporate customers' fixed line or wireless communication services – voice, data, images – over a long period, and in accompanying such services by a collection of additional services ranging from advice to providing assistance. During 2004, France Telecom won several contracts for the total or partial outsourcing of company communication services.

(v) The advent of voice-data convergence via Internet protocol. In 2004, France Telecom launched a comprehensive range of telephony over Internet protocol services (Voice over IP) for corporate customers. This range is made up of two new turn-key services for the small sites of large companies and for small and medium sized companies and industries, and tailor-made services for large companies and multinationals:

- The e-telephony over Equant IP VPN access service enables large companies with small sites to access private telephony services such as the unified messaging system, rerouting of calls and centralized network management without having to invest in a PABX.
- The e-telephony Internet Pack is the first integrated (voice and data) service for small and medium sized companies and industries and small sites of large companies that wish to access Internet and telephone over IP via one and the same network. Through this service, the companies are provided with business broadband access (guaranteed Internet speeds and Voice over IP), an unlimited national calls package and Internet services such as electronic mailbox, anti-virus protection, additional IP addresses, web site hosting and a domain name.
- On a parallel with these "turn-key" offers for small sites of large companies and small and medium sized companies and industries, France Telecom offers large companies an integrated solution that covers all phases involved in the development of a company telephony network over IP: audit, technical-economic engineering, operating assistance or total delegation.

4.4.3.2.2 Radio broadcasting services

France Telecom offers radio broadcasting services through GlobeCast. GlobeCast is established mainly in northern Europe, the United States and Singapore. GlobeCast operates transmission services by satellite for professional television broadcasters, company multimedia networks and Internet access providers. It has sixteen offices and teleports through which it offers a range of solutions for the transportation, distribution and broadcasting by satellite of, in particular, television and radio programs, Internet content and sports events or news.

4.4.3.3 Services to carriers

4.4.3.3.1 Relationships with international carriers

Payment agreements signed by carriers for international communications provide that France Telecom will be paid a fee by carriers that use its network to carry their international calls to France and that it will pay a fee to use the networks of other carriers for calls made from France. The billing currency used is the SDR (Special Drawing Right), a basket of currencies in which the U.S. dollar and the euro have significant weight (see section 4.18 "Risk factors"). Payment is made in the currency chosen by the creditor carrier.

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Until 2000, these rates tended to decrease significantly. This trend has gradually slowed down since then, in particular, for France, the other members of the European Union and the United States.

4.4.3.3.2 Interconnection services

French telecommunication regulations require that France Telecom provide the interconnection of its switched public network with other operators for calls leaving the France Telecom network or incoming from the networks of competing operators.

This business area is regulated by the ART (see section 4.13.2.6 "Interconnection"). Volumes exchanged between France Telecom and the other operators are valued by rates approved by this authority.

In 2004, for voice services, prices have been maintained at the 2003 rates with respect to traffic exchanged at the local switch closest to the end customer compared to a 1% drop in 2003 and a 6% drop in 2002, whereas prices dropped 2% with respect to traffic exchanged at the level of regional switches (4% in 2003 and 16% in 2002). Regarding the rate for volumes exchanged at the level of double transit, it was no longer the subject of an ART approval procedure in 2004.

4.4.3.4 Sales, distribution and customer service

Under the new Group structure in place since the end of March 2004, the Sales and Services France Division is responsible for the distribution of all products and services of the Group intended for the residential consumer and small and medium sized companies market.

Residential consumer goods are distributed via various channels including, in particular:

- a network of 663 points of sale at the end of 2004 (620 at the end of 2003 and 640 at the end of 2002) spread throughout France. A program to densify and re-localize the shop network was launched in 2004 to increase commercial presence in town centers and shopping malls;
- the in-house customer contact centers within France Telecom that specialize in sales and distance customer relations;
- self-service channels via a voice portal (the "3000" dial-up service) and an Internet portal ("*francetelecom.com*"),
- a network of local retailers (tobacconists and news agents), mainly distributing prepaid fixed line products (telephone cards, "*tickets telephones*") and prepaid mobile telephone products (top-up airtime products).

The Sales and Services France Division provides extensive customer services including an after-sales enquiry service that is available free of charge seven days a week and 24 hours a day (the "1013"/"1015" dial-up services), on-site technical assistance and a customer support service in connection with their usage of France Telecom products and services (installation, assistance).

Corporate customers, other than Large Customers, are also serviced by the Sales and Services France Division, with respect to both voice and data transmission operations, through a network of 11 company agencies covering the whole of France.

The Enterprise Communications Services Division is responsible for very large national and international companies, in particular via Transpac in France and Equant in the rest of the world.

The Networks, Operators and Information Systems Division distributes France Telecom products and services to other carriers and suppliers of telecommunication services.

4.4.4 EQUANT

The Equant segment, composed of Equant and its subsidiaries, earned revenues in 2004 of €2.35 billion, before taking into account intra-group transactions (€2.6 billion in 2003 and €3.15 billion in 2002).

4.4.4.1 History and development

Equant, one of the leading data transmission companies in the world (source: Gartner), was formed and operates under the laws of the Netherlands. It has its registered office in Amsterdam. Given its international structure, Equant has four main places of business: Paris, Herndon (United States), Slough (United Kingdom) and Singapore.

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France Telecom signed a series of agreements with Equant in November 2000, which provided that France Telecom would sell Global One Communications World Holding B.V. and Global One Communications Holding B.V. to Equant in exchange for Equant shares. Furthermore, France Telecom agreed with SITA to exchange SITA's entire shareholding in Equant for France Telecom shares. Under these agreements, France Telecom became the majority shareholder of Equant on July 1, 2001, with a 54.1% shareholding and the right to appoint five out of the nine members of Equant's supervisory board and one out of the three members of the management board as long as France Telecom owns at least 34% of Equant's shares. France Telecom was still a majority shareholder at December 31, 2004.

In this respect, Equant (Equant and its subsidiaries) has been fully consolidated in France Telecom's financial statements since July 1, 2001.

On the closing date of these transactions, France Telecom S.A. issued a contingent value right per ordinary Equant share for Equant shareholders other than SITA Foundation and for some holders of share options and "Restricted Share Awards" which Equant had awarded prior to November 19, 2000. The contingent value rights were paid in July 2004 for an overall amount of €2,015 million.

In accordance with the business transfer agreement, France Telecom transferred Global One's operations related to data transmission services for companies to Equant, but retained Global One's services to carrier and most of its operations related to call cards.

France Telecom may not hold more than 70% of the shares in Equant N.V. listed on the New York Stock Exchange and on Euronext Paris prior to June 29, 2006, unless France Telecom acquires these shares (i) by virtue of a tender offer or (ii) in accordance with a strategic merger operation pursuant to market conditions. France Telecom may not transfer or distribute more than 25% of its shareholding in Equant prior to June 29, 2005, unless it has been approved by independent directors or other shareholders, unless the transfer is the result of a strategic merger operation involving Equant and another company in which France Telecom holds at least 34% of the voting rights.

Upon completion of this transaction, Equant terminated the joint venture agreement which linked it with SITA, a co-operative established and operating under Belgian law, which groups together airlines worldwide, in order to offer telecommunication services to these airlines, and replaced it with a series of agreements. A Strategic Relationship Umbrella Agreement which defined general principles governing relations between Equant and SITA was thus entered into for a period of ten years. This agreement provides for an exclusivity period of five years during which, in particular, SITA may not buy network services from Equant's competitors, without the latter's approval and Equant may not sell network services to airline companies. The agreement may be terminated only in the event of a serious breach by the parties of their obligations. It included a minimum income clause for Equant, which was valid until June 30, 2003. After this date, the wholesale prices are determined by reference to the market price. A Network Services Agreement, which defines the terms and conditions in which Equant will supply network services to SITA, was signed for a period of ten years. In accordance with the agreement, which is currently applicable between Equant and SITA, Equant controls and manages the network. Equant provides SITA with its range of products and services which SITA then provides globally to air carriers.

On June 26, 2001, Equant signed, via Transpac, France Telecom's subsidiary, a series of agreements with France Telecom, which govern the relationship between Equant and France Telecom in relation to the terms on which Equant shall sell and supply services in France via Transpac. In 2002, Equant signed a series of agreements with France Telecom for the supply of multilateral switched voice network services, whilst France Telecom took responsibility for the operational and financial side of restructuring such network. In October 2004, Equant and France Telecom signed an agreement concerning the transfer to Equant of responsibility for the operational and financial side, previously exercised by France Telecom, of the multilateral voice network.

Equant has completed the legal integration in each country of its former subsidiaries and former subsidiaries of Global One, for which integration had been planned. Moreover, the operational merger between Equant and Global One has produced important synergies related to the streamlining of networks and the support and sales functions. Scheduled synergies were completed as early as 2003.

In 2004, Equant altered its structure in order to facilitate the conception, supply and management of the integrated solutions and services that it offers to multinational companies. Equant's business is structured around two divisions, each liable for its own operating account: "Equant Network Services", responsible for traditional network services, and "Equant Solutions and Services", responsible for advanced services. Moreover, in 2004, Equant launched a transformation program, for which the Chief

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Operating Officer was responsible, aimed at reducing network costs by optimizing structures and by focalizing the company's resources on its transformation into a company geared towards supplying services and solutions.

In order to accelerate the implementation of a unified strategy for the corporate market in accordance with the integrated operator model, on February 10, 2005, France Telecom announced that it had signed a final agreement with Equant under which France Telecom would acquire the totality of Equant's assets and liabilities, for a total amount of €578 million for the share not yet owned by France Telecom. The transaction is still subject to certain conditions including obtaining the approval of Equant's shareholders which needs to be given during an extraordinary general meeting of the shareholders. If this transaction is completed, France Telecom considers that it will constitute a long-term solution to the structural challenges faced by Equant as an independent entity, and will enable France Telecom to reaffirm its commitment to its corporate customers and to consolidate its leadership in this market. For more information regarding France Telecom's acquisition of the totality of Equant's assets and liabilities, see Note 31 "Subsequent events" in the Notes to the Consolidated Financial Statements and section 7.1 "Recent events and future prospects".

4.4.4.2 Activities

Through its offer of services, Equant is considered to be one of the leaders in the area of international services and transmission of data for multinational companies (source: Gartner). Equant's worldwide communication network and strong strategic partnerships effectively enable Equant to provide services to its customers throughout the world. At December 31, 2004, Equant considered that it offered outstanding geographic coverage by using a seamless data transmission network. At that date, Equant operated five comprehensive customer services centers and seven hosting centers, and had local support centers based in 299 towns, in 149 countries or territories, compared to 165 countries or territories at the end of 2003 and the end of 2002 (source: Equant).

Via the Equant network, users can have access to their company's data and applications and to those available via the Internet anywhere in the world. This data may be accessed either directly or by remote access using laptop computers or using other network access interfaces. Equant is increasingly endeavoring to help its customers develop solutions that use IP technologies, either by providing new services, or by proposing services currently available on the Intranet, Extranet or Internet. Equant offers a complete portfolio of network management services based on end-to-end IP solutions and an extensive range of traditional data transmission services, value added services for voice and mobiles and innovative outsourcing and integration services. Equant also offers a range of management tools with which its customers can check the performance of the network and its availability and correct its defects.

Among its main products are, in particular:

- its IP-VPN MPLS products and services, used by more than 1,300 companies at December 31, 2004 (compared to approximately 1,000 at the end of 2003 and approximately 700 at the end of 2002); these products are available in 146 countries and territories at the end of 2004 (compared to 142 in 2003 and 2002);
- its Frame Relay products and services, distributed in 148 countries at the end of 2004 (compared to approximately 185 countries at the end of 2003 and 2002);
- its ATM products and services, distributed in 52 countries at December 31, 2004 (47 in 2003 and 46 in 2002).

Equant places emphasis on solutions that are specifically adapted to each of its corporate customers. Such solutions include outsourcing, dedicated complex solutions and the combining of advisory services, engineering and project management.

Integrated services aimed at multinational companies include, in particular, messaging systems, provision of server infrastructure and safety and security services.

4.4.5 TP GROUP

4.4.5.1 General presentation

In October 2000, a consortium led by France Telecom acquired a 35% holding in TP S.A, the parent company of the Telekomunikacja Polska S.A. Group ("TP Group"). In October 2001, the consortium raised this holding to 47.5%. Following the listing of TP S.A. on the stock exchange in November 1998 and sales by the Polish government, the Polish government holds approximately 4% of the share capital of TP S.A., with the 48.5% remaining stake held by other private investors. The Polish

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partner in the consortium, Kulczyk Holding, sold to France Telecom the shares in TP S.A. held by Tele Invest and Tele Invest II, i.e.: respectively around 10% of TP S.A.'s share capital, in October 2004, and the balance of its interest in TP S.A.'s share capital, i.e. 3.57%, in January 2005. France Telecom has therefore directly held 47.5% of TP S.A.'s share capital since the end of January 2005. TP Group forms part of the "International" Division.

Following the shareholders' meeting of January 26, 2002, the consortium of France Telecom and Kulczyk Holding has a majority of the members of the supervisory board of TP S.A. TP Group (TP S.A. and its subsidiaries) has consequently been fully consolidated in France Telecom's financial statements starting April 1, 2002.

TP Group is the leading telecommunications group in Central Europe in terms of revenues and number of customers (source: URTiP, HIF and CTU, Polish, Hungarian and Czech regulators, respectively). TP Group is the leading provider of telecommunication services in Poland (source: URTiP) and offers a large range of services that include fixed line telephony, leased lines, radio communication and data transmission, including Internet services. TP Group is also a majority shareholder (with a 66% interest) of PTK Centertel, one of three wireless operators in Poland, with the remaining 34% balance of PTK Centertel's share capital being held indirectly by France Telecom.

At December 31, 2004, TP Group had 11.4 million fixed lines (11.1 million at December 31, 2003, and 10.8 million at December 31, 2002) and 7.4 million wireless customers (5.7 million at December 31, 2003, and 4.5 million at December 31, 2002) (source: TP S.A.).

TP Group had approximately 36,800 employees (average number of full-time employees) in 2004, compared to approximately 43,400 in 2003 and 45,200 in 2002.

TP Group segment revenues, before eliminations of intra-group transactions, amounted to €4.1 billion in 2004, as compared to €4.2 billion in 2003, in historical data. For more information on TP Group segment revenues, see sections 1.2.2.5.2 and 1.3.2.5.2 of the Financial Report for 2004 and 2003 respectively.

4.4.5.2 Activities

Market environment

Poland's telecommunications market is the largest in Central Europe; it remains, however, significantly under-penetrated compared to other markets in the region. Fixed-line penetration at the end of 2004 was 33.1%, which compares with an EU average of 50% (TP Group estimate) and rates in other states like Hungary and the Czech Republic of 35.5% and 34.4% respectively (source: 10th Implementation report by the European Commission). In the mobile segment, Poland's penetration rate was 62%, compared to 85% in Hungary and 99% in the Czech Republic (source: 10th Implementation report by the European Commission, PTK Centertel).

The telecom sector is expected to be among the main beneficiaries of Poland's EU membership. Indeed, the Polish telecom market is by far the largest sector among the 10 new member states; it has been estimated to account for up to 30% of the aggregate value of their telecom sectors.

TP Group strategy

The main strategic initiatives for the coming years are as follows:

- Fixed-line – improvement in customer service, marketing and distribution, introduction of loyalty programmes and offers;
- Mobile – increasing the subscriber base and improving share of the mobile market revenue; and
- Multimedia – increased penetration of Internet access lines, especially ADSL to residential customers.

In order to build a long-lasting relationship with its customers, TP Group structures its operations in line with France Telecom Group global strategy with focus on the following segments: Home (services for residential customers, especially fixed line telephony, multimedia, Internet access), Enterprise (telecommunication services for business customers including fixed line telephony, data transmission and leased-lines, value added services) and Personal (services based on mobile technologies).

4.4.5.2.1 Fixed line telephony services – TP S.A.

TP SA offers a range of fixed line voice telephony services to 11.4 million lines. In addition to fixed-line traditional telephony services, TP Group offers the following services: toll free calls/free phone, split charge calls, universal numbers, and tele/videoconferencing.

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In the period between October 2002 and March 2003, TP S.A. conducted a proactive digitalization program aimed at providing customers with the benefits of digital networks and ISDN access. At the same time, the number of analog lines has been increased, providing more room for expansion of ADSL and Internet access.

TP S.A. is steadily introducing new telephony products in order to stabilize fixed-line traffic market share and to stimulate usage, such as: new unlimited tariff plans (offering a discount or free minutes of call-time at weekends and during off-peak hours), communication packages (telepakiety), as well as, free minutes included in the ISDN access subscriptions.

Several of these strategic initiatives have allowed TP to improve its competitive position and to defend its market share in the fixed-line voice segment.

Data Transmission services

TP S.A. offers complex data transmission solutions for businesses, based on a wide range of data transmission services (standard and non-standard offers). TP S.A. provides reliable and secure connections for customers between their domestic branches and units located in foreign countries. TP also offers additional services and features such as: permanent virtual connections (PVC), virtual private networks (VPN), Internet and Extranet access and traffic management. Certificate of quality ("TP Service level agreement") for data transmission guarantees stable quality of data transmission in accordance with contracted parameters (time of failure removal, maximum number of faults in data transmission, etc.).

Internet access dedicated for business customers is provided in many options by Frame Relay/ ATM protocols and xDSL technology. At the end of 2004, TP is launching, in co-operation with Equant, an IP VPN service based on MPLS platform in order to build a secure and comprehensive VPN portfolio according to current business expectations.

Leased network

TP Group considers itself as the leading leased lines provider in Poland. These lines can be used by its customers for their own purposes or to offer telecommunication services to their customers. Currently, this network is mainly used by Polish providers of wireless telephony networks, the Ministry for Defense, the Ministry for the Interior and the Polish Authorities, financial institutions and Internet access providers.

The rental price of the TP Group fixed line network is based on two factors: the number of end users and the monthly subscription rate, which depends on the amount of capacity provided and the type of network. TP Group's strategy is to increase transmission capacity of the network, while decreasing the cost of use for customers.

4.4.5.2.2 Wireless telephony – PTK Centertel

PTK Centertel Sp. Z.o.o., (hereinafter referred to as "PTK Centertel"), is the wireless subsidiary of TP S.A., which holds 66% of its capital. France Telecom holds the remaining shares (34%). PTK Centertel was granted four licenses for the provision of telecommunication services: a 15-year license (expiring in August 2012) in order to set up and maintain a GSM1800 digital network, a 25-year license (expiring in December 2016) in order to set up and maintain an NMT 450i analogue network and a 15-year license (expiring in July 2014) in order to provide a GSM900 service. In December 2000, PTK Centertel was granted a UMTS license for the amount of €650 million, of which €260 million has been paid and the balance of which will be paid in eighteen installments beginning in 2005. In accordance with the terms and conditions of the UMTS license, PTK Centertel is obliged to provide a minimum coverage of 20% of the population by the UMTS services until the end of 2007. Implementation is planned for, at the latest, January 1, 2006. The UMTS license expires on January 1, 2023. The dual-band network (GSM900 and GSM1800) covers voice and data transmission, which includes dispatch of SMS, MMS, call transfers, answering services, telephone conferences, CLIP ("calling line identification presentation") and CLIR ("calling line identification restriction"). Roaming service is also available.

On January 17, 2005 PTK Centertel was issued with a certificate of entry in the telecommunications undertakings register issued by the President of the Office of Telecommunications and Post Regulation. In accordance with the certificate, PTK Centertel is authorized to perform the following business telecommunication activities:

- Provision of telecommunication services in NMT 450 MHz network;
- Provision of telecommunication services in GSM 900 MHz network;
- Provision of telecommunication services in GSM1800 MHz network;
- Provision of telecommunication services in UMTS 2 GHz network;

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- Data transmission service; and
- Leasing telecommunication lines.

At December 31, 2004, PTK Centertel entered into 335 commercial roaming agreements with operators in 174 countries such that its users can have access to the GSM900, GSM1800 and PCS1900 network when they travel. The Polish wireless telecommunications market grew by 33% in 2004, 25% in 2003, compared to 39% in 2002, in terms of the number of customers. PTK Centertel became the Polish second wireless network operator in 2003 and strengthened its second position in 2004 with 7.4 million customers as at December 2004 compared to 5.7 million customers as at December 31, 2003 and 4.5 million customers at December 31, 2002 (source: TP Group).

4.4.5.2.3 Internet Services

Since June 1996, TP Group has been offering narrowband Internet access. Customers may access Internet via a national number for the cost of local access (or less in off-peak hours) without any additional subscription fee. In 1999, a flat rate Internet broadband access was launched. In the first quarter of 2001, TP Group launched the ADSL Neostrada service.

TP Group offers Internet services under several brands: "neostrada tp" for residential ADSL services, "Dostęp do Internetu DSL tp" for business ADSL services, "SDI tp" for residential and business low-end broadband services (115 kbps downstream and upstream), "Internet Numbers tp" for narrowband no subscription (pay-as-you-go) services and "Pakiety Internetowe tp" ("Internet Bundles tp") – narrowband call packs.

Broadband Internet access via ADSL represents an important priority for TP Group. Broadband Internet access via ADSL is growing very rapidly: 14,000 customers at December 31, 2002, 134,000 at December 31, 2003 and 631,000 subscribers at December 31, 2004 (source: TP Group). TP's substantial growth in broadband contributed significantly to the overall Polish market growth. According to the statistics from an independent research company, Poland was the most dynamic broadband economy in the world, with an increase of over 80% in broadband customers during the first half of 2004 (source: Point-Topic Ltd).

TP Group's website is "tp.pl". TP Group intends to reinforce and develop this site. TP Group's other websites include links with "tp.pl".

In addition, the wholly-owned Internet subsidiary of TP S.A., TP Internet, offers the following services:

- "Internet Biznes" is a hosting service for websites and e-mail accounts designed for business customers. A customer may reconfigure his space on the server, as well as his user rights, without restriction, using a simple graphic interface.
- "I-Serwer" is a rental service for allocated servers. This equipment uses the resources of the Data Center, which is owned by TP Internet.
- "Web advertising" and "Web designing" are designing and production services.

TP Internet also provides multimedia content, including audio/videobroadcasting over Internet and offers Contact Center services as well as electronic signature. (Source: TP S.A.)

"Wirtualna Polska" (Virtual Poland – WP.pl) is an Internet portal that provides services on the Internet and was acquired by TP Internet in 2001. On April 9, 2004, Wirtualna Polska S.A. was declared bankrupt.

4.4.6 OTHER INTERNATIONAL

Europe

In Spain, France Telecom directly and indirectly wholly owns Uni2. At December 31, 2004, Uni2 provided fixed line telephony services to 2.1 million customers, or 3 million lines, compared to 1.7 million customers at December 31, 2003, or 2.7 million lines and 1.6 million customers at December 31, 2002, or 2.6 million lines. At the end of 2004, Uni2 absorbed Wanadoo España.

In Portugal, France Telecom indirectly holds 43.3% of the capital of the fixed line telephony operator, Novis. This alternative operator offered its services to approximately 204,000 customers at December 31, 2004 compared to 210,000 customers at December 31, 2003 and 115,000 at December 31, 2002. In Portugal, France Telecom also indirectly holds 43.3% of Clixgest's capital, an Internet service provider.

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South America

- France Telecom indirectly holds 25% of the capital of Intelig, an alternative fixed line telephony operator for long distance national and international calls in Brazil. This operator began its operations in the first half of 2000. This specific shareholding has been transferred.

Asia and Oceania

- France Telecom signed a partnership agreement in July 1997 with VNPT, the Vietnamese fixed line telephony operator. Under this agreement, France Telecom provides financial, technical and management assistance to the project to install new lines east of HoChiMinh City; these agreements generate France Telecom's off-balance sheet commitments (see Note 28 "Contractual obligations and off-balance sheet commitments" of the Notes to the Consolidated Financial Statements).
- France Telecom set up Tahiti Nui Telecom in partnership with the *Office des Postes et Télécommunications de Polynésie française* (OPT), of whose it holds 34.0%, in April 2002. This company offers telephony services for international calls from French Polynesia to 54,000 fixed line customers of OPT at December 31, 2004 compared to 55,000 at December 31, 2003 (53,000 customers at December 31, 2002).

Middle East and Africa

- France Telecom owns a 51% shareholding in Côte d'Ivoire Télécom, which is the national telecommunications network in the Ivory Coast. CI Telcom provided its fixed line telephony services on 225,000 lines at December 31, 2004 compared to 328,000 lines at December 31, 2003 and 333,000 lines at December 31, 2002. This shareholding is held by the holding company, FCR Côte d'Ivoire, of which FCR is the main shareholder with 90% of the capital. The operations of CI Telcom are affected by current events in the country, such that the value of these assets has been fully depreciated at December 31, 2004. See section 4.18 "Risk factors".
- France Telecom holds a 42.3% shareholding in Sonatel, which is the very first telecommunications operator in Senegal. Sonatel provided fixed line telephony services to 245,000 lines at December 31, 2004 compared to 229,000 lines at December 31, 2003 and 225,000 lines at December 31, 2002. Furthermore, the wireless subsidiary of Sonatel had, at December 31, 2004, 781,000 customers compared to 576,000 customers at December 31, 2003 and 456,000 at December 31, 2002.
- France Telecom indirectly holds 40% of the shares of Jordan Telecommunications Company, which provided fixed line telephony services to approximately 638,000 lines at December 31, 2004 compared to 632,000 lines at December 31, 2003 and 680,000 lines at December 31, 2002. Furthermore, the wireless subsidiary of Jordan Telecom had, at December 31, 2004, 455,000 customers compared to 356,000 customers at December 31, 2003 and 316,000 at December 31, 2002. Jordan Telecommunications Company was listed on the Amman Stock Exchange (in Jordan) in 2002.
- France Telecom indirectly holds 40% of the capital of Mauritius Telecom, the historic operator in Mauritius. Mauritius Telecom had a stock of approximately 354,000 telephone lines at December 31, 2004, compared to 348,000 lines at December 31, 2003 and 327,000 lines at December 31, 2002. Furthermore, the wireless subsidiary of Mauritius Telecom had, at December 31, 2004, 380,000 customers compared to 326,000 customers at December 31, 2003 and 251,000 at December 31, 2002.

4.5 DIVESTITURES

The main divestitures of France Telecom are described in the Notes to the Consolidated Financial Statements under Note 3 "Main acquisitions of companies, disposals and changes to group" in the case of subsidiaries and consolidated shareholdings and under Note 12 "Other investment securities" in other cases (see those Notes).

The divestitures refer to the following transactions:

- For the financial year 2002 :
 - disposals of subsidiaries and consolidated shareholdings: TPS (Télévision Par Satellite), Stellat, Pramindo Ikat and TDF.
- For the financial year 2003:
 - disposals of subsidiaries and consolidated shareholdings: Casema, Eutelsat, Wind, CTE Salvador and Nortel/Telecom Argentina;
 - disposals of other shareholdings: Sprint PCS, Bull (bonds with option of conversion into new or existing shares), Immarsat.

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■ For the financial year 2004:

- disposals of subsidiaries and consolidated shareholdings: IPO of PagesJaunes (France Telecom held 62% of the capital at December 31, 2004); disposal of the 100% interest in Orange A/S (Denmark); disposal of Equant's 49% shareholding in Radianz; and reduction from 49% to 10% of the shareholding in the capital of BITCO (Thailand).
- disposals of other shareholdings: disposal of a 27% interest in the capital of NOOS; disposal of 30 million shares in STMicroelectronics, representing 3.3% of the capital in that company.

In addition, France Telecom undertook, in November 2004, to sell all its equity interests in Tower Participations SAS, the parent company of TDF, representing a 36% indirect interest in TDF's capital: this disposal was completed at the end of January 2005. In December 2004, France Telecom undertook to sell its subsidiary France Télécom Câble and its cable networks.

See Note 28 "Contractual obligations and off-balance sheet commitments" (commitments to acquire or sell share interests) and Note 31 "Subsequent events" in the Notes to the Consolidated Financial Statements.

4.6 COMPETITION

In France, France Telecom continued to hold the position of market leader in all high growth sectors, namely the wireless and broadband sectors. The fixed line telephony market was marked essentially by the rise of broadband access, as well as by the very high increase in unbundling throughout 2004 and the appearance of the first full unbundling offerings. Dynamic growth in the wireless sector in France was confirmed in 2004 with the launch of the third generation of UMTS mobile telephones and the emerging of the first mobile virtual network operators' offerings.

In Poland, TP S.A. retained its dominant position in the fixed line telephony market. In the United Kingdom, where the wireless market penetration rate is very high, Orange holds a leading position in a market that remains highly competitive.

4.6.1 ORANGE

Orange faces significant competition from European or international wireless telecommunications providers, such as Vodafone, T-Mobile, mmO2, TIM (Telecom Italia Mobile), Telefónica Móviles, NTT DoCoMo and Hutchison Whampoa, all of which have international networks. In addition, Orange faces competition from national operators in each of the countries in which it operates. To the extent that use of mobile telephones is complementary to fixed line telephones, Orange also competes with fixed line telecommunications providers.

France: Orange France's main competitors are SFR and Bouygues Telecom. SFR, which is controlled by Vivendi-Universal and partially owned by Vodafone, started GSM900 operations in 1992. Bouygues Telecom, which is controlled by Bouygues, has operated a GSM network since 1996. In mid-2004, two virtual wireless network operators launched their services: Omer Télécom, which uses the Orange France GSM network in Brittany and Loire Atlantique (under the Breizh mobile brand name), and Débitel, which uses the SFR network.

The competitive landscape has been marked in 2004 by the arrival of these virtual operators, and by the commercial launch of Orange France's and SFR's UMTS, firstly for corporate users and subsequently for the general consumer at the end of the year. Orange France, SFR and Bouygues Télécom are the three operators which hold UMTS licenses in the French market.

The following table shows the market shares of each of the network operators in France.

	2004	2003	2002
Orange	47.7%	48.8%	49.8%
SFR	35.5%	35.3%	35.1%
Bouygues Telecom	16.8%	15.9%	15.1%

Source: ART

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The following table shows annual growth in the customer base for each operator in the French market (including the French overseas departments).

	2004	2003	2002
Orange	0.92 million	1.1 million	1.4 million
SFR	1.10 million	1.2 million	1 million
Bouygues Telecom	0.84 million	0.8 million	0.8 million

Source: ART

United Kingdom: Orange UK's principal competitors in the United Kingdom are the three other existing operators of wireless communications networks, Vodafone, O2 (wholly-owned by mmO2) and T-Mobile (wholly owned by Deutsche Telekom). All of them commenced their operations before Orange UK.

In addition to the current wireless network operators in the United Kingdom, Orange UK also faces competition from the new UMTS entrant, Hutchison 3G UK Ltd, which launched its services in March 2003 under the brand name "3". Hutchison 3G UK Ltd is owned by a consortium that is majority-controlled by Hutchison Whampoa and also includes NTT DoCoMo and KPN Mobile as shareholders.

In November 1999, a joint venture between the Virgin Group and Deutsche Telekom became the first virtual wireless network operator in the United Kingdom when it launched its service, purchasing airtime from One2One (currently T-Mobile). Virgin completed its IPO in July 2004 and operates under a new supply agreement with T-Mobile.

To the extent that wireless devices are substituted for fixed line telephones, Orange UK also competes with fixed line telephony operators, including British Telecom, and operators of cable network telephony systems. British Telecom has also launched its own wireless operation, BT Mobile, which is a virtual wireless operator network hosted on the Vodafone network.

The UK market is one of the most saturated and competitive in Europe with the prospect of additional virtual operators launching in 2005.

The following table shows the market shares of each of the network operators in the UK:

	2004	2003	2002
Orange	Not available	25.64%	26.9%
Vodafone	Not available	23.85%	24.6%
O2	Not available	24.52%	23.5%
T-Mobile (including Virgin Mobile figures for 2003 and 2002)	Not available	25.55%	25.0%
3 UK	Not available	0.43%	–

Source: Mobile Communications magazine. Final data for 2004 not available at March 1, 2005

In all other markets where Orange has wireless telephony operations, it faces strong competition. In most cases, Orange's main competitors are subsidiaries or joint ventures owned by the other major telecommunications operators.

Belgium: Mobistar competes with two other operators: Belgacom Mobile (formerly known as Proximus), which is owned by Belgacom and Vodafone, and BASE (formerly KPNO), which is owned by KPN Mobile.

The following table shows the market shares of each of the network operators in Belgium:

	2004	2003	2002
Mobistar	33.05%	33.40%	30.35%
Belgacom Mobile	50.26%	53.65%	53.85%
BASE	16.69%	12.95%	15.80%

Source: Mobile Communications magazine

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The Netherlands: the Dutch market is one of the most competitive mobile telephone markets in Europe with five network operators: KPN Mobile, which is indirectly owned by KPN and NTT DoCoMo; Vodafone; Telfort, held by Dutch venture capital investors; T-Mobile, held by T-Mobile International, and Orange. The following table shows the market shares of each of the network operators in the Netherlands:

	2004	2003	2002
KPN Mobile	36.72%	38.84%	42.08%
Vodafone	22.51%	24.12%	26.28%
Telfort	13.97%	12.07%	10.91%
Orange	11.62%	10.0%	8.58%
T-Mobile	15.17%	14.98%	12.15%

Source: Mobile Communications magazine

Romania: Orange Romania competes with three other operators. MobilFon/Connex is owned by Telesystem International Wireless, Vodafone and other financial investors. Telemobil/Zapp is owned by Inquam, which is owned by Qualcomm. CosmoRom is majority owned by Rom Telecom, the national Romanian telecom operator.

The following table shows the market shares of each of the network operators in Romania:

	2004	2003	2002
Telemobil	3.30%	2.7%	1.4%
Connex GSM	47.94%	49.0%	53.1%
Orange	47.96%	47.1%	43.5%
Cosmoron	0.80%	1.2%	2.0%

Source: Mobile Communications magazine for 2003 and 2002, Orange Romania for 2004

Slovakia: Orange Slovensko's current competitor is Eurotel, which is wholly-owned by Slovak Telecom, which is in turn majority-owned by Deutsche Telekom.

The following table shows the market shares of each of the network operators in Slovakia:

	2004	2003	2002
Eurotel	42.98%	43.9%	40.2%
Orange	57.02%	56.1%	59.8%

Source: Mobile Communications magazine for 2003 and 2002 figures. Orange Slovensko's estimate for 2004 figures.

Switzerland: Orange Communications S.A. competes with other wireless network operators, including Swisscom Mobile, which is owned by Swisscom and Vodafone, and Sunrise, owned by TeleDanmark.

The following table shows the market shares of each of the network operators in Switzerland:

	2004	2003	2002
Swisscom	61.06%	62.04%	63.3%
Sunrise	21.50%	20.19%	19.7%
Orange	17.44%	17.77%	17.0%

Source: Mobile Communications magazine

Egypt: ECMS (Mobinil) was the first wireless operator in Egypt. At December 31, 2004, ECMS held the largest market share, for both the prepaid and contract markets. ECMS's only competitor is Vodafone Egypt.

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The following table shows the market shares of each of the network operators in Egypt:

	2004	2003	2002
ECMS	53.6%	52%	54%
Vodafone	46.4%	48%	46%

Source: EMC World for 2003 and 2002, ECMS for 2004

4.6.2 WANADOO

In this section, France Telecom's competition is analyzed with regard to Internet access, Portals and Directories. Such competition involves mainly the domestic competitors in each of the relevant European markets.

Internet access

France

Wanadoo's main competitors in the Internet access market in France are:

- international Internet access providers, whether or not associated with telecommunications operators, such as AOL, T-Online (Club Internet), Tiscali and 9Telecom;
- companies operating cable networks (NOOS);
- independent Internet access providers with national (Free) or local coverage; and
- market players that propose Internet access as a means of acquiring audiences associated with services such as banks and large retailers.

In mid-2004, the respective market shares of the main players on the Internet market in France were as follows:

Wanadoo	Free	AOL	Tiscali	Club Internet	Others
42%	15%	12%	11%	9%	11%

(source: Idate mid-2004)

Competition in the Internet market has now shifted to broadband, with competitors offering a significant reduction in prices for ADSL access as a result of the expansion in unbundling, the availability of upgraded speeds, and the combining access with Voice over IP products (Free, 9Telecom and Tiscali). Free and 9Telecom have also launched a "triple play" package (Internet, Voice over IP and television via ADSL).

Wanadoo continues to lead the broadband market with a market share of approximately 47% in mid-2004, according to Idate.

Wanadoo	Free	AOL	Tiscali	Télé2	9 Télécom	T Online	NOOS	Others
47%	15%	7%	7%	6%	5%	4%	4%	5%

Broadband market share (source : Idate mid-2004)

Wanadoo's ADSL market share is estimated at 46% at the end of 2004 (source: France Telecom).

United Kingdom

The majority of the Internet market in the United Kingdom uses analogue or "dial-up" access (more than 60% of the market in December 2004, source: France Telecom). The broadband market breaks down into cable access (31.5%) and ADSL access (68.5%) (source: France Telecom).

Wanadoo leads the market in the United Kingdom with a market share of 19% in mid-2004, according to Idate.

In mid-2004, the respective market shares held by the main players in the UK Internet market were as follows:

Wanadoo	BT	AOL UK	Tiscali UK	NTL	Telewest	Others
19%	19%	17%	13%	10%	6%	16%

(Source: Idate mid-2004)

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Wanadoo UK's ADSL market share is estimated at 14% at the end of 2004 (source: France Telecom).

Spain

Wanadoo is the second highest Internet narrowband and broadband service provider with the incumbent operator, Telefonica, in first place, and holds an overall market share of 26% according to Idate (for mid-2004).

In mid-2004, the respective market shares held by the main players in the Spanish Internet market (according to Idate) were as follows:

Téléfonica	Wanadoo Espana	T Online Ya Com	Auna	ONO cableuropa	Others
38%	26%	6%	5%	4%	21%

With a 14% market share in ADSL, Wanadoo constitutes the primary challenge to Telefonica's position (source: CMT and Wanadoo).

The Netherlands

In the Netherlands, Wanadoo is the second largest Internet service provider across the entire narrowband and broadband sectors with a 12% market share, behind KPN which holds 31% (source: Idate mid-2004).

In the Netherlands, Internet penetration is very high and broadband accounts for over 60% of the Internet base.

In mid-2004, the respective market shares held by the main players in the Dutch broadband Internet market were as follows:

KPN	Wanadoo	Essent-Kabelcom	UPC Chello	Versatel/Zonnet	Multikabel	Others
26%	16%	14%	14%	6%	4%	20%

(source: Idate mid-2004)

Wanadoo Nederland's ADSL market share is estimated at 15% at the end of 2004 (source: France Telecom).

Portals

France Telecom believes that it has a strong position in these markets with the Wanadoo brand and estimated in 2004 that it held approximately 19% of the online advertising market in France.

In each of its markets, the Group faces numerous providers of global or local portal services, all of which belong to one of the three main categories listed as follows:

- the portals of other access providers: *i.e.*, in France, AOL France, Club Internet and Free in particular; and abroad, AOL, Terra (Spain), Planet Internet (the Netherlands) and Tiscali in particular;
- the portals of general sites with a large audience and search engines: in particular Yahoo!, Microsoft/MSN, Google, as well as local players like Terra (Spain); and
- other media such as newspapers, television, radio and other advertising media (advertising displays).

Directories

The competitive environment in which PagesJaunes operates is far wider than competition from other general consumer or business directories alone. In effect, all consumers are able to access, via the Internet, a considerable amount of content and services to supplement or replace the services provided by PagesJaunes, and owing to the sophistication of mobile telephones, are also able to access extended electronic listing functions. In addition, the PagesJaunes services have to compete with paper directories, directory enquiries (by telephone) and all other forms of press media which list business services.

Thus, the main competitors of PagesJaunes in France are:

- electronic or paper listings that are able to store telephone numbers;
- directory enquiries (by telephone) services provided by fixed line or wireless telecommunications operators, *i.e.*: principally Bouygues Télécom and SFR outside the France Telecom group;
- free newspapers and journals (particularly Comareg and Spir Communication media, "20 Minutes" and "Métro");

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- Internet search engines (particularly "Google", "Voilà", "Yahoo!" and "MSN");
- thematic Internet portals and trading sites ("ViaMichelin.com", "Webcity.fr", "Seloger.com", "Ebay.fr", "Voyages-sncf.com", "Hotels.com" and "Kelkoo.com"), and
- other publishers of printed or online directories (particularly "Bottin – l'Annuaire Soleil", "U Corsu" and "Iliad") as well as town directories and local guides which have also developed on the Internet.

In Spain, the directories market in Spain is dominated by TPI, a subsidiary of the initial operator, Telefonica. It also includes, in addition to QDQ Media, certain regional players including, in particular, Guia Color (Castille-Léon), Tu Distrito (Province of Malaga) and Guiaraba (Alava).

4.6.3 FIXED LINE, DISTRIBUTION, NETWORKS, LARGE CUSTOMERS AND OPERATORS

In this section, the competition involves, on the one hand, fixed line telephony services and, on the other hand, data transmission.

Fixed line telephony services

- In France, France Telecom's main fixed line telephony competitors are:

- Telecommunication network operators.
- These operators are able to carry customers' local, national and international long-distance calls by using the France Telecom network interconnection services. Their customers can opt for call-by-call selection or pre-selection of carrier. 64% of households that use an alternative operator use automatic number pre-selection (source: Baromètre Euroscope Consumer de Datanova, September 2004). At the end of the second quarter in 2004, 5 million customers had opted for pre-selection and 2.8 million for call-by-call selection (the ART's *Observatoire des marchés* for the second quarter of 2004).

The France Telecom's main competitors in the fixed line general consumer market are Télé2, Cégetel and 9Telecom (an LDCOM operator). In the corporate customer market, the main competitors are Cégetel, 9 Telecom, British Telecom, Completel, MCI and Colt.

France Telecom's market share, in proportion to the traffic using its networks, remains high, with only a slight down-turn in 2004.

France Telecom's market share	2004	2003	2002
Local	71.3%	75.8%	80.9%
Long-distance	59.6%	61.8%	64.3%

Source: France Telecom

- These network operators can also provide their customers with a network access service, either through unbundling of the local loop or through alternative local loops. This service is more specifically aimed at the corporate customer market.

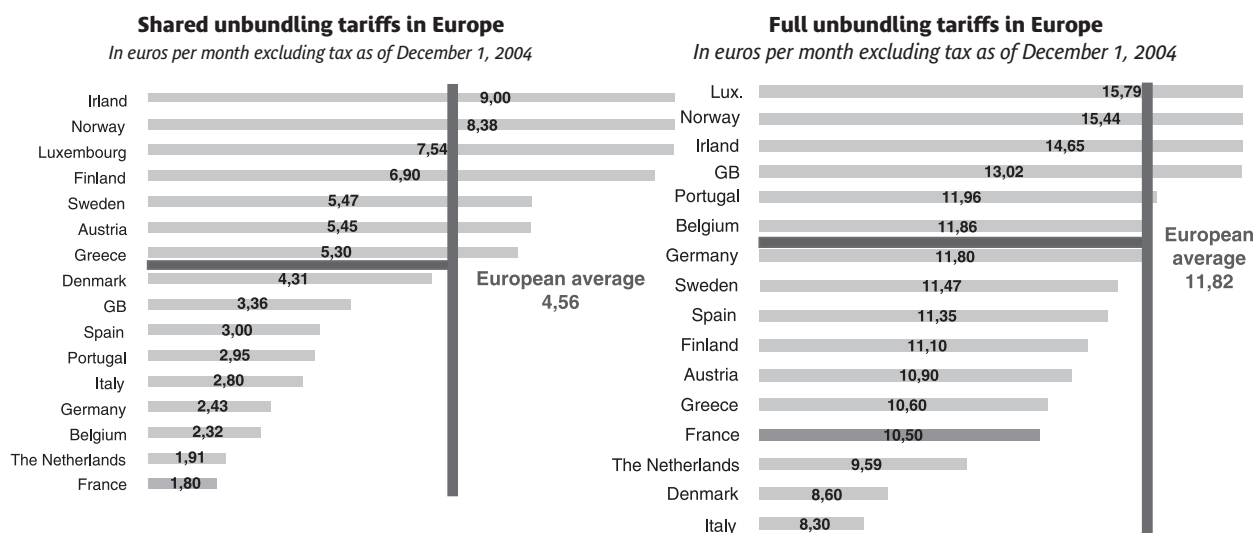
Unbundling saw a significant increase in 2004: 1.6 million unbundled lines at December 31, 2005, which represents nearly six times the figure for December 31, 2004 (source: ART "*Tableau de bord du dégroupage*", fourth quarter of 2004) and in respect of which the vast majority concerns partial unbundling (94% at December 31, 2004). However, full unbundling is starting to take off with 95,000 lines at December 31, 2004. At the end of 2004, unbundled areas extend to over 50% of the population (source: ART "*Tableau de bord du dégroupage*", fourth quarter of 2004).

Full unbundling must allow alternative operators using this system to provide their customers with a single bill including the telephone line subscription fee, telephone calls and broadband services (Internet access, television via ADSL and VoIP).

	12/31/2004	12/31/2003	12/31/2002
Number of distribution frames available for unbundling	893	397	128
Number of unbundled lines (in millions)	1,591	273	

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This trend is explained mainly by the rate of unbundling prices that are significantly lower than the European average (see the following chart – source: France Telecom).



- In France, there are very few cable operators in the fixed line telephony market: only UPC have developed a telephony via cable service that remains stable, with 58,800 telephone subscribers declared by this company at March 31, 2004 (source: AFORM). NOOS, following its alliance with UPC, has nevertheless announced the launch of its Voice over IP products for 2005.
- Internet access providers are entering the fixed line telephony market with Voice over IP products offered in addition to their Internet access service: Free, Tiscali and 9 Telecom.

■ Data transmission

Since January 1993, the data transmission services market has been open to competition in France. In that market, France Telecom competes with AT&T, Cable & Wireless, Cegetel, Colt, Infonet, 9 Telecom, British Telecom (BT), MCI (formerly Worldcom) and Completel. France Telecom considers that the geographic coverage, the tremendous capacity and the technological strength of its network puts it in a good position with respect to competitors on this market.

4.6.4 EQUANT

Equant operates in a very dynamic, highly competitive, fragmented market that is constantly changing. The wave of company recoveries after recent bankruptcy procedures and the trend to consolidate seen in the second half of 2004 and at the beginning of 2005, show that the telecommunication services sector has entered a transition phase. The market in which Equant operates is undergoing numerous changes: in particular, equipment suppliers have expressed their intention to orient their offerings toward services with greater added value. Equant has observed that the market is moving away from the supply of basic communication services to the supply of integration services, with market players seeking to grasp greater added value. Equant is also faced with increased competition from competitors that would not normally have been classed as traditional telecommunications operators. The competitive environment is becoming increasingly complex, to the extent that boundaries between the world of telecommunications and that of information systems are being eradicated. Information system companies are endeavoring to extend their skills to operating networks, whereas network operators are extending their range of services to service integration. In addition, equipment suppliers, whilst continuing to act as partners to network operators, are diversifying into other areas within the telecommunications sector.

Equant faces competition from five main types of businesses:

- **Global telecommunications services operators:** long-established competitors in the network services market are the following companies: ATT Business Services, BT Global Services and Infonet. Such companies offer a comprehensive range of

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data transmission services to supplement their more traditional voice services. In the growing data transmission market, they are becoming increasingly offensive competitors.

- **Transmission infrastructure operators:** new entrants, such as Colt and Level 3, have launched themselves on the market but do not necessarily offer end-to-end solutions with as wide a geographical coverage as Equant. These new entrants focus primarily on point-to-point network services or IP and on wholesale bandwidth.
- **National voice & data transmission operators:** in some of the countries in which Equant operates, it also has to compete with the original operators. Some of these operators still have a special regulatory status and still enjoy exclusive rights as to the supply of certain services. Most of them have a tradition of dominating their local telecommunications market.
- **“New suppliers”:** Equant competes with “new suppliers” of services constituted by telecommunications equipment suppliers, installation companies (*installateurs*) and telecommunications software manufacturers that are setting up in the data transmission market. Equant is also faced with competition from a number of these “new suppliers” on the growing telecommunication services outsourcing market. As the market is becoming increasingly competitive, Equant expects factors such as: prices, end-to-end solutions and focalization on quality of service, to play an increasingly important role on its markets.
- **System integrators and outsourcing companies:** Customers also seek solutions that integrate design, installation and support of network and office services, as well as the supply and distribution of network and office equipment. In these areas, the market is fragmented both geographically and at the level of competitors’ activities. The main categories of competitor with regard to the supply of such services include:
 - IT services companies;
 - IT and office equipment suppliers;
 - outsourcing service companies;
 - virtual network operators,
 - network integrators.

These competitors include companies such as: Electronic Data Systems (EDS), IBM Global Services, BT Global Services, NCR, Unisys and Hewlett Packard. In connection with the supply and installation of equipment, competition is mainly price-driven, whereas with regard to telecommunications network integration and office services, competition depends more on the capacity to provide additional services such as network design and installation, as well as support services.

4.6.5 TP GROUP

Fixed line voice services

TP S.A. is the largest telecommunication services provider in Poland. Fixed line telephony remains the main source of the TP Group’s income, despite growing revenues from wireless operations and the Internet. The opening of fixed line services to competition was completed in several phases. In mid-2001, pre-selection of operators was introduced for domestic long distance calls. In January 2003, pre-selection was introduced for international long distance calls. In October 2003, fixed to mobile calls were opened up to competition for prefix services and in March 2004, fixed to mobile call pre-selection was allowed. Local calls were opened to competition for twelve numbering zones in December 2004. The amendment of the French telecommunications act that came into effect in October 2003 introduced numerous changes, such as opening up the fixed to mobile sector to competition, and requiring the unbundling of local loop access in favor of competitors.

As Poland did not negotiate a transition period with the EU in the telecommunications sector, it was obliged to implement the European directives and bring its national laws into compliance with European law in that area. The new French telecommunication act, which entered into force on September 3, 2004, aims at incorporating European directives into national law.

As of December 31, 2004, TP’s market share in proportion to the traffic using its networks was as follows:

- telephone line access: approximately 89%;
- local calls: 99.7%;

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- domestic long distance calls: 80.0%;
- international long distance calls: 70.2%; and
- fixed to mobile calls: 76.6%.

In the fixed line telephony sector, the TP Group's main competitors are as follows:

- Netia, whose capital is held by financial investors;
- Dialog (subsidiary of KGHM, a state-owned copper producer, whose share capital is partially held by the Polish state);
- Energis; and
- Tele 2, a subsidiary of Tele 2 AB.

The main infrastructure competitors are, according to TP Group estimates, Netia and Dialog, with a market share of approximately 3% each. In the fixed line telephony sector, TP also competes with Tele2, a virtual network provider which became the most active operator in terms of acquiring new customers in 2003 and 2004, but the services it offers are principally low value added services offered to home customers. Netia and Energis focus on business customers. Some consolidation of the Polish telecommunication market is expected in the future.

Mobile services

PTK Centertel, which operates under the IDEA trademark, began its GSM operations in 1998, which is two years later than its competitors. In 2003, PTK Centertel became the second wireless operator in Poland in terms of number of customers (Source: PTK Centertel, Polkomtel, PTC). The other wireless telephony operators are PTC (49% owned by Deutsche Telecom and 51% owned by Elektrim Telekomunikacja) and Polkomtel (owned by Vodafone, TDC and Polish companies).

The following table shows the market share of the various wireless telephony operators in Poland at December 31:

	2004	2003	2002
PTK Centertel	32%	33%	32%
PTC	37%	36%	35%
Polkomtel	31%	32%	33%

Source: PTK Centertel estimates

There are also companies (21 as at December 31, 2004) who have obtained MVNO (Mobile Virtual Network Operator) authorizations. To date, none of them have begun wireless operations.

Internet access

TP Group considers itself to be the largest Internet services provider to individuals and companies in Poland. However, the broadband market is becoming more competitive. Dialog and Netia, fixed line telecommunications operators, began to offer ADSL services to their own customers in November 2003 (Dialog) and in April 2004 (Netia). The strongest competitors on the broadband market are CATV operators, and especially Aster City, UPC and Multimedia Polska.

TP has a significant market share in the individual customer narrowband market: at December 31, 2004, TP Group's market share in terms of retail traffic was approximately 93%, compared to 92% at December 31, 2003.

4.7 RESEARCH AND DEVELOPMENT

In 2003, since innovations constitute a strategic priority for the Group's development, France Telecom decided to increase its research and development ("R&D") activities with the aim of providing customers with integrated and innovative services more rapidly. Thus in 2004, the Group devoted 1.3% of its revenues to R&D costs, i.e. an increase of 20% compared to 2003.

Such investments, together with personnel costs and other operating and investment expenses related to research and development, increased to €593 million (before amortization) in 2004 (€505 million in 2003 and €610 million in 2002) of which €565 million were attributed to France Telecom S.A. (€466 million in 2003 and €545 million in 2002), essentially within the R&D Division. Approximately half these costs relate to personnel costs.

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France Telecom's R&D division was restructured in June 2004. Under the responsibility of the Senior Vice President for Research and Development, it consists of six R&D centers structured around integrated services and convergent networks, with management overseeing all the international laboratories, five steering functions and three vertical support functions.

France Telecom currently employs approximately 3,150 engineers, scientists and researchers within its R&D division. In addition to its facilities in France, at December 31, 2004, France Telecom had six research laboratories abroad in order to take advantage of the local environment in which they are established.

Thus, the San Francisco laboratory (United States of America) focuses on key fields such as: wireless technologies, broadband, emerging technologies, identity and messaging services and web services. The Boston laboratory, located next to the MIT (Massachusetts Institute of Technology) on the East Coast of the United States, specializes in production of multimedia based on multimodal applications and multipublication. The London laboratory (United Kingdom) is developing its expertise on the convergence of fixed line and wireless technology at the heart of the network. The Tokyo laboratory (Japan) serves to monitor the major Internet broadband developments in Japan in order to identify the possibility of technological transfers to Europe. In June 2004, France Telecom entered into a strategic partnership with China Telecom with a view to creating a joint France Telecom/China Telecom laboratory in Southern China. On a parallel with this, another laboratory, inaugurated in November 2004, was set up in Peking. It will rely on the dynamism of the Chinese telecommunications market and on the breeding ground of local talent in order to satisfy the needs of business entities and acquire recognition as a world class R&D center.

Lastly, the TP R&D center in Warsaw (CBR) has a dual mission: to globally satisfy the needs of the integrated operator, TP, as well as the Group's needs in connection with the information system, optical access and information processing.

Strong co-operation currently exists between the divisions of France Telecom S.A. and those of the TP Group to pool R&D activities. R&D activities within the TP Group are concentrated both on the network (IP, NGN and ADSL) and services (VoIP, CDN).

In addition to registering patents and creating value for intellectual property (see section 4.8 "Intellectual Property"), France Telecom is continuously strengthening its involvement with innovative partners particularly in France, the United Kingdom and Poland, as well as the United States and Asia.

In 2004, the R&D Division recruited 100 new PhD students (namely twice the annual average for the three preceding years), bringing the number of PhD students carrying out research in its laboratories to 200. On completion of their doctorates, nearly a third of them will be recruited within the Group's R&D teams. In November 2004, France Telecom signed a framework research agreement with the French Ecole Normale Supérieure. Two areas of research are concerned in particular: information technology and electronic voting systems.

In 2004, the R&D Division substantially contributed to the following cross-company initiatives of the Group:

- validation of VoIP terminals (ITC Voice+);
- in-house development of the "Livebox" in conjunction with partners (Gateway +);
- monitoring and recommendation of the Group's strategy in the "Liberty" initiative in order to offer the customer a single identification service (Identity +);
- development of the Instant Messaging platform for the Group and "Mes Contacts" (Community +);
- recommendation of security and protection solutions (Office +);
- integration of solutions regarding payment for the Group's products (Payment +);
- definition of a multi-DRM benchmark platform (DRM +).

With regard to the "MaLigne Visio" service, the R&D Division has been responsible for coordinating all developments in the Group's videophony services so as to ensure their immediate interactivity from the time they are launched (Videotelephony +).

The "eXtense DébitMax" service was launched in November 2004 which provides Wanadoo customers with a very fast broadband Internet connection with a maximum speed on ADSL of up to 8 Mbit/s. Prior to launch, the feasibility of the service was validated by the R&D Division under the DxDSL4 project.

Enhancement of services already provided by the Group remains one of the most significant applications of R&D efforts. As a result of France Telecom R&D's proficiency in voice technology, the PagesJaunes reverse directory service ("3288 Quidonc") has been equipped with voice synthesis since the Spring of 2004. Similarly, voice recognition has been incorporated within Orange's "888" messaging system.

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Services enhanced by images are now available, such as browsing within virtual representations of towns in 3D, or Wanadoo's "Vidéomessages". The "TélénetCité" service enables local authorities to produce and supply local populations with Rich Media indexed content.

As for wireless technology, in conjunction with assisting Orange with deployment and operations (checking network and terminal equipment, designing roll-out models and developing engineering and network optimization tools), the R&D Division is preparing to upgrade speeds with the introduction of HSDPA and is contributing to the development of future solutions in this area (participation in the Wimax forum).

The R&D Division plays an active part in the explosion of service packages based on ADSL (VoIP, "Maligne TV" and "Maligne Visio") by contributing to technological advances in xDSL (ADSL2+, VDSL, VDSL2, etc.), to the optimization of existing technology, and by preparing the necessary changes to the network architecture (FTTH and Giga Ethernet data collection).

In developing the home gateway, "LiveBox", the R&D Division has applied, in particular, its expertise in processing VoIP and voice quality.

Its command of optical technology has enabled the R&D Division to provide the Divisions responsible for Networks and Enterprises with appropriate network and service solutions in connection with the plan to provide business parks with optical access.

In addition to wire-based access providing isolated customers with broadband connections, the R&D Division is carrying out certain research regarding fixed line radio access (Wimax technology).

In December 2004, in connection with core networks, France Telecom conducted an optical transmission experiment, in conjunction with Alcatel and Deutsche Telekom, with a capacity of one Terabit per second on an existing France Telecom network connection. The increase in speed via an optical channel makes it possible to increase the capacity of the network whilst reducing cost through better integration of network equipment. This experiment shows the potential of France Telecom's fiber optic infrastructure, leading the way to a future gradual evolution in the network.

Finally, service platform operations concern laying down the infrastructure (for example, shared service platforms for Orange) and developing the components necessary for the services of an integrated operator: services relating to presence, localization and contacts. Over and above this, the purpose of urbanizing services is to enable the integrated operator to control service platforms, gateways and terminals with a view to ultimately creating a single service platform for the Group.

4.8 INTELLECTUAL PROPERTY

4.8.1 PATENTS AND SOFTWARE

France Telecom has continued to place greater emphasis on intellectual property. The number of new patent filings has continued to rise: 425 filings in 2004 for France Telecom S.A. alone (379 in 2003 and 265 in 2002), which is an increase of 12% compared to the previous year (43% between 2002 and 2003). These patents came primarily from the R&D Division (411 of the 425 new patent filings in 2004). At the end of 2004, France Telecom S.A. had a total of 6,643 patents (obtained or filed), compared to 6,288 patents at the end of 2003. France Telecom also files software patents – 320 filings with the *Agence de Protection des Programmes* in 2004 by France Telecom S.A., compared to 292 in 2003 and 225 in 2002. Some of these patents and registered software programs are marketed in the form of licensing agreements or through patent pools, pursuant to a policy to leverage R&D results externally. The portfolio of patents helps to protect the innovations made in the services or product offerings marketed by the divisions of the Group.

4.8.2 TRADEMARKS, DOMAIN NAMES, COPYRIGHTABLE DESIGNS, DRAWINGS AND PATTERNS

France Telecom also holds intellectual property rights of substantial value, in the form of trademarks, domain names, and copyright of designs, drawings and patterns. These rights are described below for each company respectively.

France Telecom S.A.

At December 31, 2004, France Telecom S.A. had a total of 4,000 French and foreign registered trademarks. These include the name "FRANCE TELECOM" and the "NUMERIS" logo registered in most of the countries in the world, and many other trademarks registered in France and/or abroad, for example "MALIGNE", "MALIGNE TV", "MINITEL", "N° AZUR", "N° INDIGO", "LISTE ROUGE",

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"MON NUMERO PREFERE", many slogans such as "IL Y A UNE VIE APRES L'ACHAT" or "NOUS SERONS LA", various logos, as well as the portfolio of Wanadoo trademarks such as "WANADOO", "VOILA", "EXTENSE", "POSITIVE GENERATION", "LIVEBOX" and domain names following the legal mergers completed on September 1st, 2004. France Telecom S.A. has licensed the use of the "FRANCE TELECOM" trademarks and the logo to some of its subsidiaries (e.g., Orange, Transpac and GlobeCast).

France Telecom S.A. has also registered a large number of domain names including "france-telecom" and "francetelecom" as generic domain names generally ending in ".com", ".net", ".org", ".info" and ".biz" and in France, in ".fr" and in most of the countries where France Telecom operates or plans to begin operating. France Telecom S.A. has also reserved a number of other domain names that often correspond to registered trademarks such as "audiotel", "minitel", "bizao" "-12", "netcompagnie" and "opentransit". France Telecom places great emphasis on protecting its trademarks and domain names, and plays an active role in defending them.

France Telecom S.A. has registered copyright to certain designs, drawings and patterns in France and abroad including, for example, the designs for the Livebox, certain telephone boxes or booths and telephone apparatus.

Orange

In the United Kingdom, the "Orange" brand has been developed by Orange UK, a wholly-owned subsidiary of Orange, which has operated its wireless telecommunications network under the "Orange" brand since 1994. The wireless telecommunications operators authorized to use the "Orange" brand are cited in section 4.4.1.7 "Licensing agreements".

Since introducing its services in 1994 in the United Kingdom, Orange has made and continues to make substantial investments to develop the "Orange" brand (the principal components of which are the "ORANGE" name, the "Orange" logo, the color orange and the slogan, "The future's bright, the future's Orange" in the United Kingdom, in France and abroad. These capital expenditures have made it possible to build up an extensive brand portfolio, plus a portfolio of domain names including "orange.com", "orange.net", "orange.co.uk" and "orange.fr". In addition, these expenditures have generated strong brand awareness and recognition, and have enabled the company to build up a broad high-value customer base for the Orange brand.

Equant

Equant registered a large number of domain names including: "equant.com", "equant.net", "equant.co.jp", "equant.de", "equant.jp", "equant.ru", "equant.as", "equant.bt", "equant.ca", "equant.cc", "equant.ch", "equant.co.uk", "equant.com.ar", "equant.com.au", "equant.it", "equant.li", "equant.se", "equant.tm", "equant.ur", "equant.uz", "its.co.jp", "sitaquant.com", "equantsita.com".

PagesJaunes

PagesJaunes owns well-known trademarks registered both in France, where its leading trademarks are, in particular, "PAGES JAUNES", "PAGES BLANCHES", "PAGES PRO" and "QUIDONC" associated with its advertising slogans "DEMANDEZ, C'EST TROUVE" and "CREATEUR D'ESPACES DE PROXIMITE", and also abroad with, for example, the "MAPPY" trademark.

In addition to its trademarks, PagesJaunes has created a large portfolio of domain names. In particular, it has registered the following domain names: "pagesjaunes.fr", "pagesblanches.fr", "pagespro.com", "quidonc.com", "mappy.com", "planresto.com" and "ruesscommercantes.com" in their numerous forms.

PagesJaunes has also registered designs, drawings and patterns in France and abroad such as, for example, the graphic design for its PagesJaunes business directory.

TP Group

At the end of 2004, the TP Group held 92 trademarks. The most important are: "tp", "Infolinia 800", "Telepakiety", "Telepunkt", "globetroter", "jestesmy z wami!", "Neostrada", "blekitna linia tp 9393", "blekitna linia 9390 biznes" and "www.tp.pl". The TP Group has registered more than 100 domain names. The principal domain name is "tp.pl". The other major domain names are "telekomunikacja.pl", "tp-ir.pl", "jestesmyzwami.pl", "telepunkt.pl", "neostrada.pl", "internetdsl.pl", and "telecompolska.pl".

4.9 SUPPLIERS

France Telecom purchases its telecommunications equipment from all major international manufacturers and believes it is not dependent on any of them.

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As part of the "Ambition FT 2005" Plan and the "TOP" operating improvement program, France Telecom introduced the "TOP Sourcing" project throughout the Group in December 2002. This project, which is managed by the Senior Vice President for Sourcing and Performance Improvement, is designed to reduce "total acquisition costs" using a six-pronged strategy, as described below:

- consolidation of procurement volumes;
- assessment of the best price;
- globalization in terms of procurement;
- streamlining technical specifications;
- joint improvement of processes shared with suppliers; and
- restructuring of supplier relationships.

The "TOP sourcing" program has been split into three phases spread out over the period from January 2003 to the end of 2004, which covered more than €9 billion in purchases beginning with the procurement categories offering the largest potential gains.

The first phase from January 2003 to June 2003 covered the following purchasing categories: fixed and mobile handsets, routers, DSLAM, ATM networks, radio links, copper cables, intelligent network, switch maintenance, office equipment, servers, data storage, IT services, travel and hotels, vehicles, public relations agencies and purchases of advertisement space, printing and paper and sales materials.

The second phase from July 2003 to January 2004 covered the following purchasing categories: mobile telephone base stations, switching equipment, transmission equipment, software, building maintenance and related services, call centers, consulting and audit, temporary work, transportation and storage.

The third phase from January 2004 to December 2004 covered the following purchasing categories: optic cables, GPRS equipment, technical environment, server and data storage equipment maintenance, market research and financial and insurance services.

In connection with the procurement strategy implemented during these phases, technical specifications have been streamlined. The following are a few examples of this:

- a reduction from 50 to 13 in the number of data storage configurations;
- a reduction from 68 to 30 in the number of service provider profiles in the information system;
- a reduction to 55 in the number of mobile handset types purchased (with no impact on the variety of models on offer); and
- the streamlining of the all properties surfaces to be cleaned up and the putting in place of national specifications regarding cleaning frequency for each type of surface.

Likewise, the restructuring of the supplier portfolio generated an approximate 70% reduction in the number of suppliers for all of the procurement categories concerned. This reduction was achieved on the basis of various criteria which, in addition to price, included quality, reactivity, localization and compliance with ethical and environmental standards. Moreover, in order to better meet customer expectations, France Telecom gives preference to suppliers that stand out for their high added value. To that end, France Telecom has implemented an ongoing assessment and evaluation program relating to the performance of its suppliers irrespective of the type of products and services provided. These internal measures have been in full operation since mid-2004.

Furthermore, in connection with the restructuring of supplier relations, certain strategic partnerships have been entered into with eight suppliers.

At the same time, regular improvements have been recorded in procurement categories not included in the phases, as a result of the general effect on all purchasing of the procurement process common to the Group and determined in connection with "Top Sourcing".

The estimated aggregate impact of the Group's new procurement policy at the end of 2004 is approximately €2,400 million in savings: €700 million in 2003 and €1,700 million in 2004.

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4.10 SEASONALITY

In general, France Telecom's business operations are not affected by any major seasonal variations. However, the revenues generated from fixed line telephony in the third quarter (ended September 30) is generally lower than in the other quarters, due to the fall in telephone traffic over the summer months.

Furthermore, in the markets where Orange operates, the number of new customers for wireless telecommunications services is generally higher in the second half of the calendar year than in the first half, primarily because of the increase in sales during the Christmas season. Consequently, revenues generated from the sale of equipment and packages, as well as the costs incurred in ordering equipment for customers and sales commissions, are higher in the second half of the calendar year than in the first half.

4.11 TANGIBLE AND INTANGIBLE ASSETS

At December 31, 2004, the tangible assets of the France Telecom group represented a total net book value of €29 billion compared to €30.6 billion at December 31, 2003 and €36.3 billion at December 31, 2002. At December 31, 2004, the intangible assets of the France Telecom group included, first, net goodwill in the amount of €25.8 billion, compared to €25.8 billion at December 31, 2003 and €27.7 billion at December 31, 2002, and, second, other intangible assets composed primarily of licenses (€8 billion compared to €8.5 billion at December 31, 2003 and €9.3 billion at December 31, 2002), trademarks (€4.3 billion compared to €4.4 billion at December 31, 2003 and €4.8 billion at December 31, 2002), and subscriber base (€3.2 billion compared to €3.2 billion at December 31, 2003 and €3.6 billion at December 31, 2002).

In spite of the fact that none of these assets are in the public domain, the French Minister of Economy, Finance and Industry has the power to block or impose conditions on any proposed sale or transfer of any part of France Telecom's telecommunications network which is considered necessary for its public service mandate. This procedure was only used once in 2001 for the sale of a network component in a French overseas department, and the Minister of Economy, Finance and Industry granted its approval.

Various fixed assets of the France Telecom group were pledged or given as collateral (see Note 28 "Contractual obligations and off-balance sheet commitments" of the Notes to the Consolidated Financial Statements).

4.11.1 NETWORKS

France Telecom considers that the performance and quality levels of its network are at their best, as a result of the use of the latest technologies, the skills of its research and operations staff, and the ongoing level of investments.

4.11.1.1 Data transmission networks

4.11.1.1.1 Fiber optic networks

With speeds of up to 10 Gbit/s, fiber optic cables by far exceed the capacity of conventional copper lines or radio links. In 2004, France Telecom installed approximately 3,500 kilometers of fiber optic cables in its regional network in France (1,500 kilometers in 2003 and 6,100 kilometers in 2002).

The new Dense Wavelength Division Multiplexing technology (DWDM) is now deployed on long distance networks to further increase the speed of transmission to a potential of 80 wavelengths per fiber. At December 31, 2004, 36 DWDM systems were installed in the long distance network in France (compared to 34 at December 31, 2003 and 32 at December 31, 2002) and 42 in the France Telecom European Backbone Network (compared to 42 at December 31, 2003 and 46 at December 31, 2002).

Among these systems, 10 are for dual purposes and are hence used for both networks.

In addition, France Telecom offers direct fiber optic connections to business customers wishing to benefit from high-speed broadband services. At October 31, 2004, 12,686 customer distribution frames were connected by fiber optics to the France Telecom network (compared to 10,748 optical customer distribution frames in 2003 and 8,875 in 2002).

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4.11.1.1.2 Synchronous digital hierarchy (SDH)

At December 31, 2004, France Telecom had installed on its long distance network in France over 253 synchronous digital hierarchy (SDH) transmission links at 2.5 Gbit/s (239 at December 31, 2003 and 232 at December 31, 2002). In Europe, the number of 2.5 Gbit/s SDH transmission links was 119 at December 31, 2004 (compared to 113 at December 31, 2003 and 108 at December 31, 2002). The relatively low-cost SDH technology can be used to create a simpler network that is easier to manage, and more reliable. In France, through the use of a reserve network and local self-protected rings, the SDH optical network is fully protected against single cable breakdowns. France Telecom continues to develop SDH networks by installing other SDH rings as well as low-cost point-to-point systems in the lower part of the network.

4.11.1.1.3 Asynchronous transfer mode (ATM)

France Telecom is a leading player in the development of transmission technology via asynchronous transfer mode (ATM) technology which simultaneously transmits data signals, text, voice, images and multimedia between access points to the network at speeds of over 155 Mbit/s.

France Telecom has deployed an ATM backbone network capable of routing high-speed services. At December 31, 2004, this network was composed of 280 sites (448 cross-connect units, compared to 422 cross-connect units at December 31, 2003 and 423 cross-connect units at December 31, 2002). It ensures end-to-end transmission of InterLan and MultiLan services, part of the Videodyn transmission service, which provides temporary television connections. It also receives ADSL access data flows and delivers some of these flows to the IP network through a BAS interface.

4.11.1.2 Internet-related networks

4.11.1.2.1 Broadband access

The roll-out of the ADSL network has remained a major challenge in 2004 for France Telecom which has invested more than €140 million, in addition to the €200 million it invested in 2003, to install the DSLAM equipment in its distribution frames (network nodes to which customers are connected).

At December 31, 2004, the number of "subscriber connection nodes" open to ADSL stood at 6,356, compared to 3,394 at December 31, 2003 and 2,082 at December 31, 2002.

At December 31, 2004, 90% of the French population was covered and 4.7 million customers were connected to ADSL broadband, compared to 79% at December 31, 2003 and 70% at December 31, 2002.

The aim of the "Business park plan" is to provide corporate customers with high-speed broadband connections: 100% coverage for symmetrical 2 Mbit/s and speeds ranging up to 100 Mbit/s for the Gigabit Ethernet product offerings, and to provide the two thousand largest business parks in France with high speed broadband connections over a total period of three years (2005 to 2007).

4.11.1.2.2 IP network architecture

The France Telecom IP network is built so as to handle the growing demand for speed and to support broadband technologies, such as primarily ADSL. In order to have the capacity and quality of transmission necessary to respond to the number of customers and their needs, Wanadoo uses the France Telecom IP network.

ADSL customer websites are connected to the BAS (Broadband Access Server) through the DSLAM with a downlink speed (Internet to customer) of 128 Kbit/s, subject to the maximum speed permitted by the line as determined by the situation of the line between the customer's home and the NRA (subscriber connection nodes). For its business customers, France Telecom also offers "Turbo ADSL" access at speeds of up to 2 Mbit/s on these DSLAM.

The NAS and BAS are connected to the Wanadoo platform and to the Internet network through the national IP transport network or the backbone network, which carried more traffic at the end of 2004 than at the end of 2003 (111 Gbit/s compared to 92 Gbit/s at the end of 2003 and 40 Gbit/s at the end of 2002). The IP network is being deployed by France Telecom technical crews, who provide 24-hour-a-day supervision seven days a week.

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The France Telecom IP network is an evolving multi-access network (Autonomous System 3215), capable of handling the growth in traffic and adapting to changes in technology, due to the expertise of France Telecom R&D, that evaluates and tests new technologies like the new super high-speed transmission technologies. The France Telecom worldwide Internet network (Autonomous System 5511) connects the principal global Internet networks in different locations around the world. It is built around the latest IP switching and transmission technologies in Europe and is noteworthy in having reduced its footprint since the end of 2003, resulting in a maximized concentration of traffic outlet points. Because it is built on super high-speed land-based and submarine transmission links (several Gbit/s), it provides France Telecom customers with excellent Internet access.

4.11.1.2.3 Wanadoo platform

The Wanadoo platform is built on a modular, secure, segmented infrastructure which uses proven market technologies designed to adapt to the increasing number of customers and uses. It is a true industrial tool that can be used to separate the functions of development, testing and production, which in turn strengthens the quality of service offered to customers.

The production platform is supervised 24 hours a day seven days a week by a specially dedicated team. It is organized around the logic components of the Wanadoo services: network access, portals and services (Operations Support System and Business Support System). They are connected by Ethernet switches and protected by firewalls that can prevent possible attacks. The platform is connected to access networks (telephone network, Numéris, ADSL) through the France Telecom IP transport network.

This platform is composed of servers operating on Unix, Linux or Windows “server” versions hosting various services such as web services, search engines, communication services, games, personal pages, news and voice mail. This design can accommodate permanent increases in capacities and in the number of servers, in anticipation of growth in the number of customers. The voice mail system is based on Critical Path technology, a leader in the sector. The Operations Support System manages customer authentication and access to services. It consists primarily of Radius Authentication Servers and a database containing customer data.

The real time technical management and authentication system have double mirroring and use a database management technology and replications. The Business Support System is at the heart of the business system. It is based on Portal’s Infranet software and an Oracle database. It performs the following functions: customer management, sales management, billing and accounts receivable.

Various modules process subscriptions details from different sales channels and feed the customer database before reaching the Business Support System. The Business Support System feeds the customer service information system, which enables telephone advisers to serve customers and initiate customer follow-up. The Marketing and Sales Information System, which also receives data from the Business Support System, is used to analyze statistical data.

In addition, technologies relating to portals and their content are an indication of the range of services offered by Wanadoo: search engines, on-line encyclopedias, large multi-player game platforms, mapping, telephone directories and specific regional services.

Finally, in the second half of 2001, Wanadoo initiated an international program to streamline and industrialize the most basic technical infrastructures used in its operations. This approach offers a number of advantages:

- it allows the company to access millions of customers in Europe in order to benefit from economies of scale for the services that justify it;
- it accelerates the development of new services by reducing the number of infrastructures on which they are based; and
- it facilitates international deployment by providing the company’s best technologies to all its companies and subsidiaries.

In addition, this program makes it possible to optimize costs for the network, information system and communications services.

4.11.1.3 Wireless telecommunications networks

“First generation” mobile networks, which were based on analogue system technology, carried voice traffic only. “Second generation” networks, based on the GSM digital standard, further facilitate SMS message and narrow bandwidth communications. This is sufficient for basic multimedia applications.

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“Third generation” mobile networks, often called “3G” or “UMTS”, make it possible to offer fully interactive multimedia services at speeds of up to 384 Kbit/s. Improved coding and data compression technologies will lead to better voice quality and more reliable data transmission.

At the same time, improved data transport services are available to customers as a result of the introduction of technological innovations that increase the speed and efficiency of existing GSM networks such as the General Packet Radio Service (GPRS). With this technology, most of the Orange Group operators were able to offer multimedia services, including basic video, before the launch of the third generation “3G” services EDGE and UMTS.

4.11.1.4 International network

4.11.1.4.1 Submarine cables

In order to accommodate the increase in telecommunications traffic, France Telecom is investing in submarine cable systems.

These investments may be made either by purchasing IRU (Indefeasible Rights of Use), which are acquired for a period often equal to the cable operating period, or by leasing wavelengths depending on the expected return.

In 2004, France Telecom added additional capacities to the ECFS (East Caribbean Fiber System), Taino Carib and Americas II systems between Guadeloupe, Martinique, Guyana and the United States to keep up with the rise in broadband in the French overseas departments. In March 2004, France Telecom signed the Construction and Maintenance Agreement for the Sea-Me-We4 cable connecting Southern Europe to Singapore through the Middle East, in order to accommodate growing demand on this axis, particularly with respect to the Internet and data market.

Moreover, France Telecom is streamlining its submarine cable base by closing down cables which have become obsolete in view of the demand in bandwidth, or which have become too expensive in terms of maintenance costs.

4.11.1.4.2 Satellites

France Telecom is refocusing on its core business as a telecommunications services operator and has decided to sell its interests in satellite operators. These disposals are being spread out over a two-year period. In September 2004, TP SA sold its 2.3% interest in Eutelsat. At the end of 2004, France Telecom sold its interest in New Skies Satellites to the Blackstone investment fund which took over the entire company. Lastly, at the end of 2004, France Telecom sold its 5.4% interest in Intelsat. With the completion of this latter transaction, France Telecom had sold all its interests in satellite operators with the exception of the 4.6% interest that it still holds indirectly in Eutelsat through its 20% interest in Bluebird's share capital.

France Telecom will continue to use the satellite operators' infrastructure for its needs in terms of international telephone links and data and audiovisual requirements. France Telecom moreover operates its own telecommunications satellite network, Telecom 2, which includes three satellites following the removal of Télécom 2B from orbit at the end of 2004.

The reduction in satellite transmission needs has led France Telecom to streamline its teleports in metropolitan France and the French overseas departments. In metropolitan France, the operations of the space telecommunications centers have been grouped together within the main center which is currently the Bercenay en Othe teleport, following the closure of the Pleumeur Bodou teleport and the sale of the Rambouillet site to Eutelsat in September 2004. Similarly, in the French overseas departments, the connection of the West Indies and Reunion to the submarine network cables, has led to the closure of the Trois Ilets site in Martinique (whilst still retaining the Destrellan site in Guadeloupe) and to the closure of one of the two sites on Reunion Island. Mayotte Island, which is not connected by submarine cable, remains linked solely by satellite whereas French Guyana has kept its Cayenne and Kourou sites as well as the sites operating inland.

4.11.1.4.3 European Backbone Network (EBN)

At December 31, 2004, the France Telecom Pan-European backbone network directly connected 33 cities (37 in 2003), including seven in France, and was interconnected with the networks of France Telecom subsidiaries and partners. Its partners also connect their customers to the basic network through their local loops, making connectivity a reality within Europe.

The EBN, a fiber optic network, whose wavelength capacity has grown according to demand, is designed to carry unit flows of 2.5 to 10 Gbit/s on each line, with a capacity of as much as 1.2 Tbit/s with no additional cables required. The network guarantees

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connections of 45 Mbit/s to 10 Gbit/s and offers a number of advantages, such as 99.95% availability, centralized network management, and customer service available 24 hours a day. End-to-end infrastructure control also contributes to easier management and greater simplicity by allowing access to international services without connecting through multiple operators.

4.11.1.4.4 North American backbone network

On December 27, 2004, France Télécom Longue Distance USA and Level 3 executed a contract under which France Telecom sold its transmission network in the United States (the NABN) to Level 3 and undertook to purchase a large proportion of its transmission requirements from Level 3 over the following three years. France Telecom is thus continuing its strategy of streamlining and reducing costs whilst continuing to guarantee the same quality of service to all its customers. Once the transaction is completed (scheduled for February 2005), France Telecom will transfer title in the NABN to Level 3. Supervision and maintenance of the network will be carried out by Level 3 with effect from that date. NABN traffic will progressively migrate to the Level 3 network between April and September 2005. France Telecom will retain its IP, voice and signaling assets in the United States, as well as those relating to the servicing (or backhaul) of the TAT 14, the supervision and maintenance of which will continue to be directed from France but implemented by teams in the United States.

As a result of this agreement with Level 3, France Telecom will continue to provide its retail (Residential and Corporate companies) and wholesale (Carriers) customers with the same range of services.

4.11.2 REAL PROPERTY

At December 31, 2004, France Telecom's real property, including equipment considered as real assets, was recorded in its balance sheet (net book value) at a figure of approximately €5.4 billion, compared to €5.9 billion at December 31, 2003 and €6.1 billion at December 31, 2002. These properties are used to house telecommunications facilities, research centers, customer service centers, premises for commercial use and offices.

When France Telecom was incorporated on December 31, 1996, all the assets of the former public operator France Telecom were declassified from the public domain and transferred to France Telecom S.A.

The real estate department, created in 1996, represents in France the "owner" within France Telecom. It distributes properties among the different departments. These properties are billed based on market conditions, and unused properties are sold or, failing that, rented to third parties. France Telecom expects that a certain number of its properties will become superfluous in the coming years.

In 2002, France Telecom sold 409 properties to a consortium of investors for €2.6 billion. In 2003, it sold 389 properties to another consortium for a total of €419 million. Most of the buildings sold are rented by France Telecom. With these disposals, the vast majority of the France Telecom negotiable real estate assets in France were sold.

Furthermore, Orange, Equant and other subsidiaries essentially rent the buildings that are necessary for their operations.

As for the TP Group, at December 31, 2004, TP S.A. owned approximately 2,500 properties in Poland. The approximate total surface area of developed properties was 1.4 million square meters, and the surface area of undeveloped land was approximately 0.4 million square meters.

4.12 LEGAL PROCEEDINGS

In the normal course of business, France Telecom is involved in a certain number of judicial, arbitration and administrative proceedings.

Provisions are set aside to fund the expenses resulting from such proceedings only when they are probable and the amount can be quantified or estimated within a reasonable range. If this is the case, the amount set aside corresponds to the lowest amount in the estimated range. The amount of the provisions is based on an assessment of the level of risk on a case-by-case basis, and does not initially depend on the stage of the proceeding. However, events occurring during the proceedings may result in a reassessment of the risk.

With the exception of the proceedings described in Note 29 "Litigation and claims" of the Notes to the Consolidated Financial Statements, neither France Telecom nor any of its subsidiaries are parties to any suit or arbitration proceeding (and France

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Telecom is not aware of any proceedings of this nature planned by governmental authorities or by third parties) which the management of France Telecom reasonably believes could have a significant negative effect on the Group's earnings, business operations or consolidated financial condition.

In connection with the arbitration proceedings, referred to the Arbitration Tribunal in 2002 and triggered under the Franco-Lebanese convention on the reciprocal promotion and protection of investment and the United Nations Commission on International Trade Law arbitration rules, the Arbitration Tribunal concerned notified its decision to the parties on February 22, 2005. The dispute referred to the Arbitration Tribunal concerned the Build, Operate and Transfer (BOT) contract of FTML (a company in which France Telecom holds a 66.66% interest) and, more specifically, its early termination in 2001 and the consequences of such termination. The Arbitration Tribunal upheld the main claims submitted by France Telecom, through its two subsidiaries, FTML and FTMI, and set the amount to be paid to FTML by way of indemnity at \$266 million. In addition, the Arbitration Tribunal declared itself to have jurisdiction with regard to the debt-collection order issued by the Lebanese Republic in April 2000 and held FTML not liable to pay the \$300 million demanded in such respect.

See section 4.18.1.10 "France Telecom is involved in enquiries, legal proceedings and disputes with the regulatory authorities, competitors and/or other parties", as well as Note 29 "Litigation and claims" of the Notes to the Consolidated Financial Statements.

4.13 REGULATIONS

The business climate, in France and in the countries where France Telecom operates, is becoming increasingly competitive and dynamic. France Telecom and the business sectors in which it operates continue to be subject to numerous regulations that can have a major effect on the way France Telecom conducts its activities.

The regulations that are the most important for France Telecom are European regulations, insofar as EU directives are the driving force behind the regulation of the Member States, the French legislation and regulatory system and United Kingdom regulations.

4.13.1 EU REGULATIONS RELATING TO ELECTRONIC COMMUNICATIONS

Member States must comply with EU legislation when enforcing their own legislation.

The institutions of the European Union have adopted a number of directives establishing an open and harmonized telecommunications market, based on two separate and complementary processes: liberalization and compatibility. An initial series of directives, adopted under Article 86 (3) (formerly 90 (3)) of the EC treaty on national monopolies requires the deregulation of national telecommunications markets and the elimination of the monopoly rights of public operators or operators licensed before January 1, 1998. A second series of directives, adopted under Article 95 (formerly 100(A)) of the EC treaty on reconciling the legal, regulatory and administrative law of the Member States, sets the conditions for compatibility of access and the use of public telecommunications networks within Member States ("The Open Network Provision" or "ONP Directives").

These regulations have been replaced by a new regulatory framework. The laws under this framework were passed in March 2002 and took effect on July 25, 2003. This new regulatory framework, described below, confirms the deregulation process in the telecommunications sector and expands it to include the electronic communications sector as a whole, affirming a desire to reconcile the specific regulatory framework with competition law. France has transposed the new regulatory framework into its domestic legislation by adopting notably:

- French law n° 2003-1365 of December 31, 2003, relating to the telecommunications public service obligations and to France Telecom;
- French law n° 2004-575 of June 21, 2004, concerning confidence in the digital economy; and
- French law n° 2004-669 of July 9, 2004, relating to electronic communications and audiovisual communications services.

4.13.1.1 Directives Governing The Deregulation Of Telecommunications Services

The basic directive on the deregulation of telecommunications services was adopted on June 28, 1990. In order to complete the liberalization process, a directive adopted on March 13, 1996 requires (i) full deregulation, effective July 1, 1996, of the use of

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alternative infrastructures (including telecommunications railway infrastructures) used to provide all telecommunications services other than voice telephony, and (ii) the total deregulation of voice telephony and the public telecommunications infrastructure effective January 1st, 1998.

These successive directives were replaced by Directive 2002/77/EC of September 16, 2002, which repeats the existing provisions, adding essentially all electronic satellite communications services to the scope of the directive on deregulation.

Likewise, the directive on establishing a common framework for granting licenses and general authorizations in the area of telecommunications services adopted on April 10, 1997, was replaced by Directive 2002/20/EC of March 7, 2002, the "Authorization" directive, adopted on February 14, 2002. This directive repeals the individual licensing systems in favor of a general authorization system. Only allocations of rare resources (mainly radio frequencies and numbering) will require an individual license. Although some Member States have not yet fully transposed the new directives of the European regulatory framework, most of the regulatory authorities are already applying the principles of the "Authorization" directive in Europe.

4.13.1.2 The Former European Regulatory Framework – The "Open Network Provision" Directives On The Harmonization Of Telecommunications Services

For the Member States that have not yet implemented the new directives, the ONP provisions still represent the foundation for regulations in the telecommunications industry, as long as the market analyses required by these directives and conducted by national regulatory authorities have not been completed. The ONP provisions are intended to bring about compatibility in technical interfaces, conditions of use and pricing principles throughout the European Union, and to guarantee objectivity, transparency and non-discrimination in access to the services provided under ONP requirements.

The interconnection directive adopted on June 30, 1997 defines the principles for pricing interconnection services and for charging the costs of universal service obligations, imposes special accounting requirements in order to avoid the artificial support of one activity by another by means of unfair crossed subsidies, sets the principles for access to essential facilities (pipes, ditches, plants and buildings) and the assigning of telephone numbers, defines the role of national regulatory authorities and institutes a common dispute resolution procedure.

Operators defined by national regulatory authorities as exercising a "significant influence over a relevant market", must offer an interconnection to other operators on a reasonable and non-discriminatory basis.

Within this former framework, operators are assumed to exercise a significant influence if they have over a 25% share of a particular telecommunications market in the geographic area in which they are allowed to operate. Furthermore, operators that are assumed to exert a significant influence over the interconnections market (that is the combined interconnection market, including both wireless and fixed line networks) must:

- bill interconnection charges on the basis of cost, in keeping with the principles of transparency. The burden of proof that the charges result from real costs, including a reasonable rate of return on investments, falls upon the operator providing the interconnection to its facilities;
- release an interconnection offer that must include a description of interconnection products and rates. Different interconnection rates can be set for different categories or different operators if such differences can be justified objectively based on the type of interconnection provided and/or the terms for issuing national licenses. National regulatory authorities must ensure that such differences do not distort the competition. They have the option of imposing changes on the interconnection reference offer if justified.

On February 26, 1998, a new directive replaced the December 1995 ONP directive on voice telephony in the context of full deregulation of telecommunications infrastructures and services effective January 1, 1998. This directive establishes the features of universal service applicable throughout the European Union.

On September 24, 1998, the *Conseil des ministres* and the European Parliament adopted Directive 98/61 amending Directive 97/33 on interconnection in order to provide for the portability of numbers and the pre-selection of a long distance carrier effective January 1, 2000. Recommendations on interconnection pricing, accounting separation, cost accounting, data packet-switching and ISDN offers (integrated services digital network) were also adopted by the Commission.

Order number 2001-670 of July 25, 2001 amended the French Postal and Telecommunications Code to implement the EC directives adopted in 1997 and 1998 after the French law of July 26, 1996 on telecommunications regulations. The seven directives include Directive 97/33 on interconnection.

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The French Minister of Economy, Finance and Industry has set by decree the contributions by the different operators to universal service (see section 4.13.2.5 "Universal service") for the years 2000, 2001 and 2002 and adjusted the contributions set for the years 1997, 1998 and 1999, taking into account the decision dated December 6, 2001, by the European Communities Court of Justice.

4.13.1.3 The new European framework for electronic communications regulations

The European Commission has undertaken a revision of the overall European legal framework for electronic communications. Four directives, published in the EC Legal Gazette (the *Journal Officiel des Communautés Européennes*) on March 7, 2002 have replaced the previous legal framework with effect from July 25, 2003: a new "framework" directive and several specific directives including the "Authorizations" directive described above; an "Access" directive, which essentially replaced the "Interconnection" directive, and which expands the scope to include network access; and the "Universal Service" directive, which deals with matters of consumer protection, bolstering the powers of the national regulatory authorities by giving them the option of overseeing pricing and by expanding their investigative powers over the accounts of the company responsible for universal service. The new European regulatory framework is also based on a decision adopted in March 2002 relating to the management of radio frequencies. In addition, a directive on the processing of personal data and privacy protection in the electronic communications sector was adopted on July 12, 2002. The stated goal of these changes is to introduce a new more flexible system suited to a deregulated market that will stimulate competition and, in particular, provide high-speed Internet access. The new legal system should be less restrictive and leave more room for the free play of competition. One of the guidelines adopted by the European Commission is to define significant market influence based on market analysis guidelines and calculation of power over the market. Thus, the 25% market share threshold will be replaced by a market analysis equivalent to the one conducted by competition authorities to determine whether or not there is a dominant position in a given market. The regulatory authorities will also be able to rule that several operators are "jointly" in a dominant position.

This dominant position will not be based on market share held, but rather on an analysis by the market regulatory authority concerned and on an evaluation of the competitive nature of the market, in accordance with the concept of joint domination. Under the new system, when a regulatory authority finds that an operator is dominant, either alone or jointly, the authority is allowed to impose the appropriate regulatory requirements in relation to the size of the market concerned.

However, joint dominance must be rigorously proven, as demonstrated in the case of *Airtours v. First Choice* where the Court of First Instance of the European Communities overturned the Commission's decision.

Only the markets that meet the following three criteria may be analyzed and regulated in an *ex ante* manner:

- the regulator must primarily come across excessive and permanent barriers to entry irrespective of whether they constitute structural, legal or regulatory barriers;
- the second criterion consists of listing only those markets whose structures do not show any sign of moving towards a true state of competitiveness; and
- the third criterion lies in the inability of competition law alone to remedy the relevant shortcomings of the market.

Thus, on February 11, 2003, the Commission adopted a guideline concerning the relevant product and services markets in the electronic communications sector likely to be subject to a regulation *ex ante*. In that guideline, the Commission lists eighteen markets, including six retail markets covering fixed line telephony and leased lines, and twelve wholesale markets covering fixed line and wireless access and interconnection, the domestic international roaming market and radio broadcasting services. In practice, that list of relevant markets corresponds to markets that are already regulated, but which are more finely segmented, save with respect to the last two markets which have only just been added to the list of regulated markets for the industry.

The national regulatory authority must analyze each of the eighteen markets, and define their perimeters in terms of products and services and in terms of geographical structure. It may, if necessary, add other markets provided they satisfy the three criteria required for the regulation to apply *ex ante*. The analysis of the regulatory authority is then notified to the Commission, which has a right to reject the definition of relevant markets and the market power analysis. However, the Commission is not entitled to interfere with the regulatory measures chosen by the national regulatory authority.

When a national regulatory authority judges that a company has a significant influence on one of the relevant markets, it will impose on the company at least a regulatory obligation.

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Where a retail market is concerned, the obligations imposed must be relevant to the problem identified, and must be proportional and justified. They may include price control to the extent of overseeing prices or modulating prices according to costs or prices on comparable markets, with a view to protecting the end-user's interests whilst simultaneously encouraging competition.

Where a wholesale market is concerned, the national regulatory authority may impose obligations relating to transparency, non-discrimination, accounting separation and access to specific network resources, and carry out price controls with obligations relating to the cost accounting system. Any other obligation must be notified to the European Commission, which makes sure that it is relevant, proportional and justified. In relation to this last criteria, the Commission once again has a right of veto.

Given the workload that such analyses represent, but also the delayed implementation the new regulatory framework by certain Member States, the Commission is unlikely to revise its guidelines on relevant markets before the end of 2005.

4.13.1.4 UMTS

On December 14, 1998, the European Parliament and the Council of Ministers adopted decision 128/99/EC relating to the coordinated introduction in the European Union of third generation wireless telecommunications services (UMTS). The purpose of the decision was the rapid and coordinated introduction of mutually compatible UMTS networks and services within the European Union. The decision called for Member States to take all necessary steps to allow the gradual and coordinated introduction of UMTS services in their countries before January 1, 2002 and to implement a UMTS licensing system before January 1, 2000. The decision also called for Member States to see that UMTS services were provided on compatible frequency bands in compliance with common standards. UMTS licenses granted to new entrants had to allow roaming within the European Union. Member States also were required to encourage operators to negotiate roaming agreements with each other to ensure homogenous coverage throughout the European Union.

After a few delays in the roll-out of UMTS, caused mainly by the need to resolve certain technical problems, the third generation ("3G") services were introduced during the course of 2004.

4.13.1.5 Frequency Management

In conjunction with the new European regulatory framework, the European Commission set up a radio spectrum management committee and a high level group responsible for European Community policy on radio spectrums. The Commission's aim is, on the one hand, to ensure greater harmonization of frequency management within the European Union and, on the other, to shift policy decision-making relating to frequency management from the Member States to the European Commission. Nevertheless, the Member States still have certain room for maneuver regarding frequency usage in connection with measures that are required for maintaining law and order and public security, as well as defense.

The current trend is for frequency deregulation. The European Commission therefore published Guideline 2003/203/EC relating to the harmonization of R-LAN access on frequency bands 2.4 GHz and 5 GHz, recommending that the allocation of such frequencies be subject to general authorization rather than requiring an individual license. Similarly, the high level group is starting to define the regulatory terms concerning the institution of a second market for frequencies, i.e.: the principles which are to apply to the sale of user rights for frequency bands to third parties.

4.13.1.6 Internet Regulations

The scope of the new European regulatory framework had been extended to apply to all electronic communications networks and services which, in particular, include the Internet networks. However, the introduction of *ex ante* rules must first be justified by the existence of structural barriers to entry, by the lack of market dynamism and by the inability of competition law to remedy shortcomings of the market. Neither the European Commission nor any of the national regulatory authorities have identified any Internet-related markets capable of being regulated in an *ex ante* manner. Only the markets relating to Internet access are the subject of market analyses, with in particular certain regulatory obligations concerning Internet access via the switched telephone network and xDSL technology broadband access.

More generally, management of the Internet is under the control of the ICANN (Internet Corporation for Assigned Names and Numbers). This organization is particularly concerned with guaranteeing a certain level of system stability and a greater level of security.

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Problems concerning the right to personal privacy (in relation to SPAM for example) are governed by the “Data Protection” directive. Problems concerning copyright are dealt with under the “Copyright” directive. Until now, network operators have been able to limit their liability in the event of fraud or hosting harmful sites, but they are generally required to cooperate with the legal authorities where such problems are identified, and to take preventative action where necessary.

4.13.1.7 E-Commerce

The “e-commerce” directive 2000/31/EC of June 8, 2000, is intended to ensure free circulation of services within the European Union. It applies to all Information Society services, but only concerns those companies that are established within the European Union. This directive supports the country of origin principle, i.e. that companies are subject to the laws of the country in which they operate, even where they have commercial dealings with residents of other Member States. In particular, it limits the liability of intermediaries where their activity is confined to carrying information, provided they do not alter the information transmitted.

4.13.1.8 Copyright

On May 22, 2001, the European Union adopted a directive (2001/29/EC) specifically relating to copyright applied in information company services, which is in addition to the general rules described in the “e-commerce” directive. It defines, in particular, the right of reproduction, with a general authorization to reproduce, where reproduction is of a temporary nature for the purpose of facilitating the transmission of content and does not have any impact on the economic value of the content, the right of public disclosure which is a right exclusive to the originator, or the right of distribution which is also under the originator’s sole control. This directive has been supplemented by another directive (2004/48/EC of April 29, 2004) relating to respect for intellectual property rights which describes the measures, procedures and redress needed to ensure respect for intellectual property rights.

4.13.1.9 Legislation Governing Competition

European Community competition law has three main components. The first component consists of Articles 81 and 82 of the EC treaty (formerly Articles 85 and 86).

They prohibit all unfair trade practices intended to, or having the effect of, restraint of trade within the European Union or effecting trade among Member States. Articles 81 and 82 apply to all companies, both public and private. Article 81 prohibits agreements among companies in restraint of trade within the European Union, and Article 82 prohibits the abusive use of a dominant position held by any company in a substantial part of the common market.

As an example, under Articles 81 and 82, the European Commission Competition Office opened an inquiry on July 27, 1999 into the telecommunications industry, notably concerned with roaming services, the supply and pricing of leased lines and the supply and use of local loop access.

On December 11, 2002, the Commission decided to close the industry inquiry on leased lines, given that, over the course of three years, the price of international leased lines had dropped considerably throughout the European Union. The investigation into the supplying of local loop access, as applied to France, ended in a decision by the European Commission (on July 16, 2003) condemning Wanadoo Interactive for abuse of dominant position in the form of predatory pricing on the high-speed Internet access market. Wanadoo Interactive filed an appeal with the European Communities Court of First Instance on October 2, 2003, the outcome of which is not yet known. As regards roaming services, the European Commission is still analyzing the documents it collected in July 2002 during an on-site audit at the Orange registered office.

A reform in the enforcement of Articles 81 and 82 came into effect on May 1, 2004 (the European Union expansion date). Since that date, the national competition authorities and the national courts directly enforce Articles 81 and 82, if any unfair trade practices affect trade among Member States. Furthermore, the voluntary notification system of corporate agreements to the Commission has disappeared. A system of legal exception will apply to the agreements. It is now therefore up to the companies themselves to evaluate the extent to which their proposed agreements constitute a restraint of trade in order to ensure the compliance *ex ante* of such proposed agreements with competition regulations.

Since May 2004, the European Commission refocused on the most serious violations, particularly with regard to cartels. In addition, it formalized its cooperation with national authorities and courts dealing with matters of competition (the “European competition network”), and it also has more extensive investigative powers.

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The second component of European Community competition law is the control of mergers, subject to the mandatory notification system under regulation 4064/89. Following public hearings which commenced in late 2001, a new set of European regulations came into force on May 1, 2004. It introduced a change in the assessment test for merger operations (the merger is now reviewed from the standpoint of “significant infringement of competition” and no longer from the standpoint of “the creation or strengthening of a dominant position”) and further strengthens the powers of the Commission. Conditions with regard to timing are also more flexible.

The third component of European Community competition law concerns the rules on assistance granted by European Union Member States, described in Articles 87 and 88 of the EC treaty (formerly Articles 92 and 93). Article 87 of the EC treaty prohibits (subject to certain exceptions) assistance granted by European Union Member States on using their resources in a way that affects trade among Member States or that distorts or threatens to distort competition. Article 88 of the EC treaty calls for the European Commission to enforce Article 87 of the EC treaty, and grants authority to the European Commission to investigate and rule on the compatibility with Article 87 of the EC treaty of the measures constituting State assistance.

On January 30, 2003, the European Commission notified the French State that an investigation was being opened in relation to possible assistance from the French State to France Telecom. The Commission gave certain decisions following this investigation in July 2004. (See Note 29 “Litigation and claims” of the Notes to the Consolidated Financial Statements with regard to both of these points).

4.13.2 FRENCH REGULATIONS

Regulation of the industry is essentially based on the French Postal and Electronic Communications Code (the “CPCE”) which consolidates all French legal and regulatory provisions applicable to the electronic communications sector. The French Postal and Telecommunications Code which previously applied was amended on various occasions in order to transpose into French law the European Community directives mentioned above by way of the CPCE in its current form. However, the majority of the implementing decrees have not yet been published and the market analyses on which the ART will seek to rely in order to enforce certain remedies on the wholesale or retail markets previously reviewed, have still not been brought to a successful conclusion, save for those relating to wireless call termination. These changes were made through the legislation listed below:

- French law number 2003-1365 of December 31, 2003 relating to telecommunications public service obligations and to France Telecom, primarily transposes the new European regulations on providing universal service. Its purpose is also to change France Telecom’s status so that the French State is no longer required to own at least the majority of its capital.
- French law number 2004-575 of June 21, 2004, concerning confidence in the digital economy, transposes the “e-Commerce” directive as well as the provisions of the new framework for personal data protection.
- French law number 2004-669 of July 9, 2004, relating to electronic communications and audio-visual communications services, aims to transpose the remainder of the new European framework.
- French decree number 2004-1222 of November 17, 2004, relating to public service obligations and the financing of universal service electronic communications which amends the French Postal and Electronic Communications Code.
- French decree number 2004-1301 of November 26, 2004, relating to provisions applicable to dominant operators exerting a significant influence over an electronic communications market sector pursuant to Articles L.37-1 to L.38-3 of the CPCE.

4.13.2.1 Legal Framework

During the first market deregulation phase (1990-1998), the French Postal and Telecommunications Code then in force was fundamentally reformed by French law number 96-659 of July 26, 1996 (*Loi de Réglementation des Télécommunications* or the “LRT”), the general objectives of which were to create a framework for a fully competitive telecommunications market, to ensure the provision of universal telecommunications service, and to establish an independent telecommunications regulatory authority. In accordance with these objectives, the LRT created the ART. The LRT established the principle of licensing, based on specifications (*cahier des charges*), to perform the activities governed by Articles L. 33-1 (establishment and operation of public telecommunications networks) and L. 34-1 (provision of a public telephone service). The LRT also required France Telecom to provide certain public services. More specifically, France Telecom had to: (i) provide certain basic telephone services throughout France (“universal service”); (ii) provide access throughout France to the integrated service digital network (ISDN), leased lines, packet data switching, advanced voice telephony services and telex (the “mandatory services”); and (iii) perform a certain

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number of public interest objectives in the areas of defense, security and public research. These objectives were to be performed in accordance with the detailed provisions contained in the specifications (*cahier des charges*) specifically relating to companies, implemented by Decree number 96-1225 of December 27, 1996 (the "Specifications"). In 2001, the LRT was supplemented by Order 2001-670 of July 25, 2001 adapting the French Intellectual Property Code and the French Postal and Telecommunications Code to European Community law. This order completed the transposition of the European "ONP" directives which organized the harmonized deregulation of the telecommunications sector. Mainly as a result of implementing French law 2004-669 of July 9, 2004, the transposition of the telecom provisions adopted on March 7, 2002, has been completed. The French law of July 9, 2004 transposes the new European Community regulatory framework and fundamentally reworks the entire legal framework applicable to the telecommunications, Internet and audio-visual industries. It harmonizes the legal system governing all electronic communications networks and sets up new regulatory instruments for those markets.

The most significant modifications made in connection with this transposition are set out below:

- Modifications to the legal system governing the creation and operation of networks and the provision of services, with two objectives:

- simplification of procedures and harmonization of regulations; and

- withdrawal of the previous requirement for individual authorizations for certain activities (L.33-1: establishment and operation of public networks, L.33-2: establishment of certain "intelligent" networks, L.34-1: provision of a public telephone service, L.34-4: provision of a public cable network telephone service). Henceforth, the regulations are no longer authorization-based, but rather based on a system of simple declarations to be made to the ART. Operators that currently hold authorizations granted prior to July 25, 2003, are deemed to have complied with the declaration requirements under the law's interim provisions. The principal change relates to the transfer of all categories into a single category under the new Article L.33-1 of the CPCE: establishment and operation of public networks and provision of public electronic communications services. The definition of an operator is thus widened to include electronic communications.

The CPCE defines electronic communications as "*broadcasts, transmissions or reception of signs, signals, writing, images or sounds by electromagnetic means*".

- The ART's powers of intervention are based on its prior determination of the relevant markets and its designation of the dominant operators in such markets. Once the relevant markets have been determined, it is up to the ART to draw up a report identifying the operators who exert a significant influence over such markets. The ART may require the operators identified to comply with a number of obligations with a view to achieving the regulatory policy objectives (principally the emergence and maintenance of effective competition between operators).
- The industry obligations that may result from the market analyses can only take effect to the extent that they stem from an analysis revealing a real absence of competition in the market segments identified. As a priority, such obligations concern services supplied by operators to other operators, specifically - wholesale interconnection and access services (Article L.38 of the CPCE). In the event that interconnection and access obligations prove to be insufficient to achieve the aims of the regulatory provisions, operators that exert a significant influence over a retail market can be required to comply with obligations in connection with their retail services. Once the market analyses have been successfully completed, price control will no longer be carried out by the ministry after consultation with the ART, but directly by the ART where market conditions so require, or it concerns a rate in relation to universal service.
- The regulator's *ex post* powers are reinforced. For example, in relation to the initiation and exercise of the investigative procedures, the ART's powers have been reinforced and now enable its representatives to have access to the operators' premises, grounds, vehicles and personal residence (Article L.32-4 of the CPCE) in connection with a standard investigation. Consequently, a certain symmetry can be seen in these forms and powers compared with procedures investigating criminal offences.

Finally, certain activities of France Telecom are subject to specific regulations other than those for which the ART is responsible. This concerns, in particular, audiovisual activities which are governed by the *Conseil Supérieur de l'Audiovisuel*.

Moreover, as a result of the recommendations of the French Inter-ministry Committee on the Development of the Territory dated December 13, 2002, Article 50 of the French law 2004-575 of June 21, 2004, has introduced an article (Article L.1425-1) into the *Code Général des Collectivités Territoriales* (French Local Government General Code) under which local governments and their pooling are permitted to establish and operate certain infrastructures and electronic communications networks within their

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territory which are permitted to make available to independent operators or network users. Subject to first informing the ART and to complying with free competition principles, the local authorities are permitted to act as an operators' operator. Local governments and their affiliated bodies are also permitted, where appropriate, to supply electronic communications services directly to the end user once a report has been drawn up recording the inadequacy of appropriate private initiatives to meet the needs of the end users.

In connection with such activities, the local authorities are entitled to make their infrastructures or telecommunications networks available to operators for less than the cost price, or to off-set, by way of subsidies, any shortfall arising as a result of certain public service obligations created in connection with delegated public services or a public market.

This possibility is a response, in particular, to governmental concerns about the development of telecommunications, with two priorities concerning coverage of "undeveloped zones" (zones not covered by the wireless telephony operators) and access to broadband Internet.

Within this context, in July 2003, wireless operators signed a national convention with the French State, elected representatives and the ART to plan the extension of coverage within France to the "undeveloped zones". The sites in question will be covered either by using local roaming technology (a single operator operates the site and carries communications from subscribers to the other two operators), or by using the infrastructure pooling technique (a common pylon supports the facilities of the three operators).

4.13.2.2 Regulatory Authorities

Under French law 2004-669 of July 9, 2004, authority over regulation of electronic communications is reassigned to the ART. The ART, which began operations on January 1, 1997, is a regulatory body independent of the government, with its own staff and its own budget (funded partly by fees paid by operators and partly from State funds). The ART has five members who cannot be removed prior to expiry of their term of appointment. The chairman and two members are appointed by the government, and two further members are appointed by the president of the *Sénat* and the president of the *Assemblée Nationale* (the two French houses of parliament) respectively. The full term for a member of the ART is six years and is not renewable.

The ART monitors operators' compliance with applicable legislative and regulatory provisions pursuant to the CPCE and their licenses. The ART can punish failure to meet these obligations by suspending the operator's license, reducing the period of validity by up to one year, or by revoking it outright. It can also levy fines of up to 3% of the operator's annual revenue, or 5% for recurring offences. Where a serious and immediate breach of industry regulations has been committed, the ART can order the application of protective measures without giving any prior formal notice pursuant to Article L.36-11 of the CPCE. In addition, where a breach might result in serious loss to an operator or to the entire market, the chairman of the ART can request the President of the litigation division of the *Conseil d'Etat*, ruling in summary proceedings, to order the party responsible to comply with the rules and, as the case may be, to make the order subject to a penalty for non-compliance. Under Article L.33-1 of the CPCE, the ART henceforth reviews the declarations in the same form, irrespective of whether they relate to the operation of public networks, the provision of a public telephone service, or the supply of electronic communications services to the public. It also reviews applications for the licenses needed to provide public services using radio frequencies. See section 4.13.2.3 "Licensing". Operators will consequently be given a declaration receipt by the ART setting out their rights and informing them of the obligations associated with the regime enacted under Article L.33-1 of the CPCE. Within the new framework, the ART draws up the list of relevant markets. Once it has analyzed the state and foreseeable trends in competition in these markets, and after consulting with the *Conseil de la concurrence*, the ART establishes the list of operators that are deemed to be exerting a significant influence on each such market.

On the conclusion of these analyses, and provided that the remedy is proportionate to the regulatory objectives, the ART will be entitled to require the relevant operators in the wholesale markets to publish a detailed technical and rates catalogue for interconnection or access where they are bound by non-discrimination obligations, to make changes to this catalogue, to supply interconnection or access services under non-discriminatory conditions, and to grant reasonable requests for access to certain network components or related resources.

In the event that these remedies are deemed to be insufficient, the ART can impose measures on the retail services of operators that exert a significant influence over the analyzed retail markets.

Pending the market analyses and the definition of corresponding obligations as stipulated by the "Access" directive, the ART, in accordance with the transitional provisions enacted under Article 133 of French law 2004-669 of July 9, 2004, has renewed the

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procedure for approving France Telecom's interconnection catalogue under the current regime to the extent that this regime ensures the continuity of the existing framework and has been endorsed by all operators. The technical services and rates in the interconnection catalogue for 2004 have therefore been renewed, under decision n°04-1000, in the same form for 2005 pending the implementation of the remedies provided for under Article L.38 of the CPCE.

Furthermore, the interconnection decree n° 97-188 of March 3, 1997 provides for the creation of an interconnection advisory committee within the ART. The committee is primarily composed of licensed operators and chaired by the ART which determines its membership and procedures. This committee has since met regularly. Pursuant to Article L. 36-8 of the CPCE, in the event of a refusal to provide interconnection, a breakdown in business negotiations or a disagreement concerning the signing or execution of an agreement for interconnection or access to a telecommunications network, a disagreement on the existence and conditions of shared usage of rights of way and easements or on the sale of lists for universal directories, either party may refer the dispute to the ART. In connection with this procedure, the ART can obtain technical advice or carry out evaluations. Moreover, the ART also has the power to define, within the arbitration procedure framework specified under Article L. 36-8 of the CPCE, the technical and pricing terms and conditions applicable to activities carried out by electronic communications operators, or to the establishment, making available or sharing of electronic communication networks and infrastructures by local government, as specified under Article L.1425-1 of the French Local Government General Code.

Lastly, pursuant to Article L.34 of the CPCE, it can be specifically petitioned under Article L. 36-8 to settle disputes related to the technical and financial terms and conditions for the sale of subscriber lists for the purpose of publishing a universal directory or providing a universal information service. As regards unbundled access to the local loop, the ART has the authority to modify the reference terms for access to France Telecom's local loop pursuant to the EU regulation of December 18, 2000.

The ART is responsible for implementing and managing the numbering plan, for allocating the band frequencies it has been assigned, for participating in the preparation of technical standards and for supervising the network interface declarations.

The attribution and use of frequencies are subject to the payment of an annual fee, pro-rated by reference to the first and last years of allocation in the case of frequencies.

The ART is responsible for issuing opinions on proposed laws, decrees and/or regulations relating to the electronic communications sector and for participating in their implementation. Pending the designation of operators deemed to be exerting a significant influence over each of the relevant retail markets, and pending the adoption of the decree implementing Article L.35-2 in relation to price control of the rates for universal service, the minister responsible for telecommunications, together with the Minister of the Economy, Finance and Industry, and after consulting the ART, continues to approve the rates for universal service and for services for which there is no competition in the market. The ART determines the amount of the operators' net contributions and the sums due from the fund to those operators which are subject to the universal service obligations. The minister responsible for telecommunications designates the operators responsible for the three components of universal service covering all of the national territory (quality telephony service at a reasonable price, universal information service, universal directory in electronic and paper forms and access to public telephone booths in public areas). However, pending the designation of the operator(s) responsible for universal service on completion of the public bidding process specified under French decree 2004-1222 of November 17, 2004, France Telecom continues to fulfill the public interest obligations for which it is responsible under the conditions which applied before the promulgation of the law of December 31, 2003 (see section 4.13.2.5 "Universal service").

Since January 1, 1997, the *Agence Nationale des Fréquences* ("ANFR") has been responsible for planning, managing and monitoring the usage of radio frequencies and for co-ordinating the establishment of certain radio transmission facilities. The frequency spectrum is divided among eleven oversight authorities: government ministries, the ART and the *Conseil Supérieur de l'Audiovisuel* ("CSA"). The ART and the CSA have the authority to allocate to users the frequency bands over which they have control. The use of frequencies by telecommunications operators, including France Telecom, requires a usage fee. The ANFR is an administrative agency of the French government. Its board of directors is composed of representatives of radio frequency users such as certain ministries (for example, Defense or Foreign Affairs), the CSA and the ART and individual members of the industry chosen for their areas of expertise.

4.13.2.3 Provision Of Licenses

Since July 25, 2003 (the date by which the European Community "Authorization" directive had to be transposed), and in order to avoid any contradiction between national standards and European Community standards that are in full force and effect, the

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establishment and operation of public networks and the provision of public electronic communications services (which extend the perimeter of participants treated as operators under the regulations to cover the activities of Internet access providers) are unrestricted subject to making a prior ordinary declaration to the ART. This declaration regime was formally introduced into domestic regulations on July 9, 2004, by Article L.33-1 of the CPCE. Since then, operators are given a receipt for their declaration enabling them to assert their rights (interconnection, rights-of-way and others) and to know their financial obligations (taxes, contribution to universal service, etc.). A company acquires its legal status as an "operator" on the date on which its declaration is registered as being in order by the Authority.

Moreover, the legislator (Article 133) has indicated that legal entities governed by Article L.33-1, whose activities were not subject to the grant of a license under the previous framework, are required to submit their declarations to the ART within six months from the publication of the French law of July 9, 2004 (by January 10). Legal entities that already hold licenses authorizing their activities, such as France Telecom, are deemed to have satisfied this declaration requirement.

However, a declaration is not required with regard to the establishment and operation of internal networks open to the public or with regard to the provision of public electronic communications services on such networks. Since the decree defining the terms and conditions of the application of Article L.33-1 of the CPCE, as well as the mandatory information that is to be included in the declaration, has not yet been published, the form provided by the ART under the transitional provisions is still to be used.

Under the previous framework, each license granted to public network operators or providers of public telephony services had to include specifications defining the obligations for the network or service in question, and containing a set of standard clauses set by decree.

Licenses were issued by the minister responsible for telecommunications for a period of 15 years.

These licenses were renewable and were granted in return for payment of an initial filing fee, followed by annual fees for management and monitoring, if applicable, specific fees for the allocation of numbers and frequencies. Given individual licenses are no longer required in order to enter the market, the filing fee is no longer justified in accordance with the "authorization" directive. On the other hand, the annual management and monitoring fees continue to be justified and, therefore, collected.

France Telecom was granted an operator's license for public networks and the provision of a public telephone service pursuant to a ministry order dated March 12, 1998 (as amended by an order dated September 27, 2002 and by an order dated November 8, 2002). As indicated in the guidelines published by the ART, over the transition period the general applicable obligations that are compatible with Part A of the annex to the "authorization" directive will continue to be applicable to France Telecom.

With respect to mobile telephones, France Telecom operated its GSM 900/1800 wireless network and provided public telephony services under a license granted on March 25, 1991. This was extended to the 1800MHz band on November 17, 1998. Since August 17, 2000, following the spin-off of France Telecom's wireless activity, Orange France has operated under a new license, for the same network to provide the same services. This license was issued under the same terms and conditions as the one for France Telecom and expires on March 25, 2006. In accordance with the license terms, the terms for renewing the Orange France license (as with the SFR license) should be defined two years in advance, i.e.: no later than March 2004. A consultation procedure was launched by the ART in July 2003 for this purpose based on a renewal scenario which would preserve the frequency allocations already in effect. The terms of renewal were notified to Orange France on March 25, 2004 by the minister responsible for telecommunications (cf. publication in the *Bulletin Officiel* (French Legal Gazette) for June 20, 2004). The main changes, which take effect as of March 25, 2006, and which will also apply to SFR, are as follows: obligations to provide direct network coverage to 98% of the population and to provide 99% blanket coverage by including coverage of un-developed areas, providing an enhanced indication of the quality and availability of the network particularly with regard to data transmission. In addition, the frequency usage fee will consist of a fixed amount of €25 million and a variable amount equal to 1% of revenues generated from such frequencies. Moreover, certain new obligations will apply to all wireless operators: obligations to provide the public and Mayors with information on the setting up of radio transmission facilities, services for the disabled, anti-theft measures for handsets and the obligation to systematically inform the subscriber, free of charge, of the handset unlocking procedure at the end of a period not exceeding the customer's commitment period, (where applicable, and in any case not exceeding six months). The licenses granted by the ART to independent networks up to now remain valid until their expiry date, or until the taking effect of the implementing law. Since such time, the operators are no longer required to declare this type of networks and in any event, since July 25, 2003, have ceased to be subject to the payment of fees in such respect. However, the specific allocation of frequencies to a user continues to be conditional on a license from the ART and is subject to the payment of the corresponding fees irrespective of the requesting party's capacity, provided the latter is eligible for such resources.

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4.13.2.4 Special status of France Telecom S.A.

France Telecom is subject to the legislative and regulatory regime that applies to all electronic communications operators.

France Telecom's monopoly terminated on June 1, 1998. Since the implementation of the French law of December 31, 2003, the provisions relating exclusively to France Telecom have ceased to apply. France Telecom is also subject to obligations stipulated by the legislation governing state-owned companies.

The LRT required France Telecom to perform certain public service objectives pursuant to the detailed conditions defined in specifications (Decree number 96-1225 of December 27, 1996). The essential element of France Telecom's public service obligations was the provision of a universal service. See section 4.13.2.5 "Universal service".

The French law of December 31, 2003, relating to the telecommunications universal service and to France Telecom, repealed the provisions of the LRT that required France Telecom to perform public service objectives. Also, the law of December 31, 2003 repealed the former provision that called for France Telecom to be subject to specifications, implicitly repealing the specifications. Consequently, France Telecom is no longer considered as the public operator under the new CPCE, unlike the French Post Office which retains its status as the public operator. However, the provisions of the LRT relating to universal service and mandatory services and the provisions of the specifications that relate to universal service obligations, remain applicable to France Telecom until December 31, 2004. Similarly, the obligations relating to price control will continue to apply to services falling within universal service until publication of the decree implementing Article L.35-2 concerning the telecommunications regulatory authority's price control procedures in relation to operators responsible for universal service (see section 4.13.2.5 "Universal service") and until the designation of operators that are deemed to be exerting a significant influence over the various relevant markets in respect of rates that are not subject to any competition.

4.13.2.5 Universal Service

In connection with universal service and its financing as determined by the ART, each year the minister responsible for telecommunications issues an order specifying the net cost for providing a universal service based on the evaluation of the ART. The ART's evaluation is based on a methodology, the broad outlines of which are established by decree and detailed in the decisions of the ART. As the principal universal service provider, France Telecom is a net recipient of funds from the financing mechanism.

The final amounts payable for 1997, 1998 and 1999 were revised following order C-146/00 of the European Communities Court of Justice on December 6, 2001, which found that France was not in compliance with EC provisions for financing universal service.

The ART proposed new assessments for universal service to the minister responsible for telecommunications who formalized them in an order dated July 11, 2002. The net cost for universal service was fixed at zero euros for 1997, €275 million for 1998 and €111 million for 1999.

The final net cost for universal service for 2000, the year when another operator, Kertel, proposed subsidized rates, was set at €129 million. The final cost for 2001 was set at €142 million. The final net cost for universal service for 2002 was set at €125 million following a decision made by the ART on December 21, 2004.

Two decrees were adopted in 2003. One dated August 1, 2003 concerns the universal directory and sets out the procedure for the compilation of lists by operators and the provision of these lists to the publishers of universal directories and to those who provide universal information services.

The other, dated April 10, 2003, relates to financing the service and introduces some changes in the methods for computing the cost of universal service in order to take into account the provisions of the aforementioned European Communities Court of Justice order: accounting for intangible benefits and income relating to the "*liste rouge*" (unlisted phone numbers). It also eliminates the elements that had become obsolete, such as additional compensation, and modifies the method for calculating the budgeted cost for universal service by replacing the budget forecast with an interim assessment made on the basis of the last known final evaluation.

Universal service within the framework of the law of December 31, 2003

French law number 2003-1365 of December 31, 2003, relating to the telecommunications universal service obligations and to France Telecom modified the framework applying to universal service for telecommunications. French decree number 2004- 1222

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of November 17, 2004 which relates to public service obligations, financing universal service electronic communications and amending the CPCE, has clarified the manner in which the provisions of the French law of December 31, 2003 are to be applied.

Pursuant to Article L. 35-1 of the CPCE, universal service is defined as providing the following to everyone:

- quality affordable telephone services providing voice telephone calls, facsimile messages and data messages at speeds sufficient to allow access to the Internet, from or to subscription points, as well as transmission of emergency calls without charge. The rate conditions for this service include maintenance for one year, and limited service in the case of non-payment;
- information services and a subscriber directory in both printed and electronic form;
- access to public pay phones installed in public areas;
- special measures for disabled end users to ensure (i) equal access to the aforementioned services and (ii) the affordable nature of these services. The technical and pricing terms for the universal service take the specific difficulties of certain categories of persons into account, in particular their income level, and prohibit any discrimination based on geographic location.

France Telecom is no longer designated as the operator responsible for universal service. From December 31, 2004, and on completion of the tender process, one or more operators may be appointed as the operator responsible for one or more components of universal service.

Pursuant to Article L. 35-2 of the CPCE, any operator willing to, and capable of providing universal service throughout French territory may be given the responsibility of providing one of the following components of universal service: quality telephone services at affordable prices with the aforementioned characteristics, an information and directory service and access to public pay phones. The operators responsible for these various components are appointed at the end of a public tender process.

Pursuant to Article R.20-30-12 of the CPCE this tender process is set out, specifying the minimum obligations incumbent upon the operator responsible for providing the relevant component of universal service. These obligations apply particularly in relation to the quality of service; the information to be provided by applicants (including, where applicable, their net cost for providing the relevant component of universal service); and the criteria for selecting the operator responsible for the relevant component of universal service. The term of appointment for the universal service obligations may not exceed five years.

If the tender process is not successful, the minister responsible for telecommunications will appoint an operator with sufficient capacity to provide the service in question nationwide. Under Article R.20-30-11 of the CPCE, the rates for services relating to the provision of a component of universal service are to be set by the operator responsible for the component in question. These rates should be determined in accordance with the principles of transparency, non-discrimination and cost orientation, and such that they are not dependent on the type of use to which the service is put by the users, to the extent it does not affect the terms and conditions for providing the service. Rates for universal service must respect the equality principle. In particular, they must be computed in such a way as to avoid any discrimination based on the user's geographical location. The operator must inform the minister for electronic communications and the ART of its rates at least eight days prior to their entry into force and must draw up a universal service rate catalogue and, where applicable, the prices for any mandatory services.

With regard to the component relating to the provision of quality telephone services at an affordable price, the operator responsible must specify, in its price catalogue, the terms on which certain subscribers experiencing exceptional difficulties are connected together with the corresponding rates. The ART can require such an operator to offer an option allowing payment of the connection costs in installments.

Pursuant to Article L. 35-3 of the CPCE, the financing of universal service is still provided by the Universal Service Fund. The operator is required to provide the universal service will be entitled to a payment as soon as the net costs attributable to the universal service obligations represent an excessive charge. The net costs attributable to the universal service obligations are valued on the basis of an information system and the appropriate accounting practices maintained by the operators responsible for these obligations.

The relevant elements of the information system and accounting practices are audited at their expense by an independent body appointed by the ART. The market advantage derived by the operators with these obligations is factored into the net costs.

It should be noted that the net costs can not exceed the commitments undertaken in the tender process.

French law 2003-1365 of December 31, 2003 has modified the formula for allocating the net cost for universal service among the operators by opting for a contribution pro-rated on the basis of the revenues earned from electronic communications services

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excluding (i) revenues generated from interconnection and access services and from services provided or invoiced on behalf of third party operators and (ii) revenues generated in connection with the routing or broadcasting of radio and television services, as well as from operating community aerials. With regard to product packages combining radio or television services with electronic communication services, the amount of the operator's contribution is computed on a pro-rated basis of the revenues relating to electronic communications alone. To calculate the amount of each operator's contribution, an allowance of € five million is deducted from the annual revenue figure computed in this way. If an operator agrees to provide universal service under the technical and pricing terms specified for the categories of subscribers mentioned in Article L. 35-1 of the CPCE, or one of the directory or information service elements, the net cost of this service is deducted from its contribution. The modifications introduced by the French law of December 31, 2003 relating to the formula for allocating the cost of universal service, will apply from the final net cost for 2002 as set by the ART on December 21, 2004 (Decision 04-1068). The ART determines the amount of operators' net contributions and the amounts owed by the fund to operators with universal service obligations.

Pursuant to Article L. 35-7 of the CPCE, the French government must submit a report to the Parliament prior to March 1, 2005 (and every three years thereafter) on the implementation of the provisions relating to Chapter III, Title I of Volume II of the CPCE regarding public service obligations. This report consists of an analysis and detailed assessment for each user category of the cost of all electronic communications services, including those not referred to in this chapter such as wireless telephony and Internet access.

Article 9 of the law of December 31, 2003 provides that, until one or more operators are named as responsible for universal service following the tender process set out in Article L. 35-2 of the CPCE, and at the latest until December 31, 2004, France Telecom will continue to fulfill the public service obligations for which it was responsible under the previous terms and conditions. It also stipulates that France Telecom remains subject to price controls.

Following the publication of French decree n° 2005-75 of January 31, 2005, which amended the CPCE, the ART is now responsible for the price control of the rates for universal service. According to the new provisions incorporated within Article R.20-30-11 of the CPCE, the ART is entitled to provide a long-term framework for the universal telephone service, to issue public notices and/or to contest the implementation of rates for the directory and directory enquiry services components, and for the public payphone component of universal service within one month of the disclosure of such rates.

With regard to price control, the ART is responsible for overseeing transparency and direction of the rates for universal service toward costs. Consequently, it approved France Telecom's pricing decision in respect of the reassessment of rates for access to directory enquiry services from subscribers' telephones and from payphones. Notice n° 05-0128 of February 3, 2005, accordingly acknowledges the validity of the 12.4% increase in the access rate from a fixed line telephone and the 66.7% increase from a payphone. Likewise, notice n° 05-0127 of the same date considers that the reduction in the "subsidized subscription rates", the long-term increase in the "main subscription rates", the increase in "commissioning costs" and the changes in the national telephone call rates, comply with the principles laid down by the CPCE.

4.13.2.6 Interconnection

Article L.32 of the CPCE, in the form enacted under French law n° 2004-669 of July 9, 2004, defines interconnection as a particular type of access corresponding to "*the physical and logical linking of public networks operated by the same operator or by different operators*".

Article L.33-1 of the CPCE provides that the establishment and operation of public networks and the provision of public electronic communications services can be required to comply with rules governing interconnection and access. The latter are the subject of a private contract provided to the ART on its request. Public network operators grant the interconnection requests of other public network operators that are made with a view to providing public electronic communications services.

A request for interconnection may not be refused if such request is justified on the basis of (i) the applicant's needs and (ii) the operator's ability to meet the request. Any refusal by the operator to provide an interconnection, must be justified.

The ART has the authority to alter the terms and conditions relating to interconnection (or access) in an objective, transparent, non-discriminatory and proportionate manner. It may intervene on its own initiative with a view to achieving the fundamental objectives entrusted to it¹, after consulting with the *Conseil de la concurrence* and the public and notification to the European

¹ Fundamental regulatory objectives defined by Article L.32-1, in particular the practising of free, fair and effective competition or even the interoperability of networks to allow users end-to-end communication.

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Commission and relevant authorities of the other Member States of the European Economic Community. It may also intervene at the request of a party in order to settle a dispute. Article L.36-8 of the CPCE provides that any decision taken by the ART in such connection is open to a non-suspensive right of appeal.

Over and above general regulatory provisions applicable to all public networks and to providers of electronic communications services, the ART has the right to require compliance with certain additional obligations – i.e.: remedies – in certain markets deemed to be relevant owing to the existence of durable barriers to entry, the lack of signs of movement towards the practice of effective competition and/or the inadequacy of the law *ex post* in resolving competition problems. At present, the European Commission has identified eighteen relevant markets, including some which relate specifically to interconnection: the wholesale markets of telephone call origination and telephone call termination from a fixed position, as well as transit over the telephone network. It has also identified the mobile call origination and termination markets as well as the wireless roaming market.

Obligations applicable to a company found to be in a dominant position in one of these markets must be enforced in a manner that is non-discriminatory, transparent and proportionate to the nature of the competition problem identified in the relevant market. These obligations may be access obligations (obligations to provide a service), non-discrimination obligations, transparency obligations (in particular to provide a standard offer), accounting separation obligations, price control obligations and cost accounting obligations. It is up to the regulator to define and justify which obligations it considers necessary, as the case may be, to impose on a company that it has found to be in a dominant position.

On November 2, 2004, the ART notified the findings of its analysis of the mobile call termination market to the Commission. At the end of November 2004, no final decision had been published, so it could be considered whether, at this stage, the ART found that all the mobile operators are dominant in their call termination markets, including Orange France, Orange Caraïbe and Orange Réunion.

As regards the wholesale fixed line interconnection markets, the findings of the market analyses are not yet known, and the ART will not be in a position to take any decision on this matter before January 1, 2005. Consequently, the ART has positioned itself within the transition framework governed by Article 27 of the framework directive and Article 133, section II, of French law 2004-669, in order to expressly retain in force the obligation under Article L.34-8 II of the French Postal and Telecommunications Code. This obligation requires France Telecom “to publish [...] a technical and pricing connection catalogue approved in advance by the Telecommunications Regulatory Authority”. France Telecom has presented an interconnection catalogue valid from January 1, 2005 to the ART which approved it on November 26, 2004. This catalogue repeats without amendment the terms of the 2004 interconnection catalogue in accordance with the ART’s recommendations. The ART considered the terms of the 2004 catalogue to be equitable. The terms of this catalogue will apply until the end of 2005 at the latest, or until the provision by France Telecom of new terms complying with the various obligations which will be binding on it once the analysis of the corresponding relevant market has been completed.

4.13.2.7 Unbundling Of The Local Loop

The local loop is the installation that connects the end point of the network located on the customer’s premises to the main distribution frame box or to any other equivalent installation of a fixed line electronic communications public network.

In October 1999 in France, the ART published the results of a public hearing on fostering competition in the local telephony services market. A decree dated September 12, 2000 (“decree relating to the local loop”) and a regulation dated December 18, 2000 by the European Parliament and the Council required dominant operators (currently only France Telecom) to allow access to the local loop infrastructure with effect from December 31, 2001.

Access to the local loop means either:

- access to all frequency widths in the copper loop (full unbundled access to the local loop); or
- third-party operator access to the “high” frequency spectrum of the copper loop, while the low frequency spectrum (telephone service) continues to be managed by France Telecom (shared access to the local loop).

Pursuant to the local loop decree, access to the local loop also includes associated services, such as the supply of the information necessary to implement access to the local loop, an offer to co-localize the equipment on France Telecom’s premises and an offer to allow the connection of this equipment to the networks of those requesting access.

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Access to the local loop will be provided pursuant to a private contract, which must be forwarded to the ART within ten days of its signing.

Pursuant to the local loop decree, rates for unbundled access to the local loops must be directed towards costs.

The network components must be valued on the basis of their average long-term incremental costs. Pursuant to Article D. 99-24 of the French Postal and Telecommunications Code, the ART established the guidelines for relevant costs and published the calculation method for average long-term incremental costs in a decision dated October 31, 2000.

The European Parliament and Council's regulation of December 18, 2000 grants the ART the power to impose amendments to France Telecom's standard term offer for unbundled access to the local loop. The ART has exercised this power on several occasions.

France Telecom has filed two appeals with the *Conseil d'Etat*. One appeal is against ART decision n° 01-355 dated February 8, 2001 and decision n° 01-258 dated March 2, 2001 and the other appeal is against decision n° 02-323 dated April 16, 2002 requiring France Telecom to amend its standard term offer. These appeals do not have a suspended effect.

In a decision dated April 23, 2003, the *Conseil d'Etat* partially rejected the appeal filed by France Telecom against ART (decision n° 01-135 dated February 8, 2001). The *Conseil d'Etat* decided to suspend its decision on the dispute relating to the amount of rates and service access fees and cancellation fees in order to await the results of expert findings intended to "estimate the time necessary to conduct technical and administrative operations that would be justified by a request either for unbundled access to the local loop or for the cancellation of this access" and "to evaluate, in accordance with principles for determining rates and taking into account the costs cited in the arguments of the present decision and taking into account the accounting data available as of February 8 and March 2, 2001, the hourly cost of France Telecom personnel used in these operations."

Within the new regulatory framework, the local loop access market is included in the list of relevant markets that the ART must examine under the procedure described in Article L.37-1 of the CPE; the procedure is currently underway and should be finalized during 2005.

Pursuant to the undertaking given at the time of the notification to the ART of its pricing decision with regard to the increase in the monthly subscription rate, on February 1, 2005 France Telecom lowered the commissioning costs of unbundling (FAS).

4.13.2.8 Rate Policy For Fixed Line Telephony

In light of the transitional provisions provided under Article 133 of French law 2004-669 of July 9, 2004, France Telecom's rates for the services included in universal service (see section 4.13.2.5 "Universal service") are governed by the ART as from the date of adoption of the decree implementing Article L.35-2 of the CPCE. The provisions of French decree n° 2005-75 of January 31, 2004 stipulate that the rates for universal service are henceforth controlled by the ART with regard to the three components of universal service defined by the legislator. For a description of France Telecom's rate policy on fixed line telephony, see section 4.4.3.1.1 "Telephone communication and access offers and services". The decree implementing Article L.35-2 of the CPCE, as published on January 31, 2005, provides that the ART has a right to contest the rates for universal service, as well as the right to establish a long-term framework for such rates. Rates other than those relating to universal service will no longer be subject to the 1996 specifications. Nevertheless, under the transitional provisions of the law of July 9, 2004, those rates not related to universal service that have been approved, remain in the same form as before until implementation of any remedies that the ART might impose on the retail market pursuant to Article L.38-1 of the CPCE. Where the ART considers, on completing the analysis of the relevant markets, that the remedies in the wholesale market are insufficient to guarantee, in particular, an environment of general competitiveness and fair competition for the benefit of users, it is able, in the light of Article L.38-1 of the CPCE and French decree n° 2004-1301 of November 26, 2004 relating to the provisions applicable to operators exerting a significant influence over an electronic communications market sector, to require the relevant operators to provide any appropriate information allowing the pricing plans to be assessed. The ART then has the right to contest the implementation of certain rates by way of the appropriate decision.

With respect to the rates for fixed line telephone calls made to mobile telephones, the ART hosted a round table discussion in early 1999 with the three principal French wireless operators: Orange France, SFR and Bouygues Telecom.

On November 16, 2001, the ART published decision number 01-970 and decision number 01-971 relating to the level of Orange France and SFR call termination charges and set a maximum price for 2002, 2003 and 2004. Price cuts for terminating calls from these mobile operators were defined in specific terms: 15% in 2002, 15% in 2003 and 12.5% in 2004. The ART made these price cuts official through its annual decisions to validate the rate proposals made by Orange and SFR.

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Prior to November 1, 2000, the rates for calls made to mobile telephones from a fixed line telephone were set by the mobile operator. Since that date, the rates for calls made to mobile telephones from a fixed line telephone have been set by the fixed line operator. Following this decision, and owing to the reduction in call termination rates (the price that the fixed line operator pays to the mobile operator to complete the call on the mobile network), France Telecom lowered the rates for calls for the end customer and proposed a number of pricing options. See section 4.4.3.1.1 "Telephone communication and access offers and services". Following the first market analysis conducted on the mobile call termination market, the ART required the three metropolitan mobile operators (decision n°s 04-937, 04-938 and 04-939 of December 9, 2004) to lower their wholesale rates for fixed line calls to mobile telephones by 36% over two years. At the same time, it issued a favorable opinion on December 9, 2004 (notice 04-1074) regarding France Telecom's pricing decisions passing on to customers the entire call termination decrease of the three metropolitan mobile operators on January 17, 2005.

4.13.2.9 Numbering

The attribution of numbering resources to operators is subject to an individual license issued by the ART according to the terms provided for by the rules relating to the national numbering plan (decision n° 98-75, dated February 3, 1998).

The ART establishes and manages the national numbering plan which guarantees users equal and easy access to the different electronic communications networks and services and equivalent numbering formats. The ART initiated a vast public consultation on October 27, 2004 in order to modify the rules for managing numbering as set forth in decision n° 98-75 of February 3, 1998. This consultation could lead to the amendment of the rules relating to management of the national numerotization program plan during the course of 2005.

Operators deemed to exert a significant influence over the market for connections to fixed line public telephone networks, which is currently the case for France Telecom, are required to allow their customers to select a long distance carrier on a call-by-call basis by entering an assigned numeric prefix when calling.

Since January 1, 1998, seven long distance carriers, including France Telecom, were assigned a one-digit prefix. At the end of 2004, three of these prefixes were returned to the ART. The ART has not yet announced the use to which it might put these newly reacquired resources (reassignment and/or opening new tranches of short numbers) in the future. The other operators which prefer their network to be selected on a call-by-call basis to carry their customers calls and which have not obtained a one-digit prefix, have been allocated a four digit prefix.

Since January 17, 2000, subscribers can opt to pre-select their long distance operator. This allows them to access their operator's network without having to use a one-digit or four digit prefix. Pre-selection of operators was expanded to include calls to mobile telephones in November 2000 and has been extended to local calls since early in 2002, at the choice of the carrier operator.

Since November 13, 2003, France Telecom has been marketing the "Keep your number" service throughout continental France. This service allows residential, professional or business customers to keep the use of their fixed geographic number(s) in the event of an address change within the same "basic numbering zone". This service is billed at €20.90 excluding VAT (€25.00 including VAT) per number retained on single analog lines, €40.00 excluding VAT (€47.84 including VAT) per number retained on groups of analog lines or Numéris access and €80.00 excluding VAT (€95.68 including VAT) to retain numbers on Numéris Duo or Numéris Itoo access.

Pursuant to the injunction issued by the *Conseil d'Etat* in its order of June 25, 2004, the ART has issued three decisions dated January 27, 2005, dedicating the tag number 118XYZ to voice directory enquiry services that enable the name and location of a user within metropolitan France to be obtained and setting out the terms for the withdrawal of services commercially available on other numbers such as "12". Decision n° 05-61 provides that all directory enquiry services falling within this sphere of activity should henceforth conduct their activities under this numbering format. The new numbers in the tranche 118XYZ will be allocated on May 11, 2005 by drawing lots (ART decision n° 05-62) limited to ten resources per group, and will be available for marketing on November 2, 2005. Services provided under the former numbering format should be withdrawn from commercial operations no later than April 3, 2006 (decision n° 05-63).

Number portability for mobile telephones has been available since June 30, 2003. The ART, which hopes to improve this service for the benefit of the consumer, has initiated a public enquiry with market players. A summary of the results of this enquiry was made public on December 22, 2004. Orange France has anticipated the short coming developments, and implemented, as from October 5, 2004, a material reduction in the time required for number transfer from two months to one month and in the time

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required for confirmation of the number transfer from 15 to 3 days for its general consumer and business customers under fixed packages and prepaid plans.

4.13.2.10 UMTS Licenses

The procedure for awarding UMTS network installation and operation licenses in France was described in the notice relating to “the terms and conditions for awarding licenses to introduce third-generation wireless systems in metropolitan France” issued by the Ministry of the Economy, Finance and Industry, which was published in the French *Journal Officiel* on August 18, 2000.

Orange France and SFR submitted the only applications and were awarded UMTS licenses by the French government. Of the four UMTS licenses, two remained unallocated at that time.

In October 2001, the French State decided to reschedule the payment of the UMTS license fees. The original €4,955 million, payable in a number of tranches, was replaced with the following payment schedule:

- a lump-sum license fee of €619 million, which was paid by Orange France and SFR in September 2001; and
- an annual license fee of 1% of UMTS revenues.

On December 29, 2001, the Minister of the Economy, Finance and Industry held a second bidding process for the two additional UMTS licenses (see the notice published in the French *Journal Officiel* on December 29, 2001). Bouygues Telecom submitted the only bid and was awarded a UMTS license by an order dated December 3, 2002. At the time of this award, the government modified the specifications for Orange France’s UMTS license.

Each of the three licenses is awarded for a period of 20 years and each operator will receive the same number of frequencies, *i.e.* 2 x 15MHz in the paired bands and 5MHz in the non-paired bands.

Furthermore, the bid specifications contained certain de minimis obligations in terms of coverage:

- after two years, at least 25% of the population must have access to voice transmission services and 20% of the population must have access to data transmission services; and
- after eight years, at least 80% of the population must have access to voice transmission services and 60% must have access to data transmission services.

ART’s revision of the timetables for roll-out of Orange France’s and SFR’s UMTS networks, resulting in particular from the delays relating to availability of network equipment and terminals, started in August 2003. In March 2004, ART made public the following amendments that are to be made to the UMTS licenses applying to Orange France and SFR:

- taking into consideration the industrial circumstances surrounding the development of UMTS, no sanction procedures will be instituted against Orange France and SFR for the delay in roll-out; and
- commercial launch is required no later than December 31, 2004, with target deployment to cover 58% of the population by the end of 2005.

The revised obligations will be included in the individual licenses which are to be issued by ART to Orange France and SFR once the new regulatory framework has been fully transposed.

4.13.2.11 Rights Of Way And Easements

Each public network operator benefits from a right of way over public roads and other non-road public property, in consideration for a fee paid to the public domain manager under a highway permit or a lease agreement, provided that this right of way is not incompatible with the normal use of such public roads or other property. In order to benefit from easements over private property, the public network operators must obtain permission from the competent local authority and, if necessary, compensate the owners. The competent local authority may refuse public network operators this right of way in order to ensure compliance with critical demands, protection of the environment and compliance with town planning regulations.

An operator who already benefits from a right of way or an easement may have to share use of its existing facilities with other operators, to the extent that this use does not compromise the occupying operator’s own public service objectives. Any disputes resulting from such a situation may be submitted for arbitration to ART, which is then obliged to hold a public consultation with

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all interested parties. Public network operators may also benefit, under certain conditions and with the permission of the competent authority, from radio frequency easements to guarantee the optimal transmission of electromagnetic signals.

4.13.2.12 Coordination Between The Regulatory Authorities And Competition Authorities

French competition law prohibits the abuse of a dominant market position and the distortion of competition through collusion by market participants in a particular market. Since full deregulation of telecommunications services on January 1, 1998, France Telecom has been subject to these French competition laws in all areas of its businesses. In this context, the new French Postal and Electronic Communications Code reaffirms the Article L.36-10 provisions of the former code pursuant to which the Chairman of ART must refer any abuse of a dominant market position and any unfair competition practices in the electronic communications sector, of which he has knowledge, to the French *Conseil de la concurrence*. The Chairman may also seek an opinion from the *Conseil de la concurrence* on all other matters within its jurisdiction. The *Conseil de la concurrence* gives notice to, and may seek the opinion of, ART on any matter referred to it in the electronic communications sector that is within ART's jurisdiction. Similarly, in connection with any market analyses undertaken, ART must, after having considered the state and foreseeable evolution of competition in such markets, submit to the *Conseil de la concurrence* for its opinion a list of operators that it deems to be exerting a significant influence over each of the markets. At present, the *Conseil de la concurrence* has only issued opinions concerning the mobile call termination market (in notice n° 04-A-17 of October 14, 2004) and the wholesale and retail broadband markets (in notice n° 05-A-03 of January 31, 2005). The opinion of the *Conseil de la concurrence* was sought, on January 5, 2005, with regard to ART's analysis of the wholesale and retail fixed line telephony markets.

4.13.2.13 Regulations Relating To E-Commerce

The French law of June 21, 2004 concerning confidence in digital economy (the "digital economy law") adapts French law to take account of the development of the digital economy and aims to increase confidence in the use of new technology. This law sets out the regulations governing liability of hosting entities and in particular concerns e-commerce and cryptology.

This law came into effect on June 23, 2004, and provides an independent legal system governing all internet services. Article 1 of that law creates a specific category of internet services: online public communications services.

The digital economy law establishes new regulations governing the liability of technical service providers which apply to hosting entities and internet access providers.

It specifies that providers of technical internet services have no general obligation to oversee the content of the information they transmit or store. Civil liability arises solely where despite having actual knowledge of unlawful information or of an unlawful activity, or knowledge of facts or circumstances as a result of which unlawful information or activity is apparent, a provider of technical internet services refrains from taking any action to withdraw the relevant data or fails to make access to such data impossible. With respect to criminal liability, hosting entities will only be held liable where, in full knowledge of the facts, they fail to take any prompt action to cease the circulation of unlawful information or fail to see that the unlawful activity ceases.

At the same time, hosting entities are required to inform the relevant authorities promptly of any such unlawful content and activities. In practice, this provision increases liability of technical service providers without actually imposing any general surveillance obligation on hosting entities.

In addition, the law places several new obligations on web site publishers since publishers, who act in a professional capacity, must provide all their identification details (name, corporate name, address and telephone number of the hosting entity, etc.), and publishers acting in a non-professional capacity must clearly show the details of the hosting entity.

The digital economy law extends the notion of e-commerce to:

- business activities by which a person or entity offers or is responsible for the remote supply, via electronic means, of goods and/or services; and
- activities consisting of supplying online information, commercial communications or search, access or data recovery tools, access to a communications network or tools for hosting information.

In this regard, consumer protection is reinforced by requiring sellers to provide precise details of their identity and by the creation of certain principles that make it possible to guarantee the validity of electronic contracts (such as checking the

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consumer's order by way of providing a summary of terms prior to acceptance, the sending of a receipt acknowledging the order and the retention by the seller of a written record of the transaction).

The law transposes the provisions of the European directive of July 12, 2002, relating to the processing of personal data and the right to personal privacy, into the electronic communications sector. It provides, for the consumer's benefit, a stricter control over canvassing procedures, particularly where they are carried out electronically.

With regard to e-advertising, the digital economy law requires individuals and legal entities that place advertisements to identify themselves to the web user. In addition, it puts all sales canvassing via electronic means under the "opt-in" system, thereby requiring the prior consent of the party being approached.

The provisions of the CPCE are thus extended to cover e-commerce (Article L.34-5) in relation to the prohibition against direct canvassing via an automated calling system, fax machine or e-mail using the details, in whatever form, of any individual who has not given his/her prior consent (at the time of a direct sale of a product or service, as the case may be) to receiving direct canvassing via such means.

With regard to cryptology, the lifting of certain restrictions on its use is accompanied by measures aimed at preventing any parallel use for criminal purposes. The digital economy law allows complete freedom in relation to encryption methods and cryptology services whilst simultaneously strengthening the public authorities' resources for combating any use of cryptology that constitutes an offence.

All restrictions have been lifted on all encryption methods whatsoever, the importing, supply and exporting of encryption methods used for signature functions, as well as the repeal of the authorization system for supplying other encryption methods in favor of the requirement for a declaration to the French Prime Minister. This is accompanied by regulations increasing the liability of providers of confidential services in the event of a breach of integrity or any undermining of the availability of transformed data.

Administrative penalties of up to two years' imprisonment and €30,000 in fines may be imposed on providers of cryptology services who do not comply with the de minimis declaration obligations.

4.13.3 REGULATIONS IN THE UNITED KINGDOM

4.13.3.1 Overview

France Telecom is engaged in various business activities in the United Kingdom. These consist mainly of mobile communications through Orange UK, worldwide IP and data transfer services via Equant and internet access via Wanadoo UK. The developments discussed below primarily concern mobile telephony.

The operation of a mobile telecommunications network and the provision of mobile telecommunications services in the United Kingdom are regulated by the 1984 Telecommunications Act, the 2003 Communications Act, and the 1949 and 1998 Mobile Telegraphy Acts (WTA). The Director General of Telecommunications was responsible for telecommunications regulation pursuant to the Telecommunications Act and the Communications Act, and also directed the Office of Telecommunications (OFTEL), the telecommunications regulatory authority. The powers of the Director General of Telecommunications were transferred to the Office of Communications (OFCOM) on December 29, 2003. Since then, OFCOM's board has been responsible for regulating telecommunications in the United Kingdom. On December 29, 2003, the responsibilities of the Radiocommunications Agency, which was responsible for awarding and regulating the use of frequency spectrums under the WTA, were also transferred to OFCOM.

The operation of a mobile telecommunications network requires a license under the WTA. Orange UK has obtained the relevant licenses to operate GSM and UMTS networks. Under the new regulatory framework, the individual licenses granted under the Telecommunications Act were abolished and replaced by a general declaration of approval (the General Condition of Entitlement or "GCOE") that applies to all communications services under the Communications Act. Orange offers mobile telephony services to its customers pursuant to the GCOE. Wanadoo UK and Equant are also authorized under the GCOE to provide telecommunications services to their customers.

In addition to applicable legislation in the United Kingdom and the terms and conditions of the licenses granted to France Telecom, United Kingdom telecommunications policy is also contained in a number of United Kingdom government

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announcements and White Papers, and OFCOM advisory documents and statements. France Telecom is also subject to European legislation. The United Kingdom has transposed, or is in the course of transposing, all relevant EU telecommunications legislation.

4.13.3.2 OFCOM Market Studies

Under the new European regulatory framework implemented in the United Kingdom via the Communications Act of July 17, 2003, the national regulatory authorities in the European Union are required to conduct market studies. These studies are designed to assess whether certain players are exercising a significant influence on the market and, if this is the case, to define the *ex ante* obligations to be imposed on these players. In spring 2003, the OFTEL launched several market studies, two of which concern the mobile telecommunications market.

In its study of the market for mobile calls, the OFTEL concluded that no mobile operator in the United Kingdom exerted a significant influence on the market, either individually or in concert. As a result of these conclusions, the OFTEL consequently terminated, on October 3, 2003, any *ex ante* obligations that applied to Vodafone and O2, who were previously considered as exerting a significant influence on the market. Vodafone and O2 are no longer subject to the *ex ante* obligation of providing mobile communication time to independent providers.

In its study on fixed line to mobile call termination rates, the OFCOM published its final conclusions on June 1, 2004. The OFCOM concluded that all mobile operators in the United Kingdom exert a significant influence on the market with respect to termination rates for voice calls. Consequently, the OFCOM applied a price control on 2G voice call termination rates. Orange UK and T-Mobile were requested to ensure that their termination rates did not exceed 6.31 pence per minute during the period running from September 1, 2004 to March 31, 2005. Vodafone and O2 were required not to exceed a termination rate set at 5.63 pence per minute. These four operators will be the subject of a further price control for the period covering April 1, 2005 to March 31, 2006. The OFCOM must conduct a new study on the fixed line to mobile call termination market in 2005 in order to determine which remedies under the regulations are to be applied after March 31, 2006.

4.13.3.3 Spectrum Allocation

Like the other mobile network operators in the United Kingdom, Orange UK obtained licenses under the WTA that permit operators to establish and use sending and receiving stations for mobile transmissions in the operation of their mobile networks. WTA licenses allocate portions of the radio frequency spectrum to each mobile network operator.

T-Mobile (formerly One2One) and Orange UK each received a 2 x 30MHz spectrum within the 1800MHz band in order to operate a second generation network (GSM). Vodafone and O2 UK (formerly BT Cellnet) each received a 2 x 17.5MHz band of spectrum within the 900MHz band, in addition to another 2 x 5.75MHz spectrum in the 1800MHz band for the operation of their GSM networks. Vodafone and O2 UK returned 2 x 4MHz of the 900MHz spectrum.

The United Kingdom Government adopted the WTA of 1998 to allow it to set spectrum fees at a rate above the administrative cost of managing that spectrum and to allow for spectrum auctions for future services, including UMTS. The United Kingdom Government has confirmed that the existing four mobile operators will not be subject to auctions for the continued use of their current GSM spectrum allocations.

Orange UK is one of five mobile operators licensed to provide third generation mobile services in the United Kingdom using the UMTS spectrum. The other licensees are Vodafone, O2 UK, T-Mobile and Hutchison 3G. The licenses were allocated following a competitive bidding process in 2000. Orange UK, O2 UK and T-Mobile have each been allocated a 2 x 10MHz and 1 x 5MHz band within the UMTS spectrum. Vodafone was allocated a 2 x 15MHz band and Hutchison 3G was allocated a 2 x 15MHz and a 1 x 5MHz band of the UMTS spectrum. Hutchison 3G announced the launch of commercial third generation services in the spring of 2003. Orange UK, Vodafone and T-Mobile launched a card data access service during the summer of 2004 and further launched additional third generation services in the last quarter of 2004. Hutchison 3G is not currently offering any card data access service in the mobile 3G market in the United Kingdom.

Orange UK's WTA licenses specify the principal technical requirements with which Orange UK must comply, including, among other things, the management of radio frequency emission sites and the use of equipment that complies with the requirements listed in the directive concerning electromagnetic compatibility (89/336/EC). Inspection obligations are also stipulated. The operation of mobile telecommunications stations may be restricted or the stations may be closed on a temporary or permanent

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basis by the Secretary of State for Trade and Industry if Orange UK violates its license or if undue interference is created. Orange UK may also be required to modify or restrict its use or permanently abandon radio equipment in the interests of long-term spectrum planning or in the event that a state of emergency is declared. Orange UK's 1800MHz WTA license remains in effect until Orange UK surrenders it, subject to changes or revocation by the Secretary of State for Trade and Industry.

Following public hearings held by the Radiocommunications Agency on the policy issues surrounding the use of license-exempt spectrums for public telecommunications services, the British government enacted the Wireless Telegraphy (Exemption) Regulation 2003, which came into force on February 12, 2003. This Regulation establishes a frequencies spectrum that is not subject to individual licensing and can be used for commercial public access services such as WLANs and Bluetooth. In addition, the Regulation allocates additional bands for mobile equipment and broadband nomads. Orange UK believes that, with the adoption of an appropriate regulatory framework, the roll out of such technologies using license-exempt spectrums will complement the services offered by its UMTS spectrum. In 2004, the OFCOM initiated a deregulation process in connection with radiocommunications (public wireless, private mobile radio (PMR), wireless local loop, radio broadcasting, aeronautical and maritime, etc.) In particular, the OFCOM carried out consultations on the themes of frequency deregulation (for example, for wireless local loop and private mobile radio services, in addition to general principles applicable to mobile telephones) and frequency pricing.

4.13.3.4 Interconnection Policy

Wireless systems must connect with the telecommunications systems of other public telecommunications operators, both fixed line and mobile, in order to handle calls that do not originate or terminate on their systems. Operators' rights and obligations with regard to interconnection are governed by the Communications Act which transposes the EU "Interconnection" directive. If, after negotiation between the parties, certain interconnection terms cannot be agreed on by the operators, the OFCOM may be asked to determine such terms. In addition, OFCOM has the power to review the terms of an interconnection agreement on his own initiative.

4.13.3.5 Interconnection Agreement with British Telecom

Orange UK first entered into an Interconnection Agreement with British Telecom in July 1993.

Under the Interconnection Agreement, Orange UK and British Telecom are obliged to interconnect their respective telecommunications systems and keep them interconnected. Orange UK was also required to seek from British Telecom, (which was required to provide), enough interconnection circuits to handle projected or actual traffic. British Telecom and Orange UK must make a reasonable effort to provide sufficient switching capacity to handle the traffic volumes on each interconnection path and to guarantee that the call termination rates at peak usage periods do not fall below those normally encountered in Orange UK's system. The interconnection agreement also provides for the leasing of fixed lines from British Telecom.

Orange UK has negotiated, or is currently negotiating, with other public telecommunications operators for direct interconnection if and when justified by call traffic. Such interconnections would reduce the need to route calls through British Telecom.

4.13.3.6 Price Regulation

With the exception of the wholesale wireless call termination rates, all other wholesale or retail wireless telecommunications rates are not generally subject to the prior approval or review by regulatory authorities in the United Kingdom. Only British Telecom, as the dominant fixed line operator with a significant influence on the market (on account of its former monopoly), is limited by retail price restrictions imposed by OFCOM.

4.13.3.7 OFCOM "Strategic Review"

At the beginning of 2004, the OFCOM commenced an in depth sector analysis with a view to revising the current regulatory framework and adapting it to the new electronic communications networks and services. It is therefore coming up with regulations for voice over IP (Internet Protocol) services, regulations applicable to the new BT networks (21st Century Network by BT), the development of universal service in the United Kingdom and the creation of value in the local loop infrastructures,

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etc. In the light of the consultations in progress, the OFCOM envisages simplifying the industry regulations by limiting the markets to which the *ex ante* regulation applies, to a few wholesale markets covering access and interconnection.

4.13.3.8 Competition Act

The UK Government enacted a new Competition Act, which came into force on March 1, 2000. It grants powers to the industry-specific regulators and to the Director General of Fair Trading to prohibit anti-competitive agreements, concerted practices and abuses of a dominant position.

The Competition Act gives the OFCOM's Board powers that may be exercised simultaneously with the Director General of Fair Trading concerning "commercial activities relating to telecommunications". One effect the Competition Act has is that third parties appearing before the United Kingdom courts may bring enforcement actions directly against telecommunications operators that violate the prohibitions, and may seek damages.

The Enterprise Act came into force on November 7, 2002. Among other things, this act introduces several changes to the body of competition law with respect to concentration rulings. In addition, the law allows certain representative consumer organizations (National Consumer Council, Consumers' Association and National Association of Citizens Advice Bureau) to file "super complaints" with the Office of Fair Trading, asking it to investigate any characteristic or any group of characteristics of a UK market that appears to be sufficiently harmful to the interests of consumers.

4.13.3.9 E-Money Regulations

The Financial Services and Markets Act of 2000 (Regulated Activities) Amendment Order 2002, which came into force on April 27, 2002, stipulates that providing electronic money services is a regulated activity that is to be licensed by the Financial Services Authority (FSA). Discussion continues in the UK and the EU in order to clarify to what extent wireless services fall under the definition of electronic money for the purposes of regulatory supervision.

4.13.4 OTHER EUROPEAN REGULATION

As of December 31, 2004, France Telecom was operating in 24 European countries other than France, 17 of which are EU member states. France Telecom closely follows the national legislation and regulations that these countries are now adopting to transpose the European directives to ensure that these transpositions reflect the spirit of the new directives, i.e. the steady elimination of industry *ex ante* regulation.

As part of its expansion, the France Telecom group operates in two of the ten countries that joined the EU on May 1, 2004. The first is Poland (through its shareholding in TP Group and PTK Centertel) and the other is Slovakia (through Orange S.A.'s shareholding in Orange Slovensko). In addition, at its meeting in Copenhagen on December 12 and 13, 2002, the European Council confirmed its intention to admit Bulgaria and Romania to the Union in 2007. In Romania, Orange has a majority shareholding in the mobile operator, MobilRom. The candidate countries are obliged to adhere to a program of rapid deregulation in the telecommunications sector, in order to meet the criteria for admission to the European Union.

In Poland, on April 1, 2002, the Polish telecommunications act established the URTiP as the industry's regulatory authority.

The URTiP designated TP Group, the historical operator, as a "dominant" player in the market, which resulted in various obligations for TP Group, in particular with respect to interconnection. As part of the EU's expansion, Poland did not negotiate a transition period with the EU in the area of telecommunications. This means that when it gains membership on May 1, 2004, it must implement the new European directives and bring its own national laws into compliance. To this end, a new law regarding telecommunications and transposing the EU regulatory framework directives of 2003, came into force on September 3, 2004.

4.14 HUMAN RESOURCES

Personnel trends

At December 31, 2004, the France Telecom group employed 206,524 persons worldwide (218,523 persons at December 31, 2003 and 243,573 persons at December 31, 2002).

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The headcount at December 31, 2004, 2003, and 2002 is broken down as follows:

Number of employees at December 31,

	2004			2003			2002		
	France	International	Total	France	International	Total	France	International	Total
Orange	7,810	25,160	32,970	7,613	24,876	32,489	7,915	24,487	32,402
Wanadoo	4,602	1,455	6,057	4,467	1,984	6,451	4,610	2,598	7,208
Fixed Line, Distribution, Networks, Large Customers And Operators	112,390	2,014	114,404	117,741	2,052	119,793	129,037	2,664	131,701
Equant		9,385	9,385		9,547	9,547		11,112	11,112
TP Group		36,333	36,333		42,155	42,155		47,981	47,981
Other International	71	7,304	7,375	76	8,012	8,088	104	13,065	13,169
Total	124,873	81,651	206,524	129,897	88,626	218,523	141,666	101,907	243,573
<i>Including short-term contracts</i>			3,145			1,883			5,588

In 2004, the number of staff fell by 11,999 employees. This reduction is broken down as follows:

- 6,975 from international subsidiaries;
- 5,024 in France, primarily due to early retirements, retirements and transfers of civil servants to public services.

Established in 2003, the Group's Redeployment Committee (comprised of senior managers) continued to exercise a very tight control over outside recruitments in France during 2004. Compared to 2003, the Committee approved nearly twice the number of outside recruitments, i.e.: 2,213 outside recruitments at the end of 2004, principally in the fields of customer relations and innovation. Such recruitments include, in particular, more than 400 employees hired for part-time work in connection with the opening of new shops and with the setting up of a work management to increase the business hours available to receive the customers.

Since the start of the early retirement scheme (*congés de fin de carrière*) in 1996, more than 30,200 persons (including 4,200 in 2004) have left under that scheme.

Following the decision to create a Home Customers Services Division within the Group, the subsidiaries Wanadoo S.A. and Wanadoo France were merged within France Telecom S.A. on September 1, 2004, which gave rise to the execution of an adaptation agreement designed to outline the terms and conditions under which 800 relevant employees would be integrated within France Telecom S.A.

The subsidiary Cofratel was merged within France Telecom S.A. during the first half of 2004.

In 2004, the policy of actively transferring civil servants to public services continued. In addition, on-going support measures and increased resources were implemented above the levels of 2003. Five decrees facilitating transfers of France Telecom's personnel to public services were published in September and October 2004, the impact of which will most likely be felt in 2005. More than 900 transfers were made in 2004.

The main change in the perimeter of the Group that occurred during 2004 relates to the withdrawal of Orange Denmark.

Abroad, the various Group companies adapted their headcount to meet their market requirements:

- TP Group reduced its headcount in Poland by approximately 5,800 employees, as scheduled;
- Equant reduced its headcount by approximately 160 employees in the various countries in which the company operates;
- Orange (excluding France) increased its overall headcount by approximately 280 employees. Employee numbers have increased in Romania, Slovakia and in Cameroon, and have decreased in Switzerland and Belgium. Orange Denmark has left the Group following the disposal of Orange A/S,

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- Wanadoo (excluding France) has decreased its headcount by approximately 500 employees, particularly in Spain.

Optimization of the Group's structure will continue at an international level, in particular by pooling and making better use of the support functions in the various companies.

Training, activities and skills

A "single training bank" was set up in 2003, the main aim of which is to optimize the resources allocated to training and development of the skills needed to boost the professionalism and qualification of employees. This training bank matches requests made by training representatives to what the Group's in-house trainers can offer in France. When the resources are not available in-house, the training bank, together with the purchasing department, references the best outside training services for the Group in France.

The resources allocated in this manner are handled through the training services internalization committee which is one of the training bank's tools. Thus in 2004, within the perimeter of France Telecom S.A. and French unlisted subsidiaries, more than 40% of training courses on new major projects were dealt with in-house. With regard to outside purchasing, suppliers are referenced through a Reference Committee acting in conjunction with the Purchasing Department. In 2004, all referencing will have been reviewed, on each occasion, and extended to the wider Group.

In order to compile the appropriate information with which to control jobs and skills, the guide to the Group's businesses (initially compiled and circulated in 2003 in the French entities) was supplemented in 2004 by a job table at Group level. Implementation of that table within the various companies began in July 2004 and should be completed in March 2005. At the end of December 2004, 98% of employees within the France and 83% of employees worldwide were codified under "Group jobs".

The following table shows the distribution of Group employees in France by the nature of employment as of December 31, 2004:

	%
Commercial	45
Innovation and Outlook	3
Management and Support	15
Multimedia production	1
Technical Information	8
Technical Networks	26
Other areas	2
Total	100

Skills bunches have been defined since September 2004, in particular in connection with sales, R&D, information technology and networks. Their purpose is to offer and develop programs aimed at optimising and adapting skills relating to the transformation of the business model in the relevant field.

The aims of the skills forums, available group-wide, are to pool good practices and accelerate the implementation of operational actions.

The purpose of the skills forum for sales, the pilot for this new measure, is to reinforce the dynamism of this type of skills by using overt examples meant to demonstrate the importance that the company places on providing support for its shop sales activity and on customer service via the telephone.

Labor policy

The table below details the breakdown by socio-professional category of the Group's employees in France at December 31, 2004:

	%
Managers	20
Middle Managers	14
Supervisors	18
Employees and Technicians	48
Total	100

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In order to expand and consolidate an earnings culture, France Telecom rewards the individual responsibility and the performance of its employees through a competitive compensation plan. This program must enable the Group to reward employees who have put a great deal of work into achieving targets necessary for the Group to succeed, especially those who combine skills essential to the company with a high level of performance.

Managers (who play a major role in mobilizing their teams) receive variable compensation based on the results of the Group's major programs ("TOP" and "TOP Line").

Labor-management negotiations have resulted in the following agreements:

- Wage agreement dated February 16, 2004 (France Telecom S.A. perimeter), signed by the CFDT, the CFTC and FO (all French labor confederations).
- The agreement covering the establishment of the European Group Committee was signed on April 14, 2004 (Group perimeter) by the CFDT, the CFTC, the CFE-CGC, the CGT, FO and SUD, as well as by all fifteen representatives authorized by the Group's European subsidiaries. It aims to institute labor-management discussions at a European level since the Group employs a staff of 60,000 in Europe, excluding France.
- The amendment to the profit sharing agreement dated April 23, 2004 (France Telecom S.A. perimeter) signed by the CFDT, the CFTC, the CFE-CGC and FO.
- The agreement relating to professional equality between men and women dated April 28, 2004 (France Telecom S.A. perimeter) signed by the CFDT, the CFTC, the CGT, FO and SUD. This agreement affirms the intention to promote professional equality between men and women, in particular in connection with job and training accessibility, career prospects and work management.
- The agreement relating to the setting up and operation of the Employees' Representative Bodies dated July 13, 2004 (France Telecom S.A. perimeter) signed by the CFTC, the CFE-CGC, the CGT and FO. This agreement illustrates the intention of labor-management to set up fully functional employee representative bodies similar to those in other French companies and to encourage dynamic labor-management discussions at all levels of the company.
- The agreement relating to labor union rights and resources and the execution of labor laws dated July 13, 2004 (France Telecom S.A. perimeter) signed by the CFDT, the CFTC, the CFE-CGC and FO. This agreement provides the labor unions with the rights and resources to maintain and enhance labor-management discussions and reaffirms that the representative labor unions at company level are management's most appropriate contacts.

4.15 INSURANCE

France Telecom has adopted an insurance plan to cover its principal risks. This insurance plan has been underwritten by major insurance and reinsurance providers to cover the risk of damages to physical assets, operating losses (including transportation risks) and legal liability for third party damage (including customers) linked to France Telecom's services and corporate purposes.

There was a substantial premium increase in 2003 due to stricter underwriting terms imposed by the insurance and reinsurance markets.

The cost of insuring France Telecom S.A. in 2004 amounted to approximately €32.5 million, €30.55 million of which was for insurance premiums. This compares with a cost of approximately €40.4 million in 2003 and approximately €29.3 million in 2002. This cost in 2004 is broken down by risk category as follows:

- liability coverage: approximately €10.5 million;
- automobile insurance coverage: €4.1 million;
- damage to assets and operating losses: approximately €17.85 million.

In addition to the costs paid by France Telecom S.A. are those paid by the subsidiaries covered by the Group's insurance policies. This amount totaled approximately €10.15 million in 2004 (€13.8 million in 2003 and €9.9 million in 2002).

These policies are being gradually extended to cover the Group's French and foreign subsidiaries. The purpose is to make better use of insurance coverage and streamline risk management in addition to controlling the corresponding insurance costs. A

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certain number of subsidiaries have not yet benefited from the application of these programs (notably Orange UK and Equant which have their own full or partial insurance coverage). With regard to the subsidiaries falling outside the Group's insurance plan, the overall cost of the insurance premiums for covering their corporate risks is estimated to be approximately €22 million for 2004.

For the last three years, given the state of the markets for insurance and reinsurance in this area, the Group has self-insured its poles and open-wire lines of its telephone network against the risks posed by natural disasters.

These policies reflect the nature of the risks incurred by France Telecom and are in line with the current terms and conditions of the insurance market for groups of a similar size and with similar business activities worldwide, particularly with respect to guarantee limits.

France Telecom carries insurance against civil liability risks incurred from the use of substances or products that pose environmental hazards as discussed in section 4.18 "Risk factors". The risks due to the use of CFCs, Halon and PCBs are covered under the current plan, with the exception of PCBs, which have been excluded from France Telecom S.A.'s plan since April 2003. No claim has been filed by the Group under the relevant insurance policies with respect to these risks.

France Telecom maintains a level of self-insurance that is appropriate for the risks it encounters. Over the past nine financial years, the number of accidents affecting the above-ground network of France Telecom S.A. has not, on average, exceeded €13.2 million per year, except for disasters that are exceptional in terms of frequency and intensity. For example, in 2000, the damage relating to the December 1999 wind storms amounted to €150 million.

At the end of 2004, France Telecom began to work on modeling the risks of the above-ground network which were damaged by storms, in order to acquire an in depth understanding of its exposure to such risks.

In addition, within the framework of its risk management policy, France Telecom regularly identifies risks relating to its activities through site visits in tandem with its internal engineering services and those of its principal insurers. This type of risk management allows France Telecom to detect and evaluate potential risks to ensure that the insurance coverage in place continues to be appropriate.

4.16 ENVIRONMENTAL POLICY

The environmental policy of France Telecom is described in the Financial Report in section 1.6.3.2 "Environmental information". Furthermore, section 4.18 "Risk factors" discusses environmental risks. See section 4.18.1.13 "Risk factors relating to the environment".

4.17 RELATIONS WITH SUBSIDIARIES

France Telecom S.A. entered into agreements with some of its most important subsidiaries. These include framework agreements (notably with Equant), numerous assistance and brand licensing agreements and agreements relating to services performed in France. In addition, financial agreements exist between France Telecom and most of its subsidiaries. France Telecom believes that these agreements were entered into at arm's length according to standard market practice. The following subsections describe the main agreements and contracts in force in 2004 between France Telecom S.A. and its most important subsidiaries. They are set out in order of segments applicable in 2004.

4.17.1 ORANGE

In order to benefit from the brand image of France Telecom, Orange S.A. entered into a trademark licensing agreement with France Telecom that allows Orange to use the France Telecom ampersand symbol both in France and abroad, as of January 1, 2002. This license was granted in consideration of an annual royalty set at 0.06% for 2004 of the revenues excluding tax earned by Orange France and some of its direct and indirect French subsidiaries from companies outside the France Telecom group (and designed hereafter as "gross external revenues").

In order to benefit from the experience of France Telecom in the internal management of its administrative, legal, financial and accounting departments, Orange S.A. entered into two agreements with France Telecom for advice and assistance services. The first agreement was entered into for the benefit of Orange S.A. and its French subsidiaries in consideration of an annual

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remuneration set at 0.49% of the gross "external revenues" for 2004, earned by Orange, Orange France and some of its direct and indirect French subsidiaries. The second agreement was entered into for the benefit of Orange S.A. and some of its foreign subsidiaries in consideration for an annual fee set at 0.22% of the gross "external revenues" for 2004, earned by certain direct and indirect foreign subsidiaries of Orange.

The purpose of these contracts is re-invoicing: (i) the operational expenses related to France Telecom's brand (the ampersand symbol and trademark) through the licensing agreement; and (ii) the expenses related to the central corporate services that are shared by the subsidiaries of the France Telecom group (human resources, legal, finance, tax and purchasing divisions and relations with public authorities). These contracts are also intended to re-invoice Orange for the actual costs paid by France Telecom in the areas covered by the contracts. The percentages stipulated in the contracts were calculated on the basis of the real costs projected for all annual services in relation to the forecast revenues of the France Telecom group (France and internationally). The resulting ratios are applied to the sales revenues budgeted for by Orange. France Telecom believes that these contracts were entered into and performed under normal market conditions.

Before Orange France became a subsidiary of Orange S.A. in August 2000, there were contracts or agreements between France Telecom and France Telecom Mobiles, the predecessors of Orange France, which governed the provision of internal services within France Telecom. These agreements reflected the market conditions. Since August 22, 2000, these contracts have been gradually redefined between France Telecom S.A. and Orange France. France Telecom believes that these agreements are entered into under normal market conditions.

The principal agreements are:

- an interconnection agreement, effective February 6, 2001, governs access to the public switched telephone network and delivery of the links for public digital wireless service, and defines the terms and conditions for connection with the fixed line network of France Telecom. The terms of this agreement are non-discriminatory and provide for interconnection on the same bases as stipulated in agreements with other operators;
- various master agreements that define the terms for re-invoicing services performed on the Orange France GSM network by personnel of France Telecom not attached to Orange France, including:
 - the master agreement governing services on the radio sub-system equipment of the Orange France network (formerly Itinérís). This agreement defines the equipment maintenance services for these sub-systems of the Orange France network, the organization of these operations, and the payment for the services;
 - the master agreement on the maintenance of switching circuits. Under this agreement, France Telecom is responsible for the repair and preventive maintenance of some of these switches;
 - the master agreement that defines a partnership for the deployment of radio sites and the quality of coverage for the Orange France network (formerly Itinérís).
- various marketing agreements between Orange France and France Telecom S.A.;
- an agreement to supply a turnkey telephone information service (712) with direct call connection and related services. In addition to providing such a call connection or telephone directory information, the supplied service consists in sending the information requested by SMS messages to the subscriber to the Orange France network;
- various agreements between France Telecom Recherche & Développement (FT R&D) and Orange France that define the general conditions under which FT R&D agrees to perform research and development services on behalf of Orange France;
- a logistics service agreement signed in February 2003 with France Telecom Terminaux for services which include the conduct of purchasing negotiations for terminals and the supply of the distribution network;
- various agreements with France Telecom in relation to the information system;
- two service contracts related to storage of Orange's technical equipment in dedicated space and an agreement regarding the occupation of buildings occupied by France Telecom.

4.17.2 WANADOO AND PAGESJAUNES

In order to benefit from the brand recognition of France Telecom, Wanadoo entered into a trademark licensing agreement with France Telecom, permitting Wanadoo to use the ampersand symbol of France Telecom, both in France and abroad, starting from

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January 1, 2003. This license was given in consideration of an annual fee set at 0.06% of the “gross external revenues” realized from third parties by certain of Wanadoo’s French direct and indirect subsidiaries for 2004.

In addition, in order to benefit from the experience of France Telecom in the internal management of its administrative, legal, financial and accounting services, Wanadoo entered into two consulting and assistance agreements with France Telecom, with effect from January 1, 2003. One of the agreements was for the benefit of Wanadoo and its French subsidiaries in consideration for an annual fee set at 0.49% of the “gross external revenues” earned by certain of Wanadoo’s French direct and indirect subsidiaries for 2004. The other agreement was for the benefit of Wanadoo and certain of its foreign subsidiaries in consideration for an annual fee set at 0.22% of the “gross external revenues” earned by certain of Wanadoo’s foreign direct and indirect subsidiaries for 2004.

Following the 2004 merger between France Telecom S.A., Wanadoo S.A. and Wanadoo France, these agreements were renewed for all of Wanadoo’s French and international subsidiaries which were not merged with France Telecom S.A., in addition to PagesJaunes and its French and foreign subsidiaries.

The aim of these agreements is the re-invoicing of: (i) the operational expenses related to France Telecom’s brand (the ampersand symbol and trademark) through the trademark licensing agreement; and (ii) the expenses related to the central corporate services that are shared by the subsidiaries of the France Telecom group (human resources, legal, finance, tax and purchasing divisions and relations with public authorities).

These agreements are also intended to re-invoice the actual costs incurred by France Telecom in the areas covered by these agreements. The percentages indicated in the agreements were calculated on the basis of the real forecast costs for all of the services on a yearly basis in relation to the forecast revenues of the France Telecom group (in France and internationally). These percentages are applied to the budgeted revenues of the former subsidiaries of Wanadoo that were not merged in addition to PagesJaunes and its subsidiaries.

In addition, France Telecom and PagesJaunes are bound by certain agreements relating to directory data and directories, which are discussed below. France Telecom believes that these contracts contain market standard terms.

In June 2000, France Telecom entered into an agreement with PagesJaunes for the use of directory data in directory publication. This agreement was valid until the end of 2004 and is automatically renewable for an additional two one year periods. Under this agreement, PagesJaunes has a non-exclusive and non-transferable right to use the database of France Telecom’s fixed line telephone service’s subscribers. This database is updated daily under a requirement to use its best endeavors with regard thereto, for the sole purposes of directory enquiry and directory publication services, in whatever form, and in consideration of an amount calculated according to the number of times the database is used (fixed amount per use). This agreement falls under the obligation binding upon all operators (including France Telecom) to disclose the list of all their subscribers to any person intending to publish a directory or provide a directory enquiry service, on non-discriminatory terms and conditions and at a rate reflecting the costs of the service rendered. The rates were set pursuant to the September 2003 decisions of the *Conseil de la concurrence* and the ART.

In addition, in March 2004, France Telecom entered into a contract with Wanadoo Data, a subsidiary of PagesJaunes Group, for making France Telecom directory data available for direct marketing or market research purposes. This contract is, with effect from September 2004, implicitly renewable for periods of one year. Wanadoo Data’s main rights under this contract are the right to use the France Telecom directory data and to receive a weekly update of such data.

Under an advertising sales agreement originally entered into in 1967, France Telecom granted PagesJaunes exclusive rights to canvass and collate the advertising to be incorporated within “*l’Annuaire*” (telephone directory) and the alphabetically classified PagesJaunes 3611 (*Minitel*) service, as well as the technical design, implementation and laying out of such advertising. This agreement, which has been amended several times, was replaced by a November 2002 agreement, valid until December 31, 2009, and thereafter implicitly renewable for periods of five years. Pursuant to that agreement, PagesJaunes is responsible for billing and collecting the cost of the advertising from the advertisers and also acts as agent in this respect (PagesJaunes is liable for the payment of all published advertisements regardless of any inability to pay on the part of the customers). France Telecom fixes the advertising rates applicable to each publication after consulting PagesJaunes. PagesJaunes is remunerated for such advertising sales activity by way of a commission computed on advertising space revenues excluding tax billed to the advertisers. For each accounting year, such commission is calculated as follows: 45% for amounts up to €65 million; 55% for amounts from €65 million to €100 million, and 65% for amounts above €100 million.

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Under a June 2000 agreement with France Telecom PagesJaunes is responsible for the manufacturing, distribution and promotion necessary for "*l'Annuaire*" and the alphabetically classified PagesJaunes 3611 service. France Telecom, as publisher of "*l'Annuaire*", sets the perimeters for the list of telephone subscribers, for the type of information entered for each subscriber and for the distribution list. With regard to "*l'Annuaire*" France Telecom approves proposals made by PagesJaunes with regard to the design, the publication timetable and the terms and conditions regarding the distribution of the printed version, the provision of the electronic version, the advertising campaigns, the advertising products to be included and rates for such products and also the establishment any new developments. France Telecom gives to PagesJaunes all the content requirements of "*l'Annuaire*" that relate to France Telecom. This agreement was valid until December 31, 2004 and is automatically renewable for a period equal to the initial term unless one of the parties gives notice twelve months prior to expiry of the then current term. Under the agreement, all production costs, both internal and external, for "*l'Annuaire*" and the alphabetically classified PagesJaunes 3611 service are deducted from the editorial fee payable to France Telecom. Depending on the outcome of the call for tender required under the French law as of December 31, 2004 which relates to the award of the universal directory France Telecom and PagesJaunes have entered into an agreement in May 2004 which dictates the terms of their relationship in the event that they are called upon to realize the project.

4.17.3 EQUANT

Before the merger of Equant and Global One, France Telecom signed a number of service agreements with Global One through its various subsidiaries and divisions. Most of these agreements were assumed by Equant.

On November 19, 2000, France Telecom signed a series of agreements with Equant resulting in the formation of the new Equant group. These agreements provided for, among other things, the sharing of certain restructuring costs resulting from the merger of Equant and Global One. Equant and France Telecom also agreed to share responsibility for the management of their respective customer bases. In general terms, Equant offers its services to multinational firms and other companies outside France, while France Telecom offers its data transmission services to companies within France. The agreement of the Equant independent directors is required before Equant can enter into any major contract with France Telecom or one of its subsidiaries other than within the normal framework of its operations and under normal market conditions. Approval from Equant's independent directors is also required when the Equant supervisory board has to approve certain amendments to the by-laws and any dividend payments.

On June 29, 2001, France Telecom, Equant and SITA signed agreements that replaced the existing joint-venture agreement between SITA and Equant. Under the terms of the new contract with SITA, Equant manages and controls the network and contributes its portfolio of products and services to SITA, which has an exclusive agreement to market such products and services to the air transport community.

In addition, France Telecom and Equant signed a series of agreements that define the conditions under which France Telecom provides various services to Equant and under which Equant buys from France Telecom its transmission capacity, IP and voice services. Equant also supplies its transmission, voice and IP services and support services to France Telecom in the countries in which France Telecom has no established presence. These agreements will remain in force as long as France Telecom holds at least 34% of Equant's capital. These contracts are entered into under normal market conditions, with the exception of voice services, the costs of which are primarily paid by France Telecom which assumes responsibility for this activity.

The principal agreements between Equant and France Telecom are as follows:

- Equant has signed three series of agreements with Transpac, a France Telecom subsidiary (the "Transpac Umbrella Agreement", the "Affiliation Agreement" and the "Reseller Agreements") that govern commercial relations in France, under the terms of which Transpac is the exclusive distributor of Equant in France and, in this capacity, undertakes to generate a minimum level of sales revenues each year;
- there are also contracts dealing with the network, under the terms of which Equant and France Telecom mutually supply transmission capacities and IP services to each other in the countries in which the other is not present or has only a small presence;
- finally, the contracts between France Telecom and Global One assumed by Equant involve two distribution agreements under the terms of which Equant markets the sale of phone cards on behalf of France Telecom in various countries and traffic carrier activities (services to other operators) outside France, in both cases in consideration for 0.5% of the revenues earned. These agreements, which were scheduled to expire on December 31, 2002, were maintained, in respect of the phone card

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activities, until the operational withdrawal of France Telecom from this business and the agreements for the traffic carrier activities were partially extended under a new contract.

All of these agreements concern the following areas:

- the distribution in France of Equant products and services by Transpac, which is governed by an exclusive distribution agreement;
- the distribution outside France of Transpac products and services by Equant, which is governed by an exclusive distribution agreement;
- the terms and conditions for the production in France of products and services sold to customers outside France;
- Equant's purchase of network capacity and IP services from France Telecom and the supply of support services by Equant;
- the transfer of the switched voice services business to France Telecom and the responsibilities of the two companies during the transition period;
- the transfer of the "carriers & cards" operations to France Telecom and the conditions for managing these activities after the transfer.

In order to benefit from the brand recognition of France Telecom, Equant has entered into a trademark licensing agreement with France Telecom, permitting Equant to use the ampersand symbol of France Telecom, both in France and abroad, starting from January 1, 2004. This license was granted in consideration of an annual fee of 0.06% of the "gross external revenues" realized from third parties by Equant's French direct and indirect subsidiaries.

Also, in order to benefit from the experience of France Telecom in the internal management of its administrative, legal, financial and accounting services, Equant has entered into an assistance and consulting agreement with France Telecom, with effect from January 1, 2004. This agreement is for the benefit of Equant's subsidiaries in consideration for an annual fee set at 0.22% of the "gross external revenues" earned by Equant's direct and indirect subsidiaries.

The goal of these agreements is the re-invoicing of the operational expenses related to (i) France Telecom's brand (the ampersand symbol and trademark) through the licensing agreement and (ii) the expenses related to the central corporate services that are shared by the subsidiaries of the France Telecom group (human resources, legal, finance and purchasing divisions and relations with public authorities). These agreements also strive to re-invoice the actual costs incurred by France Telecom in the areas covered by these agreements. The percentages indicated in the agreements were calculated on the basis of the real forecast costs for all of the services on a yearly basis in relation to the forecast revenues of the France Telecom group (in France and internationally).

France Telecom believes that these contracts are entered into and performed under normal market conditions.

4.17.4 TP GROUP

In order to benefit from the brand recognition of France Telecom, TP S.A. has entered into a trademark licensing agreement with France Telecom, permitting TP S.A. to use the ampersand symbol of France Telecom, both in France and abroad, starting from May 31, 2004. This license was granted in consideration of an annual fee of 0.06% of the gross "external revenues" realized from third parties by TP S.A.

4.18 RISK FACTORS

In addition to the other information contained in this *Document de Référence*, prospective investors should carefully consider the risks described below before making any investment decisions. These risks, or anyone of them, could have an adverse effect on the business, financial condition or the results of operations of France Telecom. Moreover, additional risks not currently known to France Telecom, or risks that France Telecom currently deems immaterial, may have a similar adverse effect and investors could lose all or part of their investment.

The risks described below concern:

- Risk factors relating to France Telecom's business (see section 4.18.1);
- Risk factors relating to the telecommunications sector (see section 4.18.2);

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- Risks factors relating to financial markets (see section 4.18.3);

Risks related to France Telecom, the telecommunications industry and financial markets are described below by category, in order of decreasing importance, according to France Telecom's current assessment. The occurrence of new external or internal events may lead France Telecom to modify this order of importance in the future.

4.18.1 RISK FACTORS RELATING TO FRANCE TELECOM'S BUSINESS

4.18.1.1 France Telecom may not be able to reduce its debt. If this is the case, France Telecom's cash flow may be insufficient to meet its financing needs and its ability to invest in the development of its business may be reduced.

During the period from 1999 to 2002, France Telecom achieved strong external growth at a cost of approximately €100 billion, of which 80% was paid in cash. This led to a significant increase in its net consolidated financial debt, which went from €14.6 billion at the end of 1999 to €68 billion at the end of 2002.

The major priority of the "Ambition FT 2005" Plan (see section 4.2.1 "Ambition FT 2005' Plan") launched in December 2002 is to reduce France Telecom's net financial debt, measured by French GAAP, by at least €30 billion between the end of 2002 and the end of 2005. This is to be achieved through (i) the increase in share capital of almost €15 billion undertaken on April 15, 2003 and (ii) France Telecom's operational performance improvement program ("TOP") which is intended to generate more than €15 billion in net cash flow over the period 2003 to 2005.

The objective of the "Ambition FT 2005" plan is thus to achieve a net consolidated financial debt/operating income before depreciation and amortization ratio of less than 2 by the end of 2005, which would enable the Group to achieve greater strategic and financial flexibility.

This ratio is to be calculated according to French GAAP and takes into account the consolidation of certain previously off-balance sheet items (Tele Invest and Tele Invest II and vehicles used in the context of receivables securitization programs).

The change in this ratio is shown below:

	2004	2003	2002
Ratio of net consolidated financial debt/operating income before depreciation and amortization	2.41	2.55	4.56

In order to achieve growth and a reduction in indebtedness, France Telecom is implementing a profitable growth strategy based on the integrated operator model and the strategic actions described under section 4.2.5 "Implementing France Telecom's strategy".

Nevertheless, in the future, France Telecom may not be able to generate sufficient cash flow to further reduce its indebtedness. This situation could result from negative factors such as the following:

- competition or decisions made by regulatory authorities that have the effect of reducing prices or revenues;
- the slowdown of the current growth in terms of business volume (wireless activities, data transmission, Internet services);
- the decrease in business volume of older sectors (a tendency that is already being experienced in fixed line telephony);
- the inability to achieve savings in terms of operational expenses before amortization and depreciation and intangible and tangible investments;
- the necessity, due to competition or technological advancement or changes in regulations, to incur greater than forecast operational or investment expenses.

If France Telecom does not succeed in reducing its indebtedness, its cash flow may be insufficient to meet its financing needs, including meeting scheduled repayments of its debt. France Telecom's borrowing capacity and ability to invest in the development of its business could also be limited.

Since France Telecom's establishment of a new syndicated credit line in 2004 and the repayment in October 2004 and January 2005 of the credit facilities used in the financing of Tele Invest and Tele Invest II (representing 10% and 3.57%, respectively, of

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the capital in the Polish operator TP S.A.), the Group no longer has any syndicated credit lines containing clauses that require certain ratios to be maintained in relation to France Telecom's net consolidated financial debt.

4.18.1.2 The "TOP" Program may not achieve the expected results, which could have a material adverse impact on France Telecom's financial condition and results or the way these are evaluated by the financial markets.

The "TOP" operational performance improvement program strives to achieve optimal levels of performance for each of France Telecom's activities and to generate more than €15 billion in net cash provided by operating activities less net cash used in investing activities over the period from 2003 to 2005.

The results of the "TOP" program in 2004 are discussed more fully in section 1.1.2.2 of the Financial Report.

In 2003, the "TOP" program made it possible to generate €6.4 billion in free cash flow, excluding asset disposals.

In 2004, the "TOP" program enabled France Telecom to generate €2.9 billion in free cash flow, excluding asset disposals.

Free cash flow, excluding asset disposals, generated in 2004 takes into account the impact of the repurchase of minority shareholdings in Wanadoo and Orange, in an amount of €2.8 billion, as well as the impact of paying an amount of €2 billion in respect of the Equant CVRs (*certificats de valeur garantie*). Moreover, the repurchase of Tele Invest (the vehicle representing 10% of the share capital in the Polish operator TP S.A.) in October 2004, for an amount of €1.9 billion, was treated for accounting purposes as a reimbursement of debt, since that company had been included within the consolidated subsidiaries as at January 1, 2004 as a result of a change in accounting practices.

These items have not altered the goal of generating a minimum of €15 billion in free cash flow through the "TOP" program over the period 2003 to 2005.

The goals of this program may not be achieved or may be delayed, which would have a material impact on France Telecom's financial condition and results of operations or the way these are evaluated by the financial markets.

France Telecom may encounter difficulties in the implementation of the program. For example, reorganization costs may be greater than the forecast of between €800 million and €1 billion that was taken into account in the "TOP" program. Reorganization costs and provisions amounted to €305 million in 2003 and €181 million in 2004, i.e. an aggregate figure over the two financial years of €486 million.

Furthermore, the implementation of the "TOP" program could lead to indirect and adverse results, particularly if tangible and intangible investments, and more generally, the investments made in growth sectors, turn out to be insufficient to maintain the Group's status as a leader, to improve networks and to develop and promote new and existing services, especially in the highly competitive sectors of wireless and Internet services.

4.18.1.3 France Telecom's strategy of profitable growth is based on the implementation of the integrated operator model. The core activities of this model are wireless and broadband activities, which form the basis of a multi-service offering. If France Telecom is unsuccessful in implementing the integrated operator model, particularly the full reintegration of Orange and Wanadoo, or if it only partially succeeds, its business, financial condition and results of operations could be adversely affected.

France Telecom's strategy of profitable growth is based on the implementation of the integrated operator model. The core activities of this model are wireless and broadband activities, which form the basis of a multi-service offering.

In order to implement this strategy, France Telecom launched offers in 2003 to acquire the shares in Orange S.A. that it did not already hold. As a result of these offers, since April 2004 France Telecom has held 100% of the share capital and voting rights of Orange S.A. From an operational standpoint, this transaction was justified by the creation of strong cooperation between the Group's various business activities, in key areas such as strategy, development of new services, customer approach and centralized purchasing, in order to respond to the growing needs of France Telecom's customers with regard to innovative and integrated services on a combined fixed line wireless platform.

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Similarly, in order to integrate Wanadoo's access and portal services into France Telecom and improve the Group's position in the broadband market, France Telecom launched public offers in 2004 to acquire the Wanadoo S.A. shares it did not already hold. As a result of these transactions, Wanadoo S.A. became wholly-owned by France Telecom in July 2004. Wanadoo S.A. and Wanadoo France, which principally acted as Internet access providers, were merged into France Telecom S.A. in September 2004.

The Group's strategy, strengthened by the integration of Orange and Wanadoo, essentially involves the integration of networks and services in order to offer its customers an integrated multi-service broadband service by mobilizing the Group's potential in the fields of innovation and R&D and also by relying on partnerships (see section 4.2 "Strategy").

The success of this strategy therefore depends in particular on the following elements:

- the ability to develop, put in place and market innovative, integrated, "multi-network" and "multi-terminal" services such as: "single-sign-on", single or interoperable messaging systems and access to services irrespective of the access network or terminal;
- the ability to take full advantage of broadband service potential,
- the ability to pool the various networks, information systems, service platforms, shared service centers and call centers.

In any event, the successful complete integration of Orange and Wanadoo remains a key factor for the success of France Telecom's strategy, particularly with regard to the elements listed above. If France Telecom is unsuccessful in implementing this integrated operator model, or if it only partially succeeds, its business, financial condition and results of operations could be adversely affected.

4.18.1.4 France Telecom may not succeed, in whole or in part in integrating the companies that it has acquired into the Group or in achieving planned synergies.

During 2004, France Telecom continued the process of integrating the acquired companies into the Group and realizing anticipated synergies. France Telecom may:

- have difficulty integrating the operations and personnel of the acquired entities;
- fail to successfully incorporate networks or acquired technology into its network and product offerings;
- fail to generate anticipated synergies;
- fail to maintain uniform standards, controls, procedures and policies; or
- fail to maintain satisfactory relations with employees of acquired entities as a result of changes in management and ownership.

Successful integration of Equant and TP S.A. is particularly important for the successful implementation of the Group's strategy.

With regard to Equant, 54.1% of which was held by France Telecom at December 31, 2004 and which has been fully consolidated since July 2001, France Telecom planned, at the time of the acquisition in 2001, to achieve certain synergies within three years that would enable operating costs to be reduced by \$300 million and savings of around \$75 million investment expenses per year. Those synergies were achieved in 2003.

In order to accelerate the implementation of the unified strategy for the corporate market that is consistent with the integrated operator model, on February 10, 2005, France Telecom announced that it had signed a definitive agreement with Equant to acquire all of Equant's assets and liabilities. If this transaction is completed, France Telecom may not succeed, in whole or in part, in resolving Equant's structural problems through a more complete integration of Equant within the Group and the reversal of the profitability of its business. For more information on France Telecom's acquisition of all of Equant's assets and liabilities, see Note 31 "Subsequent events" of the Notes to the Consolidated Financial Statements and section 7.1 "Recent events".

With regard to the TP Group, the consortium led by France Telecom has held a majority of the members of TP S.A.'s Supervisory Board since the beginning of 2002. Consequently, France Telecom has fully consolidated the TP Group in its financial statements since April 2002 and has caused its standards, controls and procedures to be applied to the extent they are compatible with the governing principles applicable to TP S.A. Following the acquisition in October 2004 from its partner,

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Kulczyk Holding, of the TP S.A. shares held by Tele Invest (corresponding to 10% of TP S.A.'s share capital) and Tele Invest II in January 2005 (corresponding to 3.57% of TP S.A.'s share capital), France Telecom directly holds 47.5% in the share capital and voting rights of TP S.A.

Any major difficulties related to the integration of Equant or the TP Group or other businesses acquired by France Telecom could have an adverse effect on its business, financial condition and results of operations.

4.18.1.5 France Telecom faces risks relating to certain subsidiaries and joint ventures in which it shares control or does not hold a controlling interest.

In some of the Group's activities, especially in the "Orange" and "Other International" segments, France Telecom holds a non-controlling interest. Under the documents or agreements governing certain of these entities, certain key matters such as the approval of business plans and decisions as to the timing and amount of dividend distributions require the agreement of France Telecom's partners, and in some cases, decisions regarding these matters may be made without France Telecom's approval. There is a risk of disagreement or deadlock or that decisions contrary to the interests of France Telecom will be made. For example, following the difficulties encountered with MobilCom, in which France Telecom held a 28.3% interest, France Telecom was obliged to depreciate the total amount of its investment in MobilCom in 2002. These risks could notably have an impact on the subsidiaries referred to below.

In the companies that are proportionately consolidated, France Telecom generally shares control with another shareholder. These companies include Mobinil, a subsidiary of Orange in Egypt, which is consolidated at 71.25%, as well as operators in Mauritius (Mauritius Telecom) and Jordan (JTC), in both of which France Telecom has a 40% controlling interest. At December 31, 2004, France Telecom had not experienced any particular difficulty in applying the agreements entered into with the other shareholder or shareholders of these companies.

With regard to the other companies, which are consolidated using the equity method or which constitute non-consolidated holdings, the main risks relating to France Telecom's non-controlling interest concern the following companies.

France Telecom holds a 20% interest in the share capital of Bluebird Participations France following its withdrawal from Eutelstat. At December 31, 2004, France Telecom had not experienced any particular difficulty in the fulfillment of the agreement entered into with other shareholders of Bluebird Participations.

France Telecom has a non-consolidated shareholding, through Orange, in the share capital of ONE (17.5%, Austria). France Telecom also holds, through Orange, a non-consolidated shareholding in the share capital of Optimus (a 20% interest, approximately 10% of the voting rights, Portugal). At December 31, 2004, France Telecom had not experienced any particular difficulty in the fulfillment of the agreements entered into with the other shareholders of these companies or in its relations with them.

Moreover, in December 2004, France Telecom undertook to sell its subsidiary, France Télécom Câble, and its cable networks in connection with an overall agreement for the disposal of the cable activities of France Telecom, the Canal+ Group and TDF. In the event that this transaction proceeds, France Telecom will retain a 20% interest in the share capital of the resulting new company to be created. (See Note 28 "Contractual obligations and off-balance sheet commitments" of the Notes to the Consolidated Financial Statements).

Lastly, the following shareholdings, previously consolidated by the equity method or not consolidated, were sold in 2004: the holdings in NOOS and Radianz and Orange's interest in the share capital of BITCO (Thailand), which was reduced from 49% to 10%. In the BITCO transaction, Orange was fully released from its obligations and undertakings under the revolving credit facility (*crédit relais*) entered into by TA Orange in 2002. In January 2005, the interest in the share capital of Tower Participations, which owns TDF, was sold. See Note 3 "Main acquisitions and divestitures of companies and changes in scope of consolidation", Note 28 "Contractual obligations and off-balance sheet commitments" and Note 31 "Subsequent events" of the Notes to the Consolidated Financial Statements.

The occurrence of the risks relating to certain subsidiaries and joint ventures in which France Telecom shares control or does not hold a controlling interest, the main examples of which have been mentioned above, could have an impact on France Telecom's ability to pursue its stated strategies with respect to those entities or have a material adverse effect on its financial results or financial condition.

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4.18.1.6 The high cost of UMTS licenses, and investments and expenses necessary for the success of this technology, could adversely affect France Telecom's business, financial condition and results.

As at December 31, 2004, France Telecom had paid over €8 billion to acquire UMTS licenses in Europe (excluding acquisition of minority interests, notably MobilCom). Under the terms of these licenses, France Telecom has agreed to make significant investments in its networks in order to be able to offer new products and services. If France Telecom decided not to pursue UMTS development in certain countries, or if it was unable to meet the costs, its withdrawal from these markets may result in significant costs and its licenses could be revoked. In addition, if Orange cannot fulfill the conditions under its UMTS licenses or obtain their modification, the licenses may be revoked and Orange may be liable for damages to the state that awarded the license, or to its partners in UMTS development in these countries, as well as to its creditors or its suppliers. All of these risks could have a material adverse impact on France Telecom's financial condition and results.

Lastly, once its UMTS network has been launched, the costs related to the development and marketing of new products are difficult to estimate and may be very high, in particular in order to promote demand for UMTS services or to subsidize UMTS-compatible handsets.

France Telecom cannot be certain that the demand for UMTS products and services will justify the related high costs. Low demand, or demand with weak growth, for UMTS products and services in markets where France Telecom offers them would adversely affect its financial results. The level of demand for UMTS products and services may be adversely affected by the launch of alternative technologies.

France Telecom will need to offset the high purchase costs of the licenses, network capital expenditures and the related amortization costs with increased revenues from customers. Furthermore, any delay in the provision of UMTS products and services resulting from problems with suppliers of components of the UMTS network, the roll out of the network, the unavailability of products compatible with UMTS services, the inability to comply with the requirements of UMTS licenses or any other factor may adversely affect revenues from UMTS services or the date from which such revenues are generated. If, in the future, France Telecom's current estimates relating to future cash flow generated under the UMTS licenses are not met, France Telecom's revenues could be adversely affected, and France Telecom could be required to significantly depreciate the value of its UMTS licenses and related assets recorded in its financial statements.

To the extent that France Telecom expects to generate significant cash flows from its wireless telephony subsidiaries, such as Orange and PTK Centertel, the failure by these activities to generate sufficient revenues could render France Telecom unable to meet its financing needs in relation to the development of UMTS or its other activities. Its financial condition and results may be adversely affected.

4.18.1.7 France Telecom recorded significant goodwill following the acquisitions it made between 1999 and 2002. Accelerated amortization of this goodwill may be required, which could have a material adverse effect on France Telecom's results.

France Telecom recorded significant goodwill in connection with its acquisitions since 1999, particularly for the acquisitions of Orange, Equant and TP Group. Goodwill amounted to approximately €26 billion at December 31, 2004.

Pursuant to French generally accepted accounting principles, goodwill is amortized over a period determined at the time the goodwill is recorded. The value of the goodwill is reassessed annually and, when events and circumstances indicate that a decrease in value may occur, France Telecom amortizes this goodwill, particularly in the case of events and circumstances which involve lasting material adverse changes affecting the economic environment or affecting the assumptions and objectives that were used at the time of the acquisition. For example, France Telecom amortized its investments in Equant and in certain subsidiaries of Orange and Wanadoo in 2002, 2003 and 2004. France Telecom cannot guarantee that new events or unfavorable circumstances will not take place that would lead France Telecom to reassess the value of its goodwill and record additional significant exceptional amortization, which could have a material adverse effect on France Telecom's revenues.

For further information relating to the exceptional amortization of goodwill, see the Financial Report, section 1.2.3.8.2 "Exceptional goodwill amortization" and section 1.6.2 "Implementation of IFRS (International Financial Reporting Standards)".

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4.18.1.8 France Telecom's technical infrastructure is vulnerable to damage or interruptions caused by floods, storms, fires, power outages, war, terrorism, intentional acts and other similar events. Technical network and information technology system failures may result in reduced user traffic, reduced revenues and harm to France Telecom's reputation.

The occurrence of a natural disaster, such as the major storms in December 1999 that affected service in France at the beginning of 2000, or the flooding in southern France in 2002, and other unanticipated problems at France Telecom's facilities or any other damage to or failure of its network could result in interruptions to its service. In 2000, such damage amounted to approximately €150 million. In certain circumstances, France Telecom has no insurance for damages to its aerial lines and must finance these damages itself. Information technology system (hardware or software) failures, human error or computer viruses could also affect the quality of its services and cause temporary service interruptions. Currently, there is an increased risk of failure of the information system due to the acceleration of the implementation of new services or new applications relating to invoicing and customer relations management. In particular, incidents may occur during the course of installing new applications or new software. France Telecom detected a slowing in the transit of some telephone traffic for around twenty-four hours between October 30 and 31, 2004 that disrupted several thousand calls. While the risk cannot be quantified, such events could result in customer dissatisfaction and reduced traffic and revenues for France Telecom.

4.18.1.9 The value of France Telecom's international investments in telecommunications companies outside Western Europe may be materially affected by political, economic and legal developments in these countries.

France Telecom has invested in telecommunications operators in countries in Eastern Europe, the Middle East, Asia and Africa, particularly with respect to its activities in the "Orange" and "Other International" segments.

The political, economic and legal systems of the countries in these regions of the world may evolve in an unpredictable manner, as was the case in the Ivory Coast. Political or economic upheaval or changes of law may adversely affect the operations of companies in which France Telecom has invested, and may impair the value of these investments.

4.18.1.10 France Telecom is involved in enquiries, legal proceedings and disputes with regulatory authorities, competitors and/or other parties. France Telecom cannot guarantee that the outcome of some or all of those proceedings will not have a material impact on its results of operations or financial condition.

France Telecom's position as the main operator and provider of networks and telecommunications services in France and one of the leading telecommunications operators worldwide, attracts the attention of competitors and French as well as European competition authorities. In addition, France Telecom is frequently involved in legal proceedings with its competitors due to its preeminent position in their market. The main proceedings in which France Telecom is involved are described in Note 29 "Litigation and claims" of the Notes to the Consolidated Financial Statements. France Telecom cannot guarantee that the outcome of some or all of those proceedings will not have a material adverse impact on its financial condition or results of operations.

4.18.1.11 The downgrading of France Telecom's debt ratings in 2001 and in 2002 by rating agencies increased the cost of its debt. Although its ratings were increased in December 2002 as well as in 2003, 2004 and 2005, the downgrading of its debt rating could limit its ability to borrow and may increase the cost of access to financial markets.

In October 2001, the rating agencies that evaluate France Telecom's debt downgraded their ratings on France Telecom's short- and long-term debt. They continued to downgrade these ratings until mid-2002. According to the rating agencies, the downgrading of France Telecom's ratings was due to doubts about France Telecom's ability to carry out its debt reduction plan, due to both the deterioration of market conditions in the telecommunications sector and the difficulties encountered by France Telecom in its asset disposal program. The rating agencies have also expressed concern about the possible assumption by France Telecom of MobilCom's debt. In this regard, France Telecom completed, in early 2003, the transactions contemplated by the

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“MC Settlement Agreement” with MobilCom” (see Note 22.3 “Provisions and other liabilities. MobilCom” and Note 26 “Non-refundable funds and equivalents” of the Notes to the Consolidated Financial Statements).

These ratings downgrades limited France Telecom’s access to financial markets at a time when it needed to meet significant debt repayments in 2003, 2004 and 2005 and increased the average cost of its debt.

A significant portion -€12.8 billion- of the debt outstanding at the end of December 2004 includes step-up provisions, i.e. provisions that will lead to the amendment of the interest rates or margins should the ratings of France Telecom change. The deterioration in the ratings of France Telecom in June and July of 2002 led to an increase in interest rates starting September 2002 for bonds denominated in U.S. dollars or in pounds sterling, and starting in February and March of 2003 for the other bonds (annual interest payments). The deterioration in the ratings of France Telecom that occurred in 2002 had a delayed impact on interest expenses, as illustrated by the increase in interest expenses of approximately €40 million in 2002, compared to €164 million in 2003.

Furthermore, France Telecom S.A.’s securitization programs require, where applicable, a rating above BB-. Finally, in the event of a ratings downgrade, certain derivative contracts and certain contracts related to lease transactions with third parties may be terminated or may require cash collateral to be given. France Telecom has already been required to give additional security cash collateral for certain of these contracts.

Following the announcement of the launch of the “Ambition FT 2005” plan (see section 4.2.1 “Ambition FT 2005’ Plan”) in December 2002, the rating agencies waited some time before re-evaluating their ratings for France Telecom, and from May 2003 they started to increase ratings. At March 1, 2005, the long-term debt ratings were A- with a positive outlook, Baa1 with a stable outlook and A- with a stable outlook by Standard & Poor’s Rating Services (“S&P’s”), Moody’s Investor Service (“Moody’s”) and Fitch Ibc, respectively.

The step-downs triggered by the successive improvements in France Telecom’s ratings in May 2003 by S&P’s, then in February 2004 by S&P’s and in March 2004 by Moody’s, made it possible to reduce interest expenses for 2004 by approximately €61 million as compared to 2003.

France Telecom cannot guarantee that its credit ratings will not be downgraded again by the rating agencies, particularly in the event that the “TOP” program does not produce the anticipated results or in the event France Telecom fails to reduce its debt.

France Telecom cannot guarantee that it will succeed in applying the measures adopted to reinforce or maintain its credit ratings. It also cannot guarantee that the rating agencies will deem the measures undertaken sufficient. In addition, factors outside France Telecom’s control, including factors relating to the telecommunications industry or specific countries or regions in which it operates, may affect the rating agencies’ assessment of France Telecom’s credit profile.

For information purposes, France Telecom believes that a decrease of one notch in its long-term debt rating by S&P’s and Moody’s would automatically increase its annual interest expense by approximately €43 million, based on its current level of indebtedness, and would also adversely affect its ability to access, and the conditions of access to, the financial markets.

4.18.1.12 France Telecom will adopt new accounting standards in 2005 that may have a material impact on its accounts and may render a comparison between financial periods more difficult.

In June 2002, the European Union (“EU”) adopted new regulations requiring all listed EU companies, including France Telecom, to apply International Financial Reporting Standards (“IFRS”) (previously known as International Accounting Standards or “IAS”) in their financial statements from January 1, 2005.

The IFRS norms may have a significant impact on important items in the accounts and balance sheet of France Telecom. For further information on the impact of IFRS norms, see the Financial Report, section 1.6.2 “Implementation of IFRS (International Financial Reporting Standards)”.

4.18.1.13 Risks factors relating to the environment

France Telecom believes that its activities as a telecommunications operator present no major risks for the environment. In fact, the operations of France Telecom do not use any production process that seriously threatens rare or non-renewable resources, natural resources (water, air), or biodiversity.

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However, to meet the needs of its activities and, in particular, to operate its telephone switching centers, France Telecom does use certain facilities, products or substances that could present a danger or problem for the environment and which are subject to specific environmental regulations that, in particular, govern Classified Facilities for the Protection of the Environment under French law (the *Installations Classées pour la Protection de l'Environnement* or "ICPE"), as well as the production of waste. These risks, which are continually the subject of in-depth study by France Telecom, have led France Telecom to adopt action and prevention programs.

Classified Facilities for the Protection of the Environment

To meet the needs of its operations and, in particular, to operate its telephone switching centers, France Telecom operates certain facilities, including, in particular, air conditioning facilities, battery charging stations and transformers that are subject to the French legislation on Classified Facilities for the Protection of the Environment.

This legislation requires operators of activities that present certain dangers or problems for the environment ("Classified Facilities") either to obtain an authorization issued by the administrative authorities or to file a prior declaration with the same authorities, depending on the extent of the problems that these activities represent for the environment.

At December 31, 2004, France Telecom identified 2,501 Classified Facilities in France for the Protection of the Environment that are subject to declaration and 13 sites that are subject to authorization because of the acuteness of the dangers or problems for the environment. Files on all of the Classified Facilities have been filed with various French authorities and a maintenance program has been initiated to ensure compliance with environmental legislation.

A process to identify and evaluate the risks presented by the industrial sites was completed in 2003. It also included slightly fewer than 1,500 other sites that, although they are not subject to the Classified Facilities regime, include a hydrocarbon tank. France Telecom believes that its facilities are generally in compliance with environmental regulations. Any costs that may be necessary to bring them into compliance are not likely to have a significant impact on France Telecom's financial position.

However, the recent amendments (December 2004) to the French classifications (*nomenclature*) for air conditioning facilities comprising air coolant towers, will require the identification of risks to be updated and the creation of authorization files or additional declarations.

Use of substances or products presenting risks for the environment

Some of France Telecom's facilities include or use products or substances that may give rise to significant environmental dangers or problems. This is the case for the CFCs contained in the air conditioning systems for the telephone switching centers. In accordance with French regulations, the removal of all halon from the fire extinguishing systems was completed at the end of 2003. Some electric transformers also contain PCBs, the gradual elimination of which is scheduled to occur by 2010 in accordance with current legislation.

The programs to dismantle facilities containing toxic substances (notably PCBs), along with other action plans, have been covered by a master agreement signed in 2002 with the public authorities (French Department of Ecology and Sustainable Development). This reinforces the compliance profile of these sites with applicable regulations.

France Telecom believes that the costs related to the implementation of these programs are not likely to have a significant impact on its financial position. However, accidents related to these products or substances could have substantial negative consequences.

Energy

France Telecom's activities require the use of thermal installations such as boiler rooms and generators, giving rise to emissions of CO₂ and greenhouse gases. The determination of total energy use (electricity and fuels) in 2002 and 2003 will be complemented in 2005 by a domestic fuel and heating gas consumption measure. After consolidating the management tools in 2004, an energy saving program will be implemented in 2005. Over and above compliance with regulatory requirements concerning these types of facilities, France Telecom plans, with this action, to contribute to limiting the production of greenhouse gases.

France Telecom believes that the costs for the implementation of these programs are unlikely to have a significant impact on its financial position.

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Regulations governing classified and protected sites and insertion of networks in the landscape

Aerial poles and telephone lines have an impact on landscapes. France Telecom is contributing to the funds necessary to conceal these telephone lines on classified and protected sites in accordance with the legislation in force and in cooperation with the local and national authorities responsible for natural and cultural heritage. France Telecom believes that the costs for the implementation of this program are unlikely to have a significant impact on its financial position.

More generally, France Telecom applies the accounting rules relating to environmental liabilities, and in particular those concerning provisions for regeneration and dismantling of sites, in accordance with current legislation and regulations. However, France Telecom cannot exclude the possibility of a change in legislation or regulations that would require it to incur additional expenditure and to set aside larger provisions in this respect. For more information on provisions for regeneration and dismantling of sites, see Note 22 "Provisions and other liabilities" of the Notes to the Consolidated Financial Statements (Note 22.9).

4.18.2 RISK FACTORS RELATING TO THE TELECOMMUNICATIONS AND WIRELESS INDUSTRIES

4.18.2.1 The profound and permanent transformation of the telecommunications industry could render existing technology obsolete. A deficiency in France Telecom's response to technological advancement could lead to the loss of customers or market share in the sectors in which France Telecom operates and could have an adverse impact on its revenues and financial results.

The telecommunications industry has experienced profound changes in recent years, and France Telecom believes that these changes will continue. If France Telecom fails to rapidly adapt, at a reasonable cost, its structure, business, networks and services to respond to the developments of the telecommunications industry and then expectations of its customers, it may be unable to compete effectively and its business activities, financial condition and results may suffer. France Telecom may be unable to appropriately anticipate the demand for certain technologies or may not be in a position to acquire or finance the necessary licenses and intellectual property rights in time. Further, new technologies that France Telecom chooses to develop may lead to significant costs and may not be as successful as planned. As a result, France Telecom may lose customers or market share or may be obliged to undertake substantial expenditure in order to retain its customers.

4.18.2.2 The intense competition of the telecommunications industry in Europe may strain France Telecom's resources.

France Telecom faces intense competition in all areas of its business. In addition, certain competitors constitute or form part of major international telecommunications services groups.

For further information regarding competition within each of the business segments in which the France Telecom Group operates, see section 4.6 "Competition".

In the fixed line telephony business in France, which has been open to competition since January 1, 1998, France Telecom faces competition that has created a dramatic reduction in rates, as well as a reduction in its market share. Recent regulatory changes, such as the unbundling of its local loop, the pre-selection of operators, number portability and access to the distribution frame, have increased the ease with which its customers can use the services of other telecommunications carriers instead of France Telecom's services. In particular, with the introduction of carrier pre-selection at the beginning of 2002, France Telecom lost approximately 29% of its market share in the local call sector at December 31, 2004. France Telecom expects a further decrease of its market share and continued decreases of rates in the fixed line services in France, where it currently enjoys the greatest market share. In addition, according to France Telecom, an increasing proportion of calls that would previously have been made over the fixed line network are now being made on mobile telephones ("fixed-wireless" substitution). Similarly, telephone calls which had been carried via the switched telephone network, will increasingly be carried via Internet ("Voice over IP"), including over cable networks. The level of competition is significantly influenced by decisions of the ART, the French telecommunications regulator, which could make decisions that would lead to further rate cuts in the fixed line telephony business. For further information regarding regulatory decisions that could affect the level of competition, see section 4.13.2 "French regulations". France Telecom also faces competition in the market for Internet and multimedia services, particularly in France. The Internet access market is experiencing increased competition and shifting usage patterns, particularly

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with the strong development of broadband, which exert a pressure that may be influenced by regulation, particularly in France. In France, the main competitors in respect of general consumers' services (fixed line telephony, Internet, broadband) are Tele 2, Cegetel and 9 Telecom, and in respect of broadband Internet access, Free (Iliad Group), AOL, Tiscali and T-on-Line.

In addition, restructuring by certain competitors and overcapacity in the international transmissions sector could materially affect France Telecom's results in the international transmissions business. If these conditions continue, they could adversely impact France Telecom's results in this market. In the data transmissions market, Equant and Transpac, both subsidiaries of France Telecom, face intense competition. The success of the France Telecom group in this market will depend on the ability of Equant and Transpac to compete with the other large telecommunications operators, IP and data specialists and new entrants in this market, including operators from competing networks and suppliers of Internet services or other high value added services. France Telecom believes that the number of competitors, the vertical and horizontal concentration of this activity, the pressure on rates and the competition in terms of market share could increase in the future. The main competitors in respect of corporate customers' are Cegetel, LD COM, MCI, Colt and BT / Infonet.

In the wireless telecommunications business, France Telecom faces intense competition in all of its principal markets (particularly in France and the United Kingdom) from existing and new market participants. France Telecom's position in comparison with its competitors is mainly dependent upon rates, quality of service, variety of services offered, adaptation to customers' needs and the nature of innovation. In France, the competing wireless operators are SFR (of which Vodafone is a minority shareholder) and Bouygues Télécom. In the United Kingdom, the main competitors are Vodafone, MMO2 and T-Mobile. In addition, in certain countries, and particularly in France and the United Kingdom, France Telecom must compete with new non-traditional operators that offer wireless communications services without maintaining their own networks (known as mobile virtual network operators). Although competition based on handset subsidies has diminished in France and the United Kingdom, competition based on rates, subscription options offered, coverage and service quality remains intense. As these markets have become increasingly saturated, the focus of competition is starting to shift from customer acquisition to customer retention, which could lead to higher expenses for customer loyalty initiatives. Rates for wireless communications have been declining over the past several years and may continue to decline in France Telecom's principal markets.

PagesJaunes faces competition in the printed directories market from editors that offer regional directories in France. The market for online directories remains highly competitive with many market participants.

Competition in any or all of France Telecom's lines of business could lead to:

- price and profits erosion for France Telecom's products and services;
- an inability to increase market share or a loss of market share;
- loss of existing or prospective customers and greater difficulty in retaining existing customers;
- more rapid deployment of new technologies and obsolescence of existing technologies;
- the increase of costs related to investments in new technologies that are necessary to retain customers and market share;
- increased pressure on France Telecom's profit margins, preventing it from maintaining or improving its current level of operational profitability; and
- difficulties repaying the debt it incurred to finance its acquisitions and strategic and technological investments if it cannot generate sufficient profits and cash flow.

4.18.2.3 If growth in the Internet and wireless businesses slows, France Telecom's revenues may not grow as rapidly as in the past and may even decrease, which in turn could adversely affect its profitability.

In recent years, the growth in France Telecom's revenues, at a constant exchange rate, has been due in a large part to the rapid expansion in its Internet and wireless communications businesses, in line with growth in the Internet and wireless markets in Europe.

For further information regarding trends in France Telecom's revenues and its components in 2004 and 2003, see the Financial Report, sections 1.2.1.1 and 1.3.1.1 "Revenues", for 2004 and 2003 respectively.

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If these markets do not continue to expand, particularly in France and the United Kingdom, France Telecom's revenue may not grow or may even decrease, which in turn could affect its financial condition and results, in particular if the revenues of the "Fixed Line, Distribution, Networks, Large Customers and Operators" segment were to decrease again.

For further information regarding Idate's medium-term forecasts, see section 4.2.3 "A growing market".

4.18.2.4 Despite the current trend towards deregulation in France and other European countries, France Telecom continues to operate in highly regulated markets in which its flexibility to manage its business is limited.

France Telecom must comply with an extensive range of requirements that regulate and supervise the licensing, construction and operation of its fixed line, wireless and Internet networks and the provision of its products and services. It must also cooperate with agencies or other governmental authorities that regulate and supervise the allocation of frequency spectrums and that oversee the general competitiveness of the telecommunications market. Furthermore, France Telecom faces a number of regulatory constraints as a result of its dominant position in the fixed line telecommunications market in France, including certain obligations that lead to significant costs. For example, France Telecom is required to provide interconnection services to other operators on terms that must be approved by the regulatory authority, to provide local loop access at prices approved by the regulatory authority and to have its rates for fixed line voice telephony services approved by the regulatory authority prior to implementation. France Telecom believes that, in general, it fulfills the requirements imposed by the applicable regulations, but it cannot predict the any opinions that may be expressed by regulatory or judiciary authorities, which could be asked to review or which have already been asked to review France Telecom's compliance.

Like other operators, France Telecom's activities and operating income may be impacted significantly by legislative, regulatory or government policy changes and, in particular, by decisions made by regulatory authorities and competition authorities in relation to:

- granting, modifying and renewing licenses;
- rates or the possibility of extending activities to new markets;
- network access for virtual network operators and other service providers; or
- access to third-party networks.

Such decisions could significantly and adversely impact France Telecom's financial results.

In France, following the adoption of the French law of July 9, 2004 setting out the new provisions of the French Postal and Electronic Communications Code, there are no longer any specific provisions in respect of France Telecom as such. However, the telecommunications regulatory authority (the ART) is required to draw up a list of the relevant retail and wholesale markets in which it can enforce remedies. Pending the findings of those analyses in 2005, France Telecom continues to be subject to essentially the same regulatory obligations as before with regard to the supply of the products and services in respect of which it has been deemed to hold a dominant position. France Telecom must still therefore comply with the obligation to provide interconnection services to other operators on terms and conditions that for 2005 are still to be approved by the ART, as well as the obligation to provide local loop access at prices approved by the ART, and the obligation to submit prices for fixed line telephony services for prior approval by the ministry which oversees these matters (in consultation with the ART) before implementing such prices.

On completion of the market analysis, the ART will be able to apply a range of obligations, relating to wholesale and retail services, to operators that have been deemed to exert a significant influence on the markets analyzed.

In this respect, it will be entitled to impose remedies on operators that exert a significant influence on the wholesale markets, such as the publication of a standard term offer, access to components of networks and related resources, and accounting separation for certain interconnection or access activities. With regard to retail rates, the ART will be able to prohibit bundling found to be wrongful, impose rates reflecting costs, or strictly contest the implementation of a rate. Therefore, the regulator possesses tools that could enable it to increase the burden of regulatory constraints on France Telecom.

In addition, the ART now possesses greater powers of control since it will be able to conduct on-site and document discovery (*sur pièce*) investigations in the context of carrying out its objectives, and for such purpose will have access to premises or means of

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transport used for professional purposes during opening hours or working hours, whereas previously these options were reserved for investigating criminal offenses only. Moreover, in the context of the exercise of its sanctioning powers, the ART will now be able to order protective measures without giving any prior formal notice. Where a breach is detected that might result in serious loss, it will be able to refer the matter to the President of the litigation division of the *Conseil d'Etat* who may order the operator to comply with the applicable rules and, where necessary, make the order subject to a penalty for non-compliance.

Overall, the regulatory, investigative and sanctioning powers allocated to the ART have been strengthened, which may have a material adverse impact on France Telecom's business and results of operations.

Furthermore, licenses are required in most countries to provide telecommunications services and operate networks. These licenses frequently impose requirements regarding the way the operator conducts its business, including, in particular, minimum service requirements, roll out completion deadlines, and network quality and coverage.

Failure to meet these requirements could result in fines or other sanctions, including, ultimately, revocation of the licenses.

For further information regarding regulations, see section 4.13 "Regulations".

4.18.2.5 Alleged health risks in relation to wireless communications devices could lead to decreased wireless communications usage or increased difficulty in obtaining sites for base stations or litigation, that may have adverse effects on the financial results of France Telecom.

In some countries in which France Telecom conducts its wireless telephony business, doubts have been expressed as to the possible health risks to humans caused by exposure to radio-frequency emissions or electromagnetic fields emitted by mobile telephones and wireless transmitter sites, at exposure levels lower than the existing permitted thresholds.

While to date France Telecom is not aware of any substantiation of health risks associated with wireless telephony, actual or perceived health risks may have a material adverse effect on France Telecom's results of operations or financial condition through a reduction in the number of customers, reduced usage per customer, exposure to potential litigation or other reasons. In the event that future evidence is considered to show that health risks do exist, the use of mobile phones could be subject to regulations which, for example, could limit emission levels from handsets or transmitter sites. Such regulations could have an adverse effect on France Telecom's operations and performance.

In 2002, several scientific studies were published in France. They came to the same conclusion, namely that there was no proof that exposure to radio-frequency fields emitted by mobile telephones or their base stations has a harmful influence on health. In April 2003, the *Agence Française de Sécurité Sanitaire Environnementale* (the "AFSSE") issued an opinion on wireless telephony. That opinion indicated that there was no demonstrable risk involved in living near to a base station, and that there was no cause to invoke the "principle of precaution" (principe de précaution) in such respect. With regard to the use of mobile telephones, the AFSSE considered that the "principle of precaution" should be applied and again recommended that research be continued, taking into account the existing doubts regarding the biological studies. In October 2003, the French Health Ministry required wireless network operators to provide their customers with recommendations on the use of mobile telephones and information on the existing uncertainties relating to potential health risks. In April 2004, Orange France signed, together with other wireless operators and the Association of Mayors of France, a "*Guide des bonnes pratiques*" (good practice guide) for the installation of transmitter sites.

In the United Kingdom, a study on wireless telecommunications health issues conducted by the Independent Expert Group on Mobile Phones, known as the Stewart Report, reported that to date there is no evidence that suggests that wireless phone technologies pose a health risk for the general public. The Department of Health in the United Kingdom has nevertheless required that information be made available to customers so that they can make their own informed choices about how to use mobile phones. In the United Kingdom, Orange and other wireless network operators are promoting in-depth scientific research into wireless technology through the joint financing with the United Kingdom government of a research program. In 2004, scientific research publications continued to confirm the findings of the Stewart Report. Scientific research is still being carried out on this subject.

In 2005, publication of scientific research findings on these issues is expected. As indicated above, such publications may have a material adverse effect on France Telecom's financial results or financial condition.

France Telecom cannot be certain that medical research in the future will dismiss all and any link between radio-frequency emissions and health risks.

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4.18.3 RISK FACTORS RELATING TO FINANCIAL MARKETS

4.18.3.1 France Telecom's business may be affected by fluctuations in exchange rates.

A significant portion of France Telecom's revenues and expenses are accounted for in currencies other than the euro. Over the course of financial years 2002, 2003 and 2004, the main currencies for which France Telecom was exposed to exchange rate risk were the pound sterling, the Polish zloty and the U.S. dollar. Where appropriate, France Telecom enters into derivative instruments to hedge underlying exposures to changes in exchange rates, but France Telecom cannot guarantee that these derivative transactions will effectively or totally hedge its risks. To the extent that France Telecom has not entered into derivative instruments to cover a portion of this risk, or if its strategy of using these instruments is not successful, France Telecom's cash flow and revenues may be adversely affected. Derivative instruments are described in Note 20 "Exposure to market risks" of the Notes to the Consolidated Financial Statements.

For consolidation purposes, the balance sheets of France Telecom's consolidated foreign subsidiaries are converted into euro using the exchange rate at the end of the period, and their income and cash flow statements are converted using the average exchange rate for the period. The impact of such a conversion on the balance sheet and shareholders' equity may be significant. From one period to another, fluctuations in the average exchange rate relating to a particular currency may significantly affect the reported revenues as well as the expenses incurred in such currency, as reflected in France Telecom's income statement, which could significantly affect its financial results. For example, based on data for 2004, the theoretical impact of fluctuations in the exchange rate corresponding to a depreciation of 10% (in relation to the euro) of all currencies in which the Group's subsidiaries operate, would have resulted in a drop of 3.0% in consolidated revenues, 2.4% in operating income before depreciation and amortization and 1.9% in the "TOP" indicator of operating income before depreciation and amortization less tangible and intangible investments excluding licenses.

4.18.3.2 France Telecom's business may be affected by fluctuations in the financial markets, including changes in interest rates.

In the ordinary course of its business, France Telecom is exposed to financial market risks, especially changes in interest rates. Where appropriate, France Telecom enters into derivative instruments to hedge underlying exposures to changes in interest rates, but France Telecom cannot guarantee that such derivatives transactions will effectively or completely hedge such risk. To the extent that France Telecom has not entered into any derivative instruments to hedge some of that risk, or if its strategy of using such instruments does not succeed, France Telecom's cash flow and results of operations could be adversely affected.

The derivative instruments used by France Telecom are described in Note 20 "Exposure to market risks" of the Notes to the Consolidated Financial Statements. France Telecom's exposure to market risks is described in the Financial Report, section 1.4.3 "Exposure to market risks and financial instruments".

4.18.3.3 Risk factors relating to the volatility of France Telecom's shares.

France Telecom S.A.'s share price may fluctuate due to a number of factors, including:

- a change in France Telecom's credit rating, or level of indebtedness or sales of assets;
- changes in financial analysts' recommendations regarding France Telecom;
- changes in analysts' forecasts regarding the markets in which France Telecom operates;
- an announcement by France Telecom or one of its competitors regarding strategic partnerships, financial results, changes in capital structure or other important changes in activity;
- the recruitment or departure of key employees; and
- general stock market fluctuations.

Following the exchange offer for Orange shares completed in 2003, France Telecom held none of its own shares at December 31, 2003. It held none of its own shares at December 31, 2004.

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In addition, the share prices of France Telecom's listed subsidiaries, Equant, TP S.A., PagesJaunes and Mobistar may fluctuate. This could negatively impact the financial condition of France Telecom or its share price.

4.18.3.4 Future sales by the French State of its shares in France Telecom may impact France Telecom's share price.

At December 31, 2004, the French State held, directly or indirectly through the intermediary of the ERAP, 42.25% of the share capital of France Telecom. Until January 2004, the French State had the legal obligation to hold more than 50% of the share capital of France Telecom. However, French law number 2003-1365 of December 31, 2003, relating to the public telecommunications service obligations and to France Telecom, allowed the French State to transfer its holding to private investors. In September 2004, the French State and the ERAP sold 10.85% of France Telecom's share capital, which led to France Telecom being transferred to the private sector. In addition, in January 2005 the French State sold an additional 1.2% interest in capital to the employees under a reserved offer. If the French State decides to further reduce its shareholding in France Telecom, such a sale by the French State, or even the perception that such a sale is imminent, could have an adverse impact on France Telecom's share price.

Chapter 5

FINANCIAL SITUATION AND RESULTS

See the 2004 Financial Report attached to this document.

Chapter 6

CORPORATE GOVERNANCE

France Telecom S.A. follows the principles of corporate governance for listed companies set forth in the French Medef/AFEP report of October 2003 and, in particular, the key principles of corporate governance that define:

- the responsibility and integrity of executives and directors;
- the independence of the board of directors;
- the transparency and dissemination of information; and
- respect for the rights of shareholders.

Within its unique legal framework, France Telecom has endeavored to implement the recommendations of this report, notably through the board of directors' adoption of internal guidelines during its meeting held on July 17, 2003, which set forth the guiding principles relating to its operation and the terms for performing its duties.

Pursuant to the provisions of Article L.225-237 of the French Commercial Code, the Chairman of the board of directors must indicate in a report annexed to the board's management report the conditions under which the board of directors prepares and organizes its work and the internal control procedures implemented by the Company. This report is annexed to this *Document de Référence*. In addition, it is available on France Telecom's website (www.francetelecom.com), under the heading corporate "responsibility/governance". It will be mailed upon request by contacting France Telecom's registered office.

6.1 COMPOSITION AND OPERATION OF THE BOARD OF DIRECTORS AND COMMITTEES

France Telecom S.A. is managed by a board of directors, which decides France Telecom's business policies and monitors their implementation by management. Subject to the powers expressly attributed by law to the shareholders' meetings and within the limits of France Telecom's corporate purpose, the board examines any issue relating to the proper functioning of France Telecom and deliberates on matters which concern it. In particular, it takes all decisions relating to the company's major strategic, economic, employment, financial and technological policies.

6.1.1 BOARD OF DIRECTORS

Legal Framework

For as long as the French State held more than the majority of France Telecom's share capital, pursuant to the provisions of French law no. 90-568 dated July 2, 1990 relating to the organization of public postal and telecommunications services regarding the composition of the board of directors, and of French law no. 83-675 dated July 26, 1983 relating to the democratization of the public sector, France Telecom's bylaws provided for a board of directors consisting of 21 directors, seven of whom to be elected by the employees. The 14 non-employee directors included directors representing the French State appointed by decree and directors representing the other shareholders appointed by the shareholders' meeting.

Following the transfer of the majority of France Telecom S.A.'s share capital to the private sector in September 2004 (see section 3.1.3 "Date of incorporation and duration" and section 3.3.1 "Distribution of France Telecom S.A. Share Capital"), the provisions of French general corporate law regarding the election of directors and the composition and operation of the board of directors have become applicable.

In accordance with Article 8-1 of French law no. 86-912 dated August 6, 1986 relating to privatizations, France Telecom's board of directors must still consist of at least two members representing the employees and one member representing the employee shareholders if the board has less than fifteen members, or three members representing the employees and one member representing the employee shareholders if the board has fifteen or more members. In addition, pursuant to the French decree-law of October 30, 1935, the board of directors must include representatives of the State in proportion to the latter's shareholding in France Telecom. See – "Composition of the board of directors" below.

Composition of the Board of Directors

The composition of the board of directors has changed following the transfer of the majority of France Telecom's share capital to the private sector in September 2004. As at the date of this *Document de Référence*, the board of directors has the following composition:

- seven members appointed by the shareholders' meeting, including Mr. Didier Lombard who was appointed by the board of directors on February 27, 2005 to replace Mr. Thierry Breton, subject to the approval of this appointment by a shareholders' meeting to be held on April 22, 2005 (see section 7.1 "Recent Events").

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- the representatives of the French State, the number of which was reduced to five pursuant to the French decree-law of 1935 in proportion to the number of France Telecom shares held by the French State. These five directors were appointed by decree of the Minister of the Economy, Minister of Finance and Industry dated September 7, 2004.

- three directors representing the employees, two of whom were elected on November 9, 2004 in the first round of the election with the third being elected in the second round of the election on November 25, 2004; all took office during the board meeting of December 3, 2004.

In addition, a director representing the employee shareholders shall be appointed during France Telecom's shareholders' meeting on April 22, 2005.

The table below sets forth the names, offices and other positions of the members of the board of directors as at the date of this *Document de Référence*:

Name	Position Held in the France Telecom Group	Date Appointed	Expiration of Term	Other offices and positions held outside the France Telecom Group
Members elected by the Shareholders' Meeting				
Didier Lombard	Chairman and Chief Executive Officer of France Telecom Chairman of the Board of Directors of Orange S.A. Chairman of the Strategy Committee and Policy Committee of France Telecom	February 27, 2005	December 19, 2005 ⁽¹⁾	Director of Thomson <i>Member of the Supervisory Board:</i> - STMicroelectronics N.V. - Radiall
Marcel Roulet	Honorary Chairman and Director of France Telecom Chairman of the Compensation, Selection and Organization Committee of France Telecom Board observer (<i>Censeur</i>) of PagesJaunes Group	February 25, 2003	December 19, 2005 ⁽¹⁾	Business Consultant <i>Director:</i> - Thomson - THALES (representative of Thomson S.A.) - CCF Chairman of the Supervisory Board of GIMAR Finances SCA Member of the Supervisory Board of Eurazeo
Bernard Dufau	Director of France Telecom Chairman of the Audit Committee of France Telecom	February 25, 2003	December 19, 2005 ⁽¹⁾	Strategic Consultant <i>Director:</i> - Dassault Systèmes - KESA Electricals
Arnaud Lagardère	Director of France Telecom Member of the Compensation, Selection and Organization Committee of France Telecom	February 25, 2003	December 19, 2005 ⁽¹⁾	Manager and General Partner of Lagardère SCA <i>Director:</i> - Lagardère Ressources S.A.S - Hachette Livre (S.A.) - Hachette Distribution Services (S.A.) - Hachette Filipacchi Medias - LVMH-Moët Hennessy Louis Vuitton (S.A.) - FIMALAC

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Name	Position Held in the France Telecom Group	Date Appointed	Expiration of Term	Other offices and positions held outside the France Telecom Group
Members elected by the Shareholders' Meeting				
				<p>Chairman and Chief Executive Officer of Hachette S.A. (Lagardère Media)</p> <p><i>Chairman:</i></p> <ul style="list-style-type: none"> - Lagardère (S.A.S.) - Lagardère Active (S.A.S.) - Lagardère Active Broadband (S.A.S.) - Lagardère Capital et Management (S.A.S.) - Fondation Jean-Luc Lagardère - Lagardère Thématiques (S.A.) <p>Deputy Chairman of Lagardère Active Broadcast (S.A. governed by the laws of Monaco)</p> <p>Chairman and Chief Executive Officer of Arjil Commanditée-Arco (S.A.)</p> <p>Vice Chairman of the Supervisory Board of Banque Arjil & Compagnie (S.C.A.)</p> <p>Member of the Supervisory Board of Virgin Stores (S.A.)</p> <p>Manager of Lagardère Elevage (S.A.R.L.)</p> <p>Chairman of the Board of European Aeronautic Defence and Space Company (EADS NV) and EADS Participations B.V.</p> <p>Permanent representative of Lagardère Active Publicité on the Board of Directors of Lagardère Active Radio International</p> <p>Permanent representative of Hachette S.A. on the Management Committee of SEDI TV-TEVA (SNC)</p> <p>Chairman of the <i>Club des Entreprises Paris 2012</i> (Association under the French law of 1901)</p> <p>Chairman of the Association <i>Amis de Paris Jean-Bouin C.A.S.G.</i> (Association under the French law of 1901)</p>
Henri Martre	Director of France Telecom Member of the Strategy Committee of France Telecom	February 25, 2003	December 19, 2005 ⁽¹⁾	<p>Chairman of the Supervisory Board of ESL</p> <p>Vice-Chairman of the Supervisory Board of KLM</p>

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Name	Position Held in the France Telecom Group	Date Appointed	Expiration of Term	Other offices and positions held outside the France Telecom Group
Members elected by the Shareholders' Meeting				
				<i>Director:</i> - Renault S.A. - SOGEPA - ON-X Member of the Executive Committee of SOFRADIR Manager of SOCOGIT (SARL) <i>Member:</i> - Higher Council for Commercial Aviation - Board of CEPIL - Advisory Board of the <i>Banque de France</i> - Board of the French Agency for International Investments
Stéphane Richard	Director of France Telecom Member of the Audit Committee of France Telecom	February 25, 2003	December 19, 2005 ⁽¹⁾	Executive Vice President of VEOLIA Environnement <i>Director:</i> - NEXITY - APRR - Banque OBC - UGC S.A.
Jean Simonin	Director of France Telecom Member of the Strategy Committee	May 26, 1998	December 19, 2005 ⁽¹⁾	Director of AFTAS
Members appointed by decree:				
Pierre-Mathieu Duhamel	Director of France Telecom Member of the Strategy Committee of France Telecom	January 24, 2003 ⁽²⁾	September 6, 2009	Budget Director, Ministry of the Economy, Finance and Industry <i>Director:</i> - Air France-KLM - Electricité de France (EDF) - SNCF
Jean-Pierre Jouyet	Director of France Telecom Member of the Audit Committee of France Telecom	October 1, 2002 ⁽²⁾	September 6, 2009	Ambassador for international economic affairs Chairman of the Club de Paris
Jacques de Larosière	Director of France Telecom Member of the Audit Committee of France Telecom	May 22, 1998 ⁽²⁾	September 6, 2009	Consultant for BNP Paribas Honorary Chairman of <i>L'Observatoire de l'épargne européenne</i> Honorary Co-Chairman of Eurofi

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Name	Position Held in the France Telecom Group	Date Appointed	Expiration of Term	Other offices and positions held outside the France Telecom Group
Members appointed by decree:				
Denis Samuel-Lajeunesse	Director of France Telecom Member of the Strategy Committee of France Telecom	June 17, 2003 ⁽²⁾	September 6, 2009	General Director of the State Holdings Agency (<i>Agence des Participations de l'Etat</i>) Director: - Alstom - CNP - Gaz de France - Thalès
Henri Serres	Director of France Telecom Member of the Compensation, Selection and Organization Committee of France Telecom	October 1, 2002 ⁽²⁾	September 6, 2009	Managing 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)
Members representing the employees				
Alain Baron	Director of France Telecom Member of the Policy Committee of France Telecom	November 9, 2004	November 8, 2010	-
René Bernardi	Director of France Telecom Member of the Policy Committee of France Telecom	November 25, 2004	November 8, 2010	-
Jean-Michel Gaveau	Director of France Telecom Member of the Policy Committee of France Telecom	November 9, 2004	November 8, 2010	-

⁽¹⁾ The term of such directors shall expire at the first board meeting held as of this date.

⁽²⁾ Following the transfer of the majority of the share capital of France Telecom to the private sector, these directors were newly appointed by decree of the Ministry of the Economy, Finance and Industry dated September 7, 2004.

Biographies of Directors

Directors appointed by the Shareholders' Meeting

Didier Lombard, 63, has been the Chairman and Chief Executive Officer of France Telecom S.A. since February 27, 2005. See section 6.1.6 "Executive Officers".

Marcel Roulet, 71, is the Honorary Chairman of France Telecom S.A., and served as Chairman from 1991 to 1995. Mr. Roulet was Chairman and Chief Executive Officer of Thomson S.A. from February 1996 to March 1997, and of Thomson CSF (now Thalès) from February 1996 to January 1998. A telecommunications engineer, Mr. Roulet has been retired since January 1, 1999 and serves as a business consultant. Mr. Roulet is a director of Thomson, Thalès (as the representative of Thomson S.A.), and CCF, and is Chairman of the Supervisory Board of Gimar Finances S.C.A. He is a member of the Supervisory Board of Eurazeo. He is

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also an observer on the Board of Directors of PagesJaunes Groupe. Mr. Roulet is a graduate of the *Ecole polytechnique* and the *Ecole nationale supérieure des Telecommunications*.

Stéphane Richard, 43, has been the Executive Vice President of Veolia Environnement and the Chief Executive Officer of Connex since March 2003. He was Inspector of Finances from 1987 until 1991. From 1991 until 1992, he served as Technical Advisor to the Cabinet of the Vice-Minister, Mr. Dominique Strauss-Kahn, at the Ministry of Industry and External Trade. From 1992 to 1994, Mr. Richard was *chargé de mission* at the finance division of Générale des Eaux. He was Chief Executive Officer of Compagnie Immobilière Phénix from 1994 to 1995. Mr. Richard was Managing Director and then Executive Vice President and Managing Director of CGIS from 1995 to 1997. From 1997 to 2003, he was Chairman and Chief Executive Officer of CGIS (Compagnie Générale d'Immobilier et de Service), which became Nexity. Mr. Richard is also a member of the Boards of Directors of Nexity, Autoroutes Paris Rhin-Rhône, UGC S.A. and Banque OBC. Mr. Richard is a graduate of the *Ecole des hautes études commerciales* and the *Ecole nationale d'administration*.

Arnaud Lagardère, 43, has been Manager and general partner of Lagardère SCA since March 17, 2003. In addition, Mr. Lagardère has been Chairman and Chief Executive Officer of Lagardère Média (the media division of Lagardère SCA) since 1999 and Chairman of Lagardère Active (the audio-visual branch of Lagardère Média), Lagardère Images and Deputy Chairman of Lagardère Active Broadcast since 2001. In 2003, he became Chairman of the Board of Directors of the European Aeronautic Defence and Space Company (EADS NV) and EADS Participation B.V. A graduate of the *Université Paris-Dauphine*, Mr. Lagardère began his career in 1987 working with his father, Jean-Luc Lagardère. He has successively been Vice-Chairman of the Supervisory Board of the ARJIL bank, manager of the Emerging Activities and Electronic Media Division of Matra, and Chief Executive Officer of Lagardère S.A.S. In 1994, Mr. Lagardère became Chairman and Chief Executive Officer of Grolier Inc. in the United States. After returning to France in 1998, Mr. Lagardère focused on the media activity of the group which he reorganized and consolidated. He successfully completed the divestiture of Club Internet, the acquisition of a 34% holding in Canalstat and a 27.4% stake in Multithématiques, the purchase of the Virgin Stores and, more recently, the purchase of the publishing division of Vivendi Universal. Mr. Lagardère is a director of Hachette Livre S.A., Hachette Distributions Services (S.A.), Hachette Filipacchi Médias (S.A.) and Lagardère Ressources (S.A.S.), and a member of the Supervisory Board of Virgin Stores. He has been Chairman and Chief Executive Office of Lagardère Capital & Management and a director of France Telecom (S.A.), Moët Hennessy Louis Vuitton (LVMH) (S.A.) and Fimalac (S.A.) since 2003. He is also Chairman and Chief Executive Officer of Arjil Commanditée-Arco, Vice-Chairman of the Supervisory Board of Banque Arjil & Compagnie, and Manager of Lagardère Elevage. Arnaud Lagardère is also Chairman of the Fondation Jean-Luc Lagardère, Chairman of the corporate club supporting Paris's bid to organize the 2012 Olympic Games, Chairman of the Amicale du Club Jean-Bouin C.A.S.G., and director of the Club Paris Jean-Bouin C.A.S.G. He is member of the Honorary Committee of France-China and member of the Information Technology Strategy Committee since 2004.

Henri Martre, 76, served as Chairman and Chief Executive Officer from 1983 to 1992 of Aérospatiale. He was also Vice-Chairman of the Supervisory Board of Airbus Industrie from 1986 to 1992, Chairman of Gifas (*Groupement des industries françaises aéronautiques et spatiales*) from 1990 to 1993, Chairman of AECMA (European Association of Aerospace Manufacturers), and Chairman of AFNOR from 1993 to 2002. An engineer, Mr. Martre is a director of Renault S.A., SOGEP (French State holding company of EADS), On-X, member of the Executive Committee of SOFRADIR, and Chairman of the Supervisory Board of ESL and Vice-Chairman of the Supervisory Board of KLM. He is a member of various councils of the French State (Higher Council for Commercial Aviation, CEPII Board), an advisory board (Banque de France) as well as a number of associations and foundations (Vice President of the Foundation for Strategic Research, Chairman of the Japan Committee at MEDEF and Chairman of the Franco-Japanese Industrial Techniques Organization). Mr. Martre is a graduate of the *Ecole polytechnique* and the *Ecole nationale supérieure des Telecommunications*. He was *Délégué général pour l'armement* from 1977 to 1983.

Bernard Dufau, 63, joined IBM France as an engineer in 1966 and served in various positions in marketing and management throughout France until 1981. He was a consultant for the IBM Corporation in the United States from 1981 to 1983 and Business Director (1983-1988) as well as General Operating Director (1998-1993) for IBM France. In 1994, he became the Managing Director of IBM Europe's Distribution Division. Mr. Dufau served as Chairman and Chief Executive Officer of IBM France from January 1, 1995 to April 1, 2001. He has been a corporate strategic consultant since July 2001. Mr. Dufau is also a director of Dassault Systèmes and KESA Electricals. Mr. Dufau is a graduate of the *Ecole supérieure d'électricité* and president of the SUPLEC Engineers Association.

Jean Simonin, 59, is the former Managing Director of the Consumer Agency of France Telecom S.A. in Toulouse. Mr. Simonin led France Telecom's commercial activities at the DED South West from 1993 to 1996. He directed France Telecom's commercial

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agency in Avignon from 1989 to 1992, and the agency in Nevers from 1986 to 1989. Prior to 1986, Mr. Simonin held various positions at France Telecom S.A. in Nevers, Cluses, Evry and Paris. He is a director of AFTAS. Mr. Simonin graduated from the *Centre national des arts et métiers*.

Directors representing the State

Pierre-Mathieu Duhamel, 48, is the Budget Director at the Ministry of the Economy, Finance and Industry. He was ministerial assistant in the Budget Department of the Ministry of the Economy, Finance and Industry from 1981 to 1985. From 1985 to 1987, Mr. Duhamel was Assistant Managing Director of the Directorate of the *Département des Hauts de Seine*. From January 1988 to May 1988, Mr. Duhamel was joint counselor to the State Minister, the Minister for the Economy, Finance and Privatization and the Minister for the Budget. From June 1988 to October 1988, Mr. Duhamel was head of the Budget Department. From November 1988 to April 1991, Mr. Duhamel was Managing Director of the *Département des Hauts de Seine*. From May 1991 to April 1992, he was Deputy Director at the Paris City Hall. From May 1992 to November 1992, Mr. Duhamel was Director of Finance and Economic Affairs of the City of Paris. From December 1994 to April 1995, he served as Director of Public Accounting at the Budget Ministry. From May 1995 to February 1996, Mr. Duhamel served as Deputy Director to the Prime Minister. From March 1996 to May 1999, he was Director of Customs and Indirect Taxes. In 1999, Mr. Duhamel became General Secretary of Louis Vuitton – Moët – Hennessy, a position he held until April 2000. In May 2000, Mr. Duhamel was named Ministerial Financial Advisor to the French delegation to the OECD, a position he occupied until November 2002. Mr. Duhamel is on the boards of Air France-KLM, Electricité de France and SNCF. Mr. Duhamel is a graduate of the *Institut d'études politiques de Paris* and studied at the *Ecole nationale d'administration*.

Jean-Pierre Jouyet, 50, is Ambassador for international economic affairs and Chairman of the Club de Paris. In 1980, Mr. Jouyet was appointed Inspector of Finances at the General Inspectorate of Finances and, in 1983, General Reporter of the Tax Council mission to study measures to simplify taxation. He was Bureau Chief of the tax legislation department from 1984 to 1986, then in charge of sub-section D (revenues tax and indirect taxes) in 1988. Mr. Jouyet was Chief of Staff for Roger Fauroux, Minister for Industry and National and Regional Development from 1988 to 1991. From 1991 to 1994, Mr. Jouyet was director of the Cabinet of Jacques Delors, President of the Commission of the European Union and, from 1994 to 1995, Chief of Staff of the European Commission. From 1995 to 1997, Mr. Jouyet was a partner at the law firm of Jeantet et Associés and, from 1997 to 2000, served Deputy Chief of Staff for Prime Minister Lionel Jospin. Mr. Jouyet is a graduate of the *Institut d'études politiques de Paris*, and holds a DEA degree in public law. He is also a graduate of the *Ecole nationale d'administration*.

Jacques de Larosière, 75, is Honorary Chairman of the *Observatoire de l'épargne européenne* and co-Chairman of Eurofi. He has served as an advisor to Paribas (which became BNP Paribas) since 1998 and as Chairman of the European Bank for Reconstruction and Development (EBRD) from 1993 to 1998. Mr. de Larosière was also Chairman of the Board of Governors for the Group of Ten from 1990 to 1993. He was the Governor of the Banque de France from 1987 to 1993 and Managing Director of the International Monetary Fund from 1978 to 1987. Prior to 1978, Mr. de Larosière held various positions in the French Ministry of the Economy, Finance and Industry, including Treasury Director. Mr. de Larosière is a graduate of the *Université de Paris*, the *Institut d'études politiques de Paris*, and the *Ecole nationale d'administration*.

Daniel Samuel-Lajeunesse, 56, has been Managing Director of the State Holdings Agency (*Agence des Participations de L'Etat*) within the Ministry of the Economy, Finance and Industry since 2003. He is also a director of Alstom, CNP, Gaz de France and Thalès. As a Civil Administrator from 1973 to 1983 in the Treasury Department of the Ministry of Finance, his responsibilities included management of State funds, financial markets and currency markets. He was also an alternate director for France with the International Monetary Fund in Washington from 1977 to 1979. From 1983 to 1985, Mr. Samuel-Lajeunesse served as Deputy Director of Multilateral International Affairs within the Treasury Department, then between 1985 and 1986 as Deputy Director in charge of the State holdings within the same department. In 1986, Mr. Samuel-Lajeunesse was appointed Director of International Affairs within the Treasury Department. In this position, he was a member of the Monetary Committee of the EEC and co-Chairman of the Paris Club. In 1992, Mr. Samuel Lajeunesse became Chairman and Chief Executive Officer of Lyonnaise de Banque, a general commercial bank and subsidiary of CIC. At the same time, he served as Chairman and Chief Executive Officer of Banque de Vizille, the only commercial bank in the region and a subsidiary of Lyonnaise de Banque. In 2003, Mr. Samuel-Lajeunesse was named Managing Director of the newly-formed Agence des Participations within the Ministry of the Economy, Finance and Industry. Mr. Samuel-Lajeunesse is a graduate of the *Institut d'études politiques de Paris* and holds a Master's degree in economics from *Université de Paris-Assas*. He also studied at the *Ecole nationale d'administration*.

Henri Serres, 54, has been Managing Director of Information Systems Security at the General Secretariat for National Defense since March 2000. He was appointed as French representative for the European Network and Information Security Agency

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(ENISA) in 2004. Mr. Serres served in the cabinet of André Giraud, Minister of Industry from 1978 to 1980 and then served as Technical Director at the Ministry of Defense from 1981 to 1986. Mr. Serres was Director of Public Radiotelephony Business at Matra Communication from 1986 to 1989. He was a director of the Department of Communications and Service Industries at the Industry Division from 1989 to 1996, and served as Vice-Chairman of CSC Peat Marwick from 1996 to 2000. Mr. Serres is a graduate of the *Ecole polytechnique* and the *Ecole nationale supérieure des Télécommunications*.

Directors elected by the employees

Alain Baron, 54, works at France Telecom's research and development center in Issy-les-Moulineaux. Mr. Baron has been an employee of France Telecom since 1977.

René Bernardi, 47, is Chairman of the Association @toulolo (organizing holidays for children of France Telecom employees) since May 2004. Mr. Bernardi previously held various senior trade union roles between 1992 and 2004 in Drôme, the Rhône Alpes region and in the post and telecommunications trade union federation. He started his career with France Telecom in 1977 in the National Network Division and organized the customer problem tracking activity at the Main Operations Unit in Montélimar from 1988 to 1992.

Jean-Michel Gaveau, 52, is supervisor of Telecommunication Lines Work at the Regional Network Unit in Rouen. He has been an employee of France Telecom since 1977.

Independent Directors

The board of directors stated during its meeting of March 3, 2004 that five directors may be considered independent according to the criteria of the Medef/AFEP Report of October 2003 on corporate governance for listed companies. They are Marcel Roulet, Stéphane Richard, Arnaud Lagardère, Henri Martre and Bernard Dufau, all of whom are directors elected by the shareholders' meeting of February 25, 2003.

The other directors are either representatives of the French State or are employees of France Telecom S.A. or former employees of France Telecom S.A. within the past five years and, as such, may not be considered independent according to the Medef/AFEP Report criteria.

The criteria of independence set forth in the Medef/AFEP Report are enumerated below. An independent director:

- is not an employee or officer of the company, an employee or director of its parent company or of a company that it consolidates, and has not served in any of these capacities during the previous five years;
- is not an officer of another company in which the company holds, directly or indirectly, a position on the board of directors, or in which an employee designated as such or an officer of the company (either presently or within the last five years) serves on the board;
- is not a significant customer, supplier, commercial banker or investment banker of the company or its group, or for which the company or its group represents a significant share of business;
- does not have close family ties with a company officer;
- has not been an auditor of the company within the last five years;
- has not been a director of the company for more than twelve years.

Internal Guidelines

On July 17, 2003, the board of directors adopted internal guidelines within the framework of the Bouton report's recommendations concerning the improvement of corporate governance for listed companies. France Telecom's internal guidelines are available on its website (www.francetelecom.com, under the heading "our organization/board of directors"). In addition, a copy of the internal guidelines is attached to the report of the Chairman of the board of directors made in accordance with Article L. 225-37 of the French Commercial Code relating to the conditions of preparing and organizing the work of the board of directors and the internal control procedures implemented by the company, which is attached to this *Document de Référence*. The principal provisions of the internal guidelines include the following:

Preparation and organization of the work of the board of directors

Strategic policies

The board of directors presides over all decisions relating to the company's major strategic, economic, employment, financial or technological policies and monitors the implementation of these policies by management. The Chairman is responsible for

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implementing the strategic policies identified each year by the board of directors after examination and advice by the Strategy Committee and the Policy Committee of the board. The Chairman must obtain the authorization of the board of directors to engage the company in investments or divestitures involving amounts in excess of €200 million per transaction, when such transactions are acquisitions or disposals. In addition, any investment greater than €20 million that does not fall within the company's strategic policies must first be approved by the board of directors.

The Chairman informs the board of directors of any problems and, more generally, any events that could affect the implementation of a strategic policy.

Information for Directors

In addition to the agenda for each meeting of the board of directors, each director shall be provided with documents that allow him or her to adopt positions with full knowledge of the facts regarding the items on the agenda.

At each board meeting, the Chairman reports to the members the principal facts and significant events concerning the Group which have occurred since the date of the previous board meeting.

Directors may visit any France Telecom S.A. facility, or place of business in order to obtain any information required to perform their duties. To do so, directors must submit a written request to the Chairman via the secretary of the board of directors explaining the purpose of such a visit. The general secretariat of France Telecom defines the terms of access and organizes the conditions of such visits, to ensure that they do not disturb the smooth functioning of the place of business.

Inspection by the board of directors

The Chairman of the board of directors or the Chairman of the audit committee informs the board of directors of any inspection or verification (see section 6.1.2 "*Committees of the Board of Directors*"). In any case, the board of directors shall deliberate on such issues within the shortest possible time.

When the board of directors decides that it should do so, it specifically defines the purpose and methods of such an inspection in a resolution, and either conducts such an inspection itself or entrusts it to one of its committees, one of its members, or a third party.

The Chairman shall define the conditions for the performance of the inspection or verification. In particular, measures are taken to ensure that the performance of such an operation causes the least possible disruption to the Group's activity. Interviews with Group employees shall be organized when necessary.

The Chairman shall ensure that useful information for any inspection or verification is provided to the person performing such inspection or verification. The person performing such an inspection or verification is not authorized to interfere with the management of the business.

On completion of the inspection or verification, the findings are reported to the board of directors. The board determines any follow-up action to be taken.

Possibility of giving an assignment to a director

When the board of directors decides that it should entrust one or more of its members, or a third party, with an assignment, it will formulate the principal characteristics of the assignment. When the persons responsible for performing the assignment are members of the board of directors, they do not take part in the vote. On the basis of such a resolution and at the Chairman's initiative, a draft assignment letter is drawn up defining the precise purpose and duration of the assignment, setting the form of the assignment report and determining, where appropriate, the compensation due to the persons performing the assignment.

The Chairman shall submit the draft assignment letter, where appropriate, for opinion to the Compensation, Selection and Organization Committee and to other interested board committees and shall deliver the signed assignment letter to the chairmen of these committees.

The report shall be delivered by the Chairman to the directors of the company.

The board of directors shall consider the follow-up measures, if any, to be adopted in respect of the report.

Committees of the board of directors

In order to carry out its work, the board of directors has created a number of committees (see section 6.1.2 "*Committees of the Board of Directors*").

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Meetings of the board of directors

Each year, on the Chairman's recommendation, the board of directors sets a calendar of board meetings for the following year.

This calendar sets the dates of regular board meetings (relating to the first and third quarter revenues, results for the first six months of the year, a meeting prior to the annual shareholders' meeting, etc.) and, on a provisional basis subject to review, the dates to be set aside by the directors for possible additional board meetings.

The Chairman sets the agenda for each board meeting and communicates the agenda to the board members in a timely manner and through all appropriate means.

The documents that allow the directors to make fully informed decisions on the items included on the agenda set by the Chairman are transmitted by the Chairman to the directors at least 48 hours before the board meeting, except in emergency situations or where there is a need to preserve absolute confidentiality.

In any case, during any meeting the board of directors may, in emergencies and upon recommendation of the Chairman, deliberate issues not included on the agenda.

The board of directors reports once a year on its operations and reviews the proposals made in this regard by the Compensation, Selection and Organization Committee (see – "Evaluation of the board of directors" below).

Duties and responsibilities of directors

Confidentiality

The members of the board of directors are bound by an absolute obligation of confidentiality with respect to the discussions and resolutions of the board of directors and its committees, and information presented at the meetings. In general, the members of the board of directors are required not to disclose any such information to anyone outside the board of directors, in particular to the press.

The Chairman informs the directors of the information to be disclosed to the markets, as well as the text of statements issued for this purpose in the name of France Telecom S.A.

In the event of a demonstrated failure by a director to honor his or her confidentiality obligation, the Chairman of the board, after consulting with committee chairmen, shall report to the board on any actions, including legal actions, that he intends to pursue as a result of this breach of confidentiality.

Independence

In the performance of his or her duties, each director must make decisions independently of any interest other than that of the company.

Each director is required to inform the Chairman of any situation that could create a conflict of interest with the company or one of the companies of the Group; if necessary, the Chairman shall consult the Compensation, Selection and Organization Committee on any such question. The director concerned shall then act accordingly pursuant to applicable legislation. In accordance with the provisions of Articles L. 225-38 and L. 225-40 of the French Commercial Code, any agreement other than an agreement relating to daily operations and entered into under normal conditions, directly or through an intermediary between the company and, in particular, one of its directors, must be submitted for the prior approval of the board of directors. The interested party may not take part in the vote for the requested approval.

The members of the board of directors shall register in their own name any France Telecom shares of the company they hold at the time they are appointed to the board, as well as any shares acquired during their tenure as board members.

Moreover, in accordance with the provisions of Article 222-14 of the AMF's new General Regulation (implementing Article L. 621-18-2 of the French Monetary and Financial Code), France Telecom informed its directors that it is under the obligation to notify the AMF and disclose to the public by means of a press release, within five days of trading following receipt of the interested party's declaration, purchases, disposals, subscriptions and exchanges of France Telecom's financial instruments and transactions carried out in relation to these instruments with other financial instruments, realized by members of the board of directors and persons having close personal relations with them in accordance with the conditions that shall be defined by a government (*Conseil d'Etat*) decree.

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The members of the board of directors are prohibited from:

- performing any transactions with respect to the securities of the listed companies of the Group as long as they have confidential information; and
- directly or indirectly engaging in short sales with respect to such securities.

The first prohibition above applies, in particular, during the period in which the Group's half-year and annual earnings as well as quarterly information are being prepared and presented. It also applies during special periods during which projects or transactions that justify such a prohibition are being prepared.

The Chairman shall set or confirm the start and end dates of the above-mentioned periods and shall notify the directors of such periods in a timely fashion.

The Code of Ethics, as described below, specifies in particular the rules governing confidential information and applies to the members of the board and its committees.

The Chairman shall report to the board of directors on the measures adopted to ensure that the employees of the Group, who by reason of their position have such information and/or participate in such transactions, comply with these rules.

Diligence

In accepting a board position, each director undertakes to fully discharge the duties of the position, in particular:

- to devote the time necessary to analyze the issues brought before the board of directors and, as applicable, the committee on which he or she serves;
- to request any additional information he or she deems useful;
- to ensure that the internal guidelines of the board of directors are applied;
- to form an opinion freely before any decision, considering only the interest of the company;
- to actively participate in all meetings of the board, except when unable to do so; and
- to devise any proposals which may improve the working conditions of the board and its committees.

The board of directors will continually work to improve the information communicated to shareholders. Each director, particularly through his or her contribution to the work of the board committees, must strive to achieve this objective.

Each director undertakes to resign his or her position on the board when he or she believes in good faith that he or she is no longer in a position to fully assume the obligations of the position.

Activity of the current Board of Directors

During the 2004 financial year, the board of directors met 16 times. On average, 16 of the 21 directors attended the board meetings in 2004. The average board meeting lasted three hours. In general, one or more board committees met prior to the meeting in order to prepare its deliberations.

The board's main activities were as follows:

- Review of the accounts and results: the board of directors approved the annual and half-year corporate and consolidated accounts, management reports and agreements with related parties. It examined quarterly revenues and key results. It approved the reports and resolutions submitted to the shareholders' meeting and the replies to the shareholders' written questions. It examined the budget for 2004. In addition, the board of directors was presented with an update regarding the progress and impact of the projects relating to the implementation of the IFRS accounting standards and the US Sarbanes-Oxley Act.
- Review and approval of strategic operations: the board of directors deliberated or was informed regarding the following offers or transactions: offer for Orange shares, offer for Wanadoo shares, IPO of PagesJaunes S.A., merger of Wanadoo S.A. and Wanadoo France within France Telecom S.A., disposal of Orange Denmark, disposal of the cable network activity, indirect disposal of shares in STMicroelectronics.

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- Corporate governance: the board of directors examined the internal guidelines of the board committees and the implementation of the Ethics Committee. It examined the report drawn up by the Chairman in accordance with Article L. 225-37 of the Commercial Code relating to the conditions for preparing and organizing the board of directors' work and the internal control procedures.

The board of directors was informed of the changes to France Telecom's structure at the end of March 2004. In September 2004, it deliberated on the actions to be taken following the transfer of France Telecom to the private sector (arrangements for exercising general management, election of directors representing the employees).

- Strategic and regulatory issues: the board of directors was presented with an update regarding strategic or regulatory issues and, in particular, the French law of December 31, 2003 relating to public service obligations imposed on the telecommunications industry and to France Telecom, the "Broadband" strategy and the communication presented during the Investor Day in June 2004.

Evaluation of the board of directors

The Compensation, Selection and Organization Committee sets forth proposals for the proper functioning of the board of directors. At the board meeting held on July 17, 2003, the board of directors determined that it would evaluate the functioning of the board once per year and would examine at that time proposals relating to the functioning of the board set forth by the Compensation, Selection and Organization Committee.

During its meeting held on December 13, 2004, the board of directors examined the Compensation, Selection and Organization Committee's proposals with a view to examining the functioning of the board of directors, and asked the Compensation, Selection and Organization Committee to carry out, with the General Secretariat's assistance, work relating to evaluation of the board's composition, organization and functioning.

The first stage of evaluation of the board shall involve a questionnaire (composition of the board, role and powers, functioning of the board, etc.) and an analytical form. During the second stage, one-on-one meetings with each of the directors shall be held to enable, in particular, the directors to comment on and complete the responses given in their questionnaire. A summary of these meetings shall be drawn up and submitted to the Chairman of the Compensation, Selection and Organization Committee. A report shall be made to the board of directors during the first six months of 2005 to allow it to discuss its functioning and suggest options for improving the board's functioning.

Code of Ethics

On December 3, 2003, the board of directors adopted a Code of Ethics (available on France Telecom's website at www.francetelecom.com, under the heading "corporate responsibility/ethics"). The Code of Ethics applies to each director, manager and employee of France Telecom.

It sets forth the values of the Group, its principles of action with respect to its customers, shareholders, employees, suppliers and competitors, as well as the environment and the countries in which the Group operates.

The Code of Ethics also sets forth certain principles of behavior that each employee, director and manager of France Telecom must respect. Such principles promote honest and ethical behavior on the part of these individuals and also accurate, complete and timely communication of information to the public.

In accordance with the rules in effect since 1997, the Code of Ethics reiterates the current standards and rules relating to market ethics and the need to comply completely with them. The Code of Ethics imposes certain preventive measures and, in particular, prohibitions on transactions carried out by "permanent insiders" (in particular, by directors and officers), for certain periods of time relating to securities of France Telecom S.A. and the other listed companies of the Group.

Reporting of misconduct and fraud

The Code of Ethics stipulates that France Telecom must ensure that measures exist in all Group entities to enable employees to report offenses or frauds of which they are aware, and that such reports are appropriately and promptly handled.

In accordance with these principles, France Telecom implemented a warning system enabling employees to report, through a message system, offenses or frauds of which they may become aware. This system has been operational since January 2005. A procedure has been established in order to ensure that such alerts are processed independently and that the protection of the employees is guaranteed.

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Significant differences between France Telecom's corporate governance practices and the New York Stock Exchange standards applying to U.S. companies

France Telecom has endeavored to take into account the New York Stock Exchange corporate governance standards.

However, as a non-US company, France Telecom is not obliged to comply with the majority of these rules and may choose to follow rules applicable in France.

In this respect, France Telecom has chosen to follow the recommendations of the Medef/AFEP Report of October 2003, which differ in some respects from the New York Stock Exchange corporate governance standards applying to U.S. companies.

In particular, France Telecom has chosen to follow the rules of independence set forth by the Medef/AFEP Report, which provide that one-third of the directors must be independent. Conversely, the New York Stock Exchange standards provide that the board of directors must consist of a majority of independent directors.

France Telecom considers that five of the 15 members of its board of directors may be considered as independent directors in accordance with the criteria of the Medef/AFEP Report. France Telecom has not verified the independence of its directors under New York Stock Exchange standards.

Moreover, France Telecom has chosen to create a single Compensation, Selection and Organization Committee, which consists of a majority of independent directors and does not comprise any officer of the company, in accordance with the recommendations of the Medef/AFEP Report. Conversely, the NYSE standards provide for the implementation of two separate committees (a remuneration and corporate governance committee and a compensation committee) consisting exclusively of independent directors.

6.1.2 COMMITTEES OF THE BOARD OF DIRECTORS

Pursuant to the guidelines set out in the Medef/AFEP Report, the board of directors created the following four specialized committees:

	Year Created	Chairman	Members
Audit Committee	1997	Bernard Dufau ⁽¹⁾	Jean-Pierre Jouyet Jacques de Larosière Stéphane Richard ⁽¹⁾
Compensation, Selection and Organization Committee	2003(2)	Marcel Roulet ⁽¹⁾	Arnaud Lagardère ⁽¹⁾ Henri Serrès
Strategy Committee	2003	Didier Lombard	Pierre-Mathieu Duhamel Denis Samuel-Lajeunesse Henri Martre ⁽¹⁾ Jean Simonin
Policy Committee	2003	Didier Lombard	Alain Baron René Bernardi Jean-Michel Gaveau

⁽¹⁾ Independent director as defined by the Medef/AFEP Report.

⁽²⁾ The Compensation, Selection and Organization Committee replaced the Compensation Committee created in 1997.

The board of directors has adopted internal guidelines for each of these committees.

Audit Committee

Duties of the Audit Committee

The audit committee performs the following duties on behalf of the board of directors:

- review drafts of corporate and consolidated annual and half-year financial statements, as well as the drafts of management reports and reports on activity levels and results;

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- ensure compliance with accounting rules adopted for the preparation of the corporate and consolidated financial statements;
- verify that internal information gathering and control procedures are properly applied;
- ensure the quality and relevance of information disclosed to shareholders;
- organize the procedure for selecting France Telecom's statutory auditors and provide a recommendation to the board of directors regarding the choice of statutory auditors and their terms of compensation;
- study on a yearly basis the respective working plans of the statutory auditors and the internal auditors and examine the internal audit report for the previous year and the list of duties for the current year;
- examine on a yearly basis the management report on the Group's exposure to risks, particularly financial and litigation risks, and material off-balance sheet commitments.

Audit Committee Independence

Pursuant to the internal rules of the Audit Committee, the Chairman of the Audit Committee is chosen by the board of directors, among the independent members, as defined by the Medef/AFEP Report, and the Chairman of the board of directors may not be a member of the Committee.

The Audit Committee is comprised of two independent directors, as defined by the Medef/AFEP Report, and two directors appointed by the French State.

The Audit Committee shall meet as often as is deemed necessary and shall address all questions within the scope of its powers. The Audit Committee may request all documents and information necessary to fulfill its duties and ensure the realization of all internal and external audits. The Audit Committee may meet with the statutory auditors without the presence of executives when examining the draft annual and half-year accounts. All accounting and audit irregularities shall be brought to the attention of the Audit Committee.

Financial Expert

In addition to the requirement that all members of the Audit Committee have an understanding of financial and accounting matters, the Audit Committee must also include among its members at least one person who qualifies as a "financial expert", having served in a position equivalent to financial director, director of accounting, or auditor in a company comparable to France Telecom.

At its meeting held on December 3, 2003, the board of directors recorded that the Audit Committee included at least one financial expert, Mr. Stéphane Richard.

Activity during 2004

The Audit Committee met 15 times in 2004. The Audit Committee met regularly with the Company's executive officers and the principal managers of the Group Finance Department, as well as the internal audit and risk control director and the statutory auditors, in order to examine their action plans and the work that had been accomplished.

The Audit Committee notably examined the following issues in 2004:

- budgets for 2004 and the second half of 2004;
- corporate and consolidated accounts for 2003 and management report;
- report on the board of directors' activities and internal control for the 2003 financial year;
- report on the accounts closing by the statutory auditors;
- distribution to the shareholders in relation to the 2003 financial year;
- half-yearly accounts;
- revenues and main results for the first and third quarters of 2004;
- reconciliation between the accounts based on U.S. GAAP and French GAAP for the annual and half-year accounts and the Form 20-F;
- review of off-balance sheet commitments and litigation;

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- work schedule for the internal audit for 2004;
- update on the progress, key options and foreseeable impact of the IFRS accounting standards and the project launched to apply the Sarbanes-Oxley Act;
- planned offers relating to the repurchase of minority interests in Orange and Wanadoo;
- planned disposals (Orange Denmark, cable network) and transactions with France Telecom's minority partners in BITCO (Thailand) and TP SA (Poland, with the partner Kulczyk Holding); and
- update on proceedings and investigations by the European Commission.

Compensation, Selection and Organization Committee

The duties of the Compensation, Selection and Organization Committee include submitting recommendations to the board of directors relating to the appointment of the board members, the Chairman of the board, and members of the board's committees. The Chairman of the board informs the Compensation, Selection and Organization Committee of all appointments to the Group's Executive Committee.

In addition, the Compensation, Selection and Organization Committee proposes to the Board of Directors the amount of directors' fees to be submitted to the shareholders' meeting for approval, and the method for dividing such compensation among the members of the board.

The Compensation, Selection and Organization Committee also submits proposals to the Board of Directors relating to compensation levels for company officers and, at the Chairman of the Board's request, may be consulted for advice on the methods used to determine the compensation of the members of the Executive Committee.

The Compensation, Selection and Organization Committee makes proposals for improving the functioning of the board of directors and for the regular updating of its internal guidelines (see section 6.1.1 "Board of Directors").

The Compensation, Selection and Organization Committee met six times in 2004. It examined the established objectives and arrangements for calculating the variable component of the Chairman's compensation for each relevant half-year, identified the independent directors and examined the Group's new organization at the end of March and the appointment of the new members of the Executive Committee.

Strategy Committee

The Strategy Committee is consulted on projects related to the Group's development, changes in industrial partnerships and proposed strategic alliances. The Strategy Committee reviews projects for strategic agreements, technology and industrial alliances and cooperation, and material acquisitions and disposals of assets. The Strategy Committee met twice in 2004 to review the action to be taken following France Telecom's successful public offer for Wanadoo as well as the disposal of Orange A/S (Orange Denmark) to TeliaSonera AB.

Policy Committee

The duties of the Policy Committee, which is composed of the directors elected by and representing the employees, and headed by the Chairman of the board, include evaluating the company's major economic, employment and technological policies. In particular, the committee reviews the impact of regulatory changes on the company's strategy.

Following the modification of the by-laws with respect to the composition of the board of directors resulting from the transfer by the French State of the majority of France Telecom's share capital to the private sector and the election of directors by and representing the employees in November 2004, insofar as the provisions of the French law of July 26, 1983 relating to the democratization of the public sector no longer apply to France Telecom, the Compensation, Selection and Organization Committee proposed to the board of directors on December 13, 2004 the amendment of Article 3 of the Policy Committee's internal guidelines in order to stipulate that the latter "is composed of directors elected by and representing the employees and any other individual invited to participate by its Chairman". The board of directors accepted this proposal.

The Policy Committee met eight times in 2004. It examined certain information issues relating to the budget for 2004, the corporate and consolidated accounts for 2003, the employment report for 2003, the amended by-laws submitted for approval at the shareholders' meeting, the Group's new organization (end of March), the half-year accounts, the IFRS accounting standards and other strategic operations or issues (offers relating to Orange and Wanadoo, the disposal of Orange Denmark, strategic actions relating to the Voice over Internet Protocol and "unlimited calling" offers).

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When the Chairman of the board of directors cannot attend the meetings of the Policy Committee, it is headed by Olivier Barberot, Executive Director, Development and Optimization of Human Competencies Program.

6.1.3 CHAIRMAN OF THE BOARD OF DIRECTORS

Appointment and revocation

The general corporate law now applicable to France Telecom provides that the Chairman shall be appointed by the Board of Directors from among its members who are natural persons, by a majority vote and that the Chairman may be removed at any time by decision of the Board.

Powers of the Chairman of the Board of Directors

The Chairman of the board of directors shall represent the board of directors. He shall organize and direct the board's work, which he shall report on to the shareholders' meeting. He shall ensure the proper functioning of the governing bodies of France Telecom S.A. and, in particular, that the directors are able to carry out their duties.

In accordance with Article 29-1 of French law no. 90-568 of July 2, 1990, as amended, and, with effect from the transfer of the majority of the company's share capital to the private sector, with Article 29-2, the Chairman of the board of directors has the power to appoint and manage the civil servants employed by the company.

6.1.4 GENERAL MANAGEMENT

France Telecom's by-laws provide that with effect from the transfer of the majority of the company's share capital to the private sector, the company's general management shall be exercised under the responsibility of, either the Chairman of the board of directors (who shall then assume the title of Chairman and Chief Executive Officer) or, if applicable, by another person appointed by the board of directors and holding the title of Chief Executive Officer.

The board of directors shall decide between these two arrangements for the exercise of general management. In its meeting held on September 7, 2004, the board of directors opted to combine the offices of Chairman and Chief Executive Officer, without any restrictions on powers other than those set forth in Article 1 of the internal guidelines of the board.

Article 1 provides that the Chairman must obtain the authorization of the board to engage the company in investments or divestitures involving amounts in excess of €200 million per transaction, when such transactions are acquisitions or disposals. In addition, any investment greater than €20 million that does not fall within the company's strategic policies must first be approved by the board of directors.

The Chairman and Chief Executive Officer implements France Telecom S.A.'s strategy in accordance with the policies decided by the board of directors. He represents the company in its relations with third parties.

The Chairman and Chief Executive Officer is granted the widest powers to act on behalf France Telecom S.A. in all circumstances. He exercises his powers within the limits of the corporate purpose and subject to the powers expressly attributed by law to the shareholders' meetings and the board of directors.

The Chairman and Chief Executive Officer may delegate a portion of his powers to as many agents as he deems appropriate.

The Chairman and Chief Executive Officer implemented a delegation of powers and signatures for each member of the Executive Committee. Each member of the Executive Committee then established its own delegations within his or her area of responsibility.

Following the resignation of Mr. Thierry Breton, the Board of Directors meeting of February 27, 2005 appointed Mr. Didier Lombard as Chairman and Chief Executive Officer of France Telecom (see section 7.1 "Recent Events").

6.1.5 DELEGATED MANAGING DIRECTOR (DIRECTEUR GÉNÉRAL DÉLÉGUÉ)

At the proposal of the Chairman and Chief Executive Officer, the board of directors may appoint one or more individuals to assist the Chairman and Chief Executive Officer with the title of Delegated Managing Director (*Directeur Général Délégué*). The maximum number of Delegated Managing Directors is five. In agreement with the Chairman and Chief Executive Officer, the board of directors determines the extent and duration of the powers granted to the Delegated Managing Directors.

To date, the board of directors of France Telecom S.A. has not appointed any Delegated Managing Directors.

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6.1.6 EXECUTIVE OFFICERS

The following table sets forth the names of the executive officers of France Telecom and their position as at the date of this *Document de Référence*.

Name (age)	Position	Date Position Assumed	Date Appointed to Executive Committee
Didier Lombard (63)	Chairman and Chief Executive Officer	February 2005	April 2003
Jacques Champeaux (57)	Senior Vice President assisting Didier Lombard for Regulatory Affairs	March 2004	January 1996
Olivier Barberot (50)	Senior Executive Vice President, Development and Optimization of Human Competencies	March 2003	March 2003
Didier Lombard (63)	Technologies, Strategic Partnerships and New Usages	April 2003	April 2003
Michel Combes (42)	Senior Executive Vice President, Financial Rebalancing and Value Creation	February 2005	January 2003
Stéphane Pallez (45)	Senior Vice President, assisting Michel Combes in Financial Rebalancing and Value Creation	April 2004	April 2004
Didier Quillot (46)	Senior Vice President, Marketing and Branding Coordination, in charge of Orange France	March 2004	March 2004
Operational Divisions:			
Barbara Dalibard (46)	Executive Vice President, Enterprise Communication Services	January 2003	January 2003
Olivier Sichel (37)	Executive Vice President, Home Communication Services	March 2004	January 2003
Didier Lombard (63)	Chairman of Orange, Personal Communication Services	February 2005	April 2003
Sanjiv Ahuja (48)	Executive Vice President, Personal Communication Services, CEO of Orange	March 2004	March 2004
Michel Davancens (57)	Executive Vice President, Sales and Services France, under responsibility of Michel Combes	March 2004	January 2003
Jean-Paul Cottet (50)	Executive Vice President, International	January 2003	September 2002
Performance Divisions:			
Jean-Philippe Vanot (52)	Senior Vice President, Networks, Carriers and Information Technology	March 2004	January 2003
Pascal Viginier (47)	Senior Vice President, Research & Development	March 2004	March 2004
Louis-Pierre Wenes (56)	Senior Vice President, Sourcing	January 2003	January 2003
Jean-Paul Cottet (50)	Executive Vice President, TOP Program	March 2004	September 2002
Patricia Langrand (41)	Senior Vice President, Content Aggregation	March 2004	March 2004
Support Functions:			
Michel Combes (42)	Senior Executive Vice President, Finance, Chief Financial Officer	January 2003	January 2003
Olivier Barberot (50)	Senior Executive Vice President, Management Networks and Internal Communications	March 2004	March 2003
Bernard Bresson (55)	Senior Vice President, Human Resources	January 2003	January 2003
Jean-Yves Larrouturou (43)	Senior Vice President, General Secretary	March 2004	March 2004
Marc Meyer (46)	Senior Vice President, External Communications	January 2003	January 2003

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Didier Lombard, 63, was appointed Chairman and Chief Executive Officer of France Télécom on February 27, 2005. He was appointed Senior Executive Vice President of Technologies, Strategic Partnerships and New Usages in April 2003. He began his career in France Telecom's R&D in 1967 where he worked on developing a number of new products for France Telecom in relation to satellite and wireless systems. From 1988 to 1990, he was the scientific and technical director at the Ministry of Research and Technology and then acted as general manager of industrial strategy at the Ministry of the Economy, Finance and Industry from 1991 to 1998. Prior to his nomination, Mr. Lombard also served as an ambassador for international investment for several years and was the Chairman of the French agency for international investment. He is also a director of Thomson and a member of the Supervisory Boards of STMicroelectronics and Radial. Mr. Lombard is a graduate of the *Ecole Polytechnique* and the *Ecole Nationale Supérieure des Telecommunications*.

Jacques Champeaux, 57, was appointed Senior Vice President assisting the Chairman and Chief Executive Officer for Regulatory Affairs in March 2004. He was appointed General Secretary in January 2003 and previously held the office as Corporate Senior Vice President of the Business Division since January 1996. Prior to being appointed to these positions, Mr. Champeaux held senior management positions in several of France Telecom S.A.'s subsidiaries. From 1992 to 1995, he served as Chief Executive Officer of Cogecom (the holding company, at the time, for most of France Telecom S.A.'s subsidiaries); from 1990 through 1991, he was Chief Executive Officer of Telecom Systèmes Mobiles; from 1987 through 1989, he was Chief Executive Officer of Transpac; and from 1983 through 1987, Mr. Champeaux served as Chief Executive Officer of the Compagnie Auxiliaire des Telecommunications (France Telecom S.A.'s venture capital company). Mr. Champeaux joined France Telecom in 1971 and, until 1983, worked at the CNET, the predecessor of France Telecom Research and Development, where he was successively in charge of research for electronic switching, networks, and finally the Services Division. Mr. Champeaux is a graduate of the *Ecole polytechnique* and the *Ecole nationale supérieure des Telecommunications*.

Olivier Barberot, 50, was appointed Senior Executive Vice President of Development and Optimization of Human Competencies in March 2003 under the "Ambition FT 2005" Plan and was named head of Management Networks and Internal Communication in March 2004. After several engineering positions held until 1985, Mr. Barberot was the General Secretary of the Futuroscope in Poitiers from 1985 to 1991, then the General Secretary of the CGI until 1993. From 1993 to 1997, he was the General Secretary of the *Université Léonard de Vinci*. He was Director of Human Resources and a member of the Executive Committee of the Thomson Group (formerly Thomson Multimedia) between July 1997 and March 2003. Mr. Barberot is a graduate of the *Ecole des Mines de Paris*.

Michel Combes, 42, was appointed Senior Executive Vice President of Financial Rebalancing and Value Creation in February 2005. He was appointed Senior Vice President of Group Finance and Chief Financial Officer in January 2003. Mr. Combes began his career at France Telecom in 1986 in the External Networks Division, and then moved to the Industrial and International Affairs Division. He was appointed technical advisor to the Minister for Postal Services, Telecommunications and Space in 1991, and then to the Minister for Equipment, Transportation and Tourism. Mr. Combes re-joined France Telecom in June 1995 as Deputy Managing Director of TDF, a position he held from June 1996 until the end of 1999 while also serving as Chairman and Chief Executive Officer of GlobeCast. He then served as Executive Vice President of the Nouvelles Frontières group from December 1999 to the end of 2001, when he moved to the position of Chief Executive Officer of ASSYSTEM, a company specializing in industrial engineering. Michel Combes is Chairman of the Board of Directors of PagesJaunes and Chairman of the Supervisory Board of ASSYSTEM-BRIME. Mr. Combes is a graduate of the *Ecole polytechnique* and the *Ecole nationale supérieure des Telecommunications*.

Stéphane Pallez, 45, was appointed Senior Vice President assisting the Senior Executive Vice President in charge of Financial Rebalancing and Value Creation in April 2004. Prior to joining France Telecom, Stéphane Pallez was Head of the Department for European and International Affairs at the Treasury Department of the Ministry of the Economy, Finance and Industry, Chairman of the *Club de Paris* and Director of the European Investment Bank between 2000 and 2004. During her career at the Treasury Department, she held the position of Deputy in charge of State Holdings between 1998 and 2000 and Deputy Director for Insurance. Between 1991 and 1993, she was a technical advisor on industrial matters to the Cabinet of the Minister of Economy and Finance, successively Pierre Béregovoy then Michel Sapin. Between 1988 and 1990, she was a Substitute Director at the World Bank in Washington D.C. Stéphane Pallez is a graduate of the *Institut d'études politiques de Paris* (1980) and *Ecole nationale d'administration* (1984). She is a Knight of the French *Ordre National du Mérite*.

Didier Quillot, 46, was appointed Senior Vice President for Marketing and Branding Coordination in March 2004. Didier Quillot is also Chairman and Chief Executive Officer of Orange France. He joined France Telecom Mobiles in 1994 as Managing Director of France Telecom Mobile Services (France), formerly Cellway, and became Managing Director of France Telecom Mobile

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(Itineris) in 1999. He previously worked for the Canal+ Group as Vice-Chairman and Director of Tonna Electronique, the Group's industrial subsidiary. Didier Quillot is an electronic engineering graduate of INSA in Toulouse and is a graduate in management and international finance of the *Institut d'Administration des Entreprises de Paris*. Didier Quillot is a Knight of the French *Ordre National du Mérite*.

Barbara Dalibard, 46, was appointed Executive Vice President of Enterprise Communication Services in April 2004. She had served as Executive Vice President of the Corporate Solutions Division since January 2003. Ms. Dalibard began her career with France Telecom S.A. in 1982, holding various commercial sales management positions. In 1998, Ms. Dalibard joined Alcanet International S.A.S., a subsidiary of the Alcatel Group, as Chairman, then joined Alcatel CIT as commercial director for new operators, before becoming sales director for France. Ms. Dalibard returned to France Telecom S.A. in early 2001 to become Director of Business Markets for Orange France and Vice President of Orange Business. Ms. Dalibard is a graduate of the *Ecole normale supérieure*, a qualified maths teacher and a graduate of the *Ecole nationale supérieure des Telecommunications*.

Olivier Sichel, 37, was appointed Executive Vice President of Home Communication Services in March 2004. In January 2003, he was appointed Executive Vice President in charge of Wanadoo. Mr. Sichel joined France Telecom in 1998 as manager of the distribution network of the Luxembourg agency in Paris and then managed the France Telecom agency in Neuilly-sur-Seine for two years, which covers the northern half of the Hauts de Seine. Since September 2000, he managed Wanadoo's e-Commerce activities, including the "alapage.com" site for cultural goods and the Marcopoly site for equipment. Mr. Sichel, an Inspector of Finances, is a graduate of ESSEC and the *Ecole nationale d'administration*.

Sanjiv Ahuja, 48, was appointed Executive Vice President of Personal Communication Services at France Telecom and Chief Executive Officer of Orange S.A. in March 2004. He joined Orange in April 2003 as Chief Operating Officer. Before joining Orange, Sanjiv Ahuja was Chief Executive Officer of Comstellar Technologies, a company developing and marketing new communication technologies. He previously held the office as Chairman of Telcordia Technologies (formerly Bellcore), the largest worldwide provider in support and network software systems and consulting and engineering services for the Telecommunications sector. Sanjiv Ahuja is an electrotechnics graduate from the University of Delhi and holds a Masters in Computing from the University of Columbia in New York.

Michel Davancens, 57, was appointed Executive Vice President of Sales and Services France in March 2004. He was appointed to the Executive Committee in January 2003, when he was in charge of Group Management Networks. Mr. Davancens began his career at France Telecom in 1971 at the National Center for Telecommunications Studies prior to joining the General Telecommunications Division in the Programs and Financial Affairs department in 1977. After being assigned to the National Education Ministry in 1980, where he was assistant to the director of scientific and technical information, Mr. Davancens headed operations in Tours. From 1988 to 1991, Mr. Davancens was seconded to the Paris City Hall to head the IT and Telecommunications Division, after which he re-joined France Telecom S.A. as Executive Vice President of Information Systems. After serving as Deputy Corporate Senior Executive Vice President for Ile de France from 1988 to 2002, Mr. Davancens took over as Vice President of Management of Senior Executives and Managers. Mr. Davancens is a graduate of the *Ecole polytechnique* and the *Ecole nationale supérieure des Telecommunications* and holds a post-graduate diploma in information technology. He is a Knight of the French Legion of Honor and an Officer of the French *Ordre National du Mérite*.

Jean-Paul Cottet, 50, was appointed Executive Vice President of the International Division and the TOP Program in April 2004. Mr. Cottet began his career at France Telecom S.A. in 1980, in the Provence Alpes Operational Division in charge of the Transmission Lines department, before becoming Teletel project manager at the regional office in Marseille and then heading the Commercial and Telematics group at the regional office in Marseilles. After serving as project manager in 1985 at the *Commissariat Général au Plan* (the government's policy office) and then as technical adviser to the Cabinet of the Ministry of Postal Services and Telecommunications in 1986, Mr. Cottet assumed the reins of the Operational division of Melun in 1988. After heading from 1992 the Professional Marketing and Sales Department then the Professional Accounts division of the Consumer branch, Mr. Cottet held the position of Vice President for Consumer Shareholding in 1995 at the time of the IPO of France Telecom before becoming regional vice-president for Paris (1998-2002). He was appointed Senior Vice President for Communications and External Relations in 2002, then Corporate Senior Vice President of the Information Systems Division and International Division in January 2003. Mr. Cottet is a graduate of the *Ecole polytechnique* and the *Ecole nationale supérieure des Telecommunications*. He is a Knight of the French *Ordre National du Mérite*.

Jean-Philippe Vanot, 52, was appointed Senior Vice President of Networks, Carriers and IT in March 2004. He was in charge of Networks & Carriers since January 2003. Jean-Philippe Vanot has spent his entire career at France Telecom S.A., having joined

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the company in 1977 in the National Network Division, and he has a diverse technical and operational background. Regional vice-president in Créteil and then in Bagnolet, Mr. Vanot has occupied several divisional vice president positions at the Networks Branch since 1996 (International Networks Vice President, Longue Distance Networks Vice President and Regional Vice President for Paris). Jean-Philippe Vanot is a graduate of the *Ecole polytechnique* and the *Ecole nationale supérieure des Telecommunications*.

Pascal Viginier, 47, was appointed Senior Vice President of Research and Development in March 2004. Pascal Viginier started his career with France Telecom's Central Computing Department in 1981. He joined the Group's Large Accounts Department in charge of commercial relations with the largest companies in 1986 as a commercial engineer. In 1989, he became head of the commercial unit in charge of the services and transports sector. In 1990, he was appointed as Regional Vice President for Narbonne, where he managed all France Telecom's operational units in the Aude and Pyrénées Orientales regions. He was subsequently transferred to the Information Systems Division in Paris in 1994 and took up a more strategic position as Section Manager for the management and consistency of Information Systems at France Telecom. Since 1998, driving the new strategic policies, he was successively Vice President at CNET, France Telecom R&D and then the R&D Division of France Telecom. Pascal Viginier is a graduate of the *Ecole polytechnique* and the *Ecole nationale supérieure des Telecommunications*, as well as the *Institut d'Administration des Entreprises*. He is a Knight of the French *Ordre National du Mérite*.

Louis-Pierre Wenes, 56, was appointed Senior Vice President of Sourcing and Performance Improvement in January 2003, which became the Sourcing division in March 2004. Mr. Wenes began his career in 1972 at Matra Automobile, first as production engineer, then as Vice President of Quality Control. He held the post of Industrial Director at Matra Electronique from 1977 to 1981. Mr. Wenes then became Chairman and Chief Executive Officer of Comelin (printed circuits) until 1985. Mr. Wenes was Director of the German subsidiary of Matra Datavision and then Vice President of that company for Europe and eastern European countries, before joining the firm of Coopers and Lybrand in 1989, where he headed the Industry and Logistics division. Mr. Wenes was then appointed Vice President at Gemini Consulting from 1994 to 1996, before being appointed Vice President of A.T.Kearney Paris, a position which he held until now. Mr. Wenes is a graduate of the *Ecole centrale de Paris*.

Patricia Langrand, 41, was appointed Senior Vice President of Content Aggregation in March 2004. Patricia Langrand started her career with France Telecom in 1988. Up until 1995, she held various strategic management positions in the Financial Division and then the Strategy Division. From 1996 to 1999, she continued her career with the Industrial Strategy Department of the Ministry of the Economy, Finance and Industry, as Assistant Vice President in charge of consumer electronics and audio-visual and subsequently networks and multimedia. She joined the Canal+ Group as Vice President of New Technologies and Technical Vice President of the Group in 1999. In November 2002, she joined Thierry Breton to head his Cabinet. Patricia Langrand is a graduate of *Ecole polytechnique* and the *Ecole nationale supérieure des Telecommunications*.

Bernard Bresson, 55, was appointed Senior Vice President of Human Resources in January 2003. He was appointed Director of Human Resources in May 2000. From January 2003 to April 2004, he also held the position as interim Corporate Senior Vice President of the Development and Optimization of Human Competencies Program. Prior to his current position, Mr. Bresson served as Deputy Executive Director for the South West region beginning in October 1997. From 1996 to 1997, Mr. Bresson served as Assistant Director of France Telecom's Human Resources Division; from 1988 to 1996, he led the Employment and Compensation Section of the Group's Human Resources Division; from 1981 to 1988, he served as director of regional operations in Provence Alpes after heading the Financial Affairs and Information Services division of the same regional division. From 1978 to 1981, he worked as director of quality control and management in Lyon. Mr. Bresson joined France Telecom in 1974 at the Operational Division in Annecy, where he was in charge of the Lines and Transmissions Department. He is a graduate of the *Ecole polytechnique* and the *Ecole nationale supérieure des Telecommunications*. He is a Knight of the French *Ordre National de la Légion d'Honneur*.

Jean-Yves Larroutourou, 43, has held the position of Senior Vice President, General Secretary of France Telecom since March 2004. He joined France Telecom in May 2003 after 15 years working at the Ministry of the Economy, Finance and Industry. Jean-Yves Larroutourou started his career at the Club de Paris in 1988 and pursued his career in the Financial Markets Section of the Treasury Department in 1990 and subsequently in 1993 as Financial Attaché in Brussels. In 1995, he was placed in charge of the Capital Operations Section and the Sub-Division of State Financing, Banking and Monetary Affairs in 1998. In 2001, he was appointed Communications Director of the Ministry. Jean-Yves Larroutourou is a graduate of the *Ecole centrale de Paris*, the *Institut d'études politiques de Paris*, the *Ecole nationale d'administration* and the Institute for Fiscal and Monetary Policy of Tokyo.

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Marc Meyer, 46, was appointed Senior Vice President of External Communications in March 2004. He joined France Telecom in October 2002 as advisor to the Chairman. Mr. Meyer began his career in 1984 as parliamentary attaché to the French National Assembly, and he has also worked in communications and marketing at Bull. From March 1997 to February 2000, Mr. Meyer was Vice President in charge of communications at the Thomson group. He has been a member of the executive committee of Thomson Multimedia and Vice President in charge of Communications and entrepreneurial relations since February 2000. Mr. Meyer is a graduate of the *Université Paris Sorbonne*.

6.2 COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

6.2.1 COMPENSATION AND BENEFITS OF DIRECTORS AND EXECUTIVE OFFICERS

The aggregate amount of compensation, all benefits and fees of any kind, excluding employer charges, paid by France Telecom S.A. and the companies that it controls, as defined by Article L.233-16 of the French Commercial Code, for the financial year ended December 31, 2004 to persons who are, at December 31, 2004, or who were, during the year ended December 31, 2004, members of the board of directors or the Executive Committee of France Telecom S.A. (45 individuals in all) was €12,205,997. The corresponding amount paid in employer charges by France Telecom S.A. for the financial year 2004 was €5,421,993.

The aggregate amount of total compensation and benefits of any kind paid to each director was as follows:

Directors of France Telecom S.A.	Compensation and other benefits paid by France Telecom S.A. (Gross amounts in euros excluding employer charges) (employer charges)									
	Basic		Variable		Incentive		Benefits in kind		Fees	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Marcel Roulet	-	-	-	-	-	-	-	-	38,000	0
Bernard Dufau	-	-	-	-	-	-	-	-	42,000	0
Arnaud Lagardère	-	-	-	-	-	-	-	-	23,000	0
Henri Martre	-	-	-	-	-	-	-	-	26,500	0
Stéphane Richard	-	-	-	-	-	-	-	-	34,500	0
Jean Simonin	-	15,863 ⁽¹⁾ (5,144)	-	-	-	-	-	-	29,000	0
Pierre-Mathieu Duhamel	-	-	-	-	-	-	-	-	-	-
Jean-Pierre Jouyet	-	-	-	-	-	-	-	-	-	-
Jacques de Larosière	-	-	-	-	-	-	-	-	-	-
Denis Samuel-Lajeunesse	-	-	-	-	-	-	-	-	-	-
Henri Serres	-	-	-	-	-	-	-	-	-	-
Alain Baron	26,117 (12,809)	30,107 (14,800)	-	-	1,207	-	114	45	-	-
René Bernardi ⁽²⁾	4,420 ⁽²⁾ (1,534)	-	-	-	-	-	35	-	-	-
Jean Michel Gaveau	21,029 (10,290)	24,148 (11,961)	-	-	1,006	679	114	45	-	-

(1) For the period from January 1 to March 31, 2003, the date on which Mr. Simonin retired.

(2) As of the date he took office, i.e., November 25 to December 31, 2004.

The directors did not receive any compensation or benefits from controlled companies in 2003 or 2004, except for Mr. Marcel Roulet who received €15,000 from PagesJaunes Group in 2004 (€5,000 in 2003) as board observer of the company.

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The gross aggregate amount of compensation and all benefits paid during the 2004 financial year to all former directors whose office terminated in 2004 or 2005 is as follows:

Compensation and other benefits paid by France Telecom S.A.
(Gross amounts in euros excluding employer charges)
(employer charges)

Former Directors of France Telecom S.A.	Basic		Variable		Incentive		Benefits in kind		Fees	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Thierry Breton	900,000 (378,247)	900,000 (355,781)	517,100	437,250	-	-	5,191	10,124	-	-
Yannick d'Escatha	-	-	-	-	-	-	-	-	-	-
Jean-Jacques Gagnepain	-	-	-	-	-	-	-	-	-	-
Monique Biot	18,182 ⁽¹⁾ (9,265)	26,073 (13,364)	-	-	1,071	1,018	81	45	-	-
Michel Bonneau	21,028 ⁽¹⁾ (10,320)	29,836 (14,677)	1,004	2,850	1,272	777	229	240	-	-
Michèle Brisson-Autret	37,920 ⁽¹⁾ (16,234)	53,427 (23,514)	6,343	9,271	1,863	1,111	229	240	-	-
Jean-Claude Desrayaud	27,048 ⁽¹⁾ (11,704)	52,892 (21,391)	16,581 ⁽²⁾	14,645	1,939	0	229	240	-	-
Sandrine Le Roy	23,659 ⁽¹⁾ (6,972)	18,885 (10,703)	1,020	1,480	1,306	866	81	27	-	-

(1) For the period from January 1 to September 7, 2004, date of end of term of office following transfer of the Company to private sector.

(2) Including €12,442 end-of-career retirement bonus.

Pursuant to a decision of the shareholders' meeting of France Telecom S.A. held on May 27, 2003, whereby the amount of attendance fees to be allocated to board members was fixed at €250,000 per year, the board of directors of February 11, 2004, after consulting the Compensation, Selection and Organization Committee, decided to set the amount of fees to be allocated to the directors elected by the shareholders' meeting for the year 2003 at €193,000. These fees were paid in February 2004.

The board of directors of January 26, 2005 decided to set the amount of fees to be allocated to the directors elected by the shareholders' meeting for the year 2004 at € 210,500. These fees were paid in February 2005.

According to the distribution rules relating to directors' fees deliberated upon by the Board meeting of April 2, 2003, directors shall receive a fixed amount of €10,000 per year and a variable amount based on attendance at board and committee meetings and duties performed within such committees.

Mr. Thierry Breton has waived his right to receive these fees.

Directors representing the French State or employees do not receive any compensation for their office or in respect of their participation in board committees. They are only reimbursed for expenses associated with their membership on the board of directors and its committees.

As at December 31, 2004, the provision set aside in the accounts in relation with the total amount of the retirement commitments (contractual retirement indemnity and additional defined benefits retirement pension) for the benefit of the members of the executive committee was €16,431,266.

The contracts of certain executive officers (Messrs. Michel Combes, Jacques Champeaux, Marc Meyer, Louis-Pierre Wenes, Olivier Barberot and Ms. Stéphane Pallez) provide for a severance package equal to a maximum of 15 months' total gross salary, with an additional maximum six months' notice *i.e.*, a maximum of 21 months' total gross salary, or the possibility of early retirement.

No director or executive officer received a signing bonus in 2004.

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In 2004, the executive officers were eligible for a variable compensation component, the target amount of which was 50% of the base salary, as follows:

- one-third was linked to a financial objective, referred to as Group Solidarity, calculated for the consolidated France Telecom Group constituting the weighted average of revenues (35%), operating income (30%) and the TOP indicator “operating result before depreciation of tangible and intangible assets excluding licenses and improvement of working capital requirements” (35%);
- one-third was linked to a financial objective, referred to as Group Responsibility, calculated at the level of executive officer responsibility; and
- one-third was linked to individually-established objectives.

The first two parts of this variable compensation may result, if targets are exceeded, in an increase in an amount reaching a maximum of 66.6% of the basic salary.

Pursuant to the decisions of the board of directors, Mr. Thierry Breton received a gross annual income of €900 000. Mr. Breton was also eligible for variable compensation, the target amount of which was 50% of his base salary, based entirely on the achievement of certain financial objectives, described above, calculated at the consolidated level for the France Telecom Group, which (if certain targets were exceeded) could reach a maximum of 66.6% of his basic salary.

The Compensation, Selection and Organization Committee shall consider and propose every six months to the board of directors the parameters for calculating the variable compensation of the Chairman and Chief Executive Officer for the following six-month period, and shall propose the amount of the variable compensation for the past six-month period based directly on France Telecom’s financial results.

Pursuant to a decision of the Board of directors, Mr. Thierry Breton is entitled to a defined benefits retirement plan (*promesse de retraite à prestation définie*) or any other solution providing the same guarantees, the terms of which shall be proposed by the Compensation Committee. This retirement pension shall be paid to him when his other retirement plans are paid out but not before age 60.

Mr. Thierry Breton was also covered by the France Telecom Group’s supplemental insurance policy (*regime de prévoyance complémentaire*). He had a company car and was able to call upon the services of legal consulting firms within the scope of his position. He was granted a telephone line package. In 2004, the total value of all these benefits in kind amounted to €5,191.

Mr. Thierry Breton was not granted any stock subscription and/or purchase options since his appointment as Chairman of France Telecom.

Mr. Thierry Breton did not receive any compensation upon termination of employment in February 2005.

6.2.2 SHARE OWNERSHIP BY DIRECTORS AND OFFICERS

In accordance with the French Commercial Code and the bylaws of France Telecom S.A., the members of the board of directors of France Telecom S.A. (including its Chairman) elected by the shareholders’ meeting and those representing the employees shall each hold at least one France Telecom S.A. share.

As at January 31, 2005, to France Telecom’s knowledge, the members of the board of directors and the Executive Committee of France Telecom S.A. held a total of 172,298 shares, representing less than 0.01% of the capital of France Telecom S.A.

6.2.3 STOCK SUBSCRIPTION AND/OR PURCHASE OPTIONS GRANTED TO DIRECTORS AND EXECUTIVE OFFICERS

The mixed shareholders’ meeting held on September 1, 2004 authorized the board of directors to grant stock subscription or purchase options to members of staff (including executive officers) and to directors holding an executive position within the company (“*Mandataires sociaux*” as defined by Article L. 225-185 of the French Commercial Code). See section 3.2.3 “*Share capital authorized and not issued and securities giving rights to capital*”.

As at the date of this *Document de Référence*, France Telecom S.A. has not used this delegation and no director therefore holds any subscription or purchase options granted by France Telecom S.A.

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Moreover, no director of France Telecom S.A. holds any subscription or purchase options granted by any other company of the France Telecom Group.

6.2.4 AGREEMENTS WITH CERTAIN RELATED PARTIES

Four agreements subject to the prior authorization of the board of directors pursuant to Article L. 225-38 of the French Commercial Code were entered into during the financial year ended December 31, 2004.

In addition, the agreement entered into prior to January 1, 2000 with the French government, which provides for France Telecom S.A. to make available certain members of its personnel to certain ministries and to the office of the President of the Republic, is no longer considered as an agreement requiring prior authorization in view of the changes to its features and the fact that its status is as an ordinary course agreement.

Moreover, due to the absorption of its subsidiary Wanadoo on September 1, 2004, France Telecom S.A. took over the agreements entered into by Wanadoo during the financial year 2004 and preceding financial years that require prior authorization.

See Financial Report, section 5.3 "Auditors' Special Report on certain contractual agreements with certain related parties".

6.2.5 LOANS AND GUARANTEES GRANTED TO DIRECTORS AND OFFICERS

No loan or guarantee has been granted by a company in the Group to the members of the board of directors or executive officers.

6.3 INCENTIVE AND PROFIT-SHARING PLANS

6.3.1 INCENTIVE AND PROFIT-SHARING AGREEMENTS

Incentive Payments

France Telecom S.A. has entered into five incentive payment plans with its employees since 1992. The incentive payment plan covering the years 2003, 2004 and 2005 provides for an incentive payment if the annual Operating Performance Indicator ("IPO") target is reached. The IPO is a country-wide indicator that measures the collective contribution to France Telecom's operating performance through increases in revenues, reductions in expenses, optimization of investments and improvements in working capital. An incentive payment is made if the customer service quality indicators are reached and if the IPO target is exceeded.

The incentive payment plan is a single, country-wide agreement applicable to all employees of France Telecom S.A.

The following table sets forth the total incentive amounts under this plan over the past five years.

(in millions of euros)	Financial Year				
	2004	2003	2002	2001	2000
Incentive payments by France Telecom S.A.	147*	149	113	102	95

* Preliminary amount corresponding to the reserve made in the accounts at December 31, 2004.

Profit-sharing

France Telecom entered into a group profit-sharing agreement on November 19, 1997 with four of its unions (CFDT, CFTS, CGC and FO). The agreement applies to employees of France Telecom S.A. and of its majority-held French subsidiaries.

The special profit-sharing reserve of the Group 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 the operating income less interest expenses of each relevant subsidiary. The special reserve is distributed to eligible employees, with 20% of the amount based on employment and 80% in proportion to their annual gross salary. The amounts attributed to each individual are held in France Telecom S.A.'s group savings plan and are not available for five years.

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The following table shows the total profit-sharing amounts distributed by the Group under this plan over the past five years.

(in millions of euros)	Financial Year				
	2004	2003	2002	2001	2000
Special profit-sharing reserve distributed Group-wide	264	115	100	122	145

6.3.2 GROUP SAVINGS PLAN

Following the French State's disposal of 267.7 million existing shares in France Telecom, representing 10.85% of the share capital, on September 7, 2004 through private placement to qualified investors in France and institutional investors outside of France, in accordance with Article 11 of the French law no. 86-912 of August 6, 1986 relating to privatizations, the French State launched an offer reserved for employees and former employees of France Telecom S.A. and its subsidiaries in which France Telecom holds directly or indirectly more than 50% of the share capital, and agents and former agents encompassed by Article 32-1 of the French law no. 90-568 of July 2, 1990. This offer was of 29.7 million shares representing 10% of the total shares sold (including shares offered to employees and former employees of France Telecom and its subsidiaries as set forth above).

The terms of the operation were ratified by a ministerial order issued by the Minister of the Economy, Finance and Industry dated September 3, 2004. A prospectus, certified by the AMF on November 15, 2004 under number 04-895, related to the offer. The shares were offered at a per share price of €15.24, corresponding to 80% of the sale price for France Telecom shares sold by the State in the private placement (i.e., €19.05 per share).

The subscription period was open from December 1 to 13, 2004 (inclusive). Following this subscription period, 28.6 million shares were purchased, of which 16.2 million were invested in the Group Savings Plan and 12.4 million in share accounts other than the Group Savings Plan. The payment and delivery of these shares took place on January 20, 2005.

6.3.3 STOCK SUBSCRIPTION AND/OR PURCHASE OPTIONS

The combined ordinary and extraordinary shareholders' meeting held on September 1, 2004 authorized the board of directors to grant stock subscription or purchase options to members of staff or executive officers (*mandataires sociaux*) (within the meaning of Article L. 225-185 of the French Commercial Code) until November 1, 2007. See section 3.2.3 "Share capital authorized and not issued and securities issued giving rights to capital".

As at the date of this *Document de Référence*, France Telecom S.A. has not exercised this authorization.

However, certain employees of the France Telecom Group have benefited from stock subscription and/or purchase options granted by some listed subsidiaries of France Telecom (Orange S.A., Wanadoo S.A., Equant N.V. and Mobistar S.A.) The various stock option plans of the subsidiaries of France Telecom are set forth in Note 23 of the Notes to the Consolidated Financial Statements as at December 31, 2004.

With regards to options granted by Orange and Wanadoo, following France Telecom's repurchase of securities held by minority shareholders and the delisting of the shares of these two companies, the options have either been coupled with a liquidity contract in the case of Orange or assumed by France Telecom in the case of Wanadoo.

Assumption of Wanadoo stock options

Within the framework of the mixed public offer relating to Wanadoo shares that was authorized by the *Autorité des marchés financiers* on March 9, 2004, France Telecom S.A. undertook to ensure the liquidity of shares resulting from the exercise of the share subscription options of Wanadoo that were not contributed to the offer, according to a Wanadoo share valuation mechanism based on the exchange ratio for the offer (seven France Telecom shares for 18 Wanadoo shares).

This undertaking, which was effective as of the closing of the offer on April 19, 2004, resulted, upon the merger of Wanadoo S.A. and France Telecom S.A. on September 1, 2004, in the assumption by France Telecom S.A. of Wanadoo's commitments to holders of share options at a ratio of seven France Telecom shares for 18 Wanadoo shares, subject to any additional adjustments that may occur following future financial operations. As at December 31, 2004, 10,285,794 options were outstanding with a weighted average exercise price of €19.71.

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Key dates of the Wanadoo option plans assumed by France Telecom

Option plans granted by Wanadoo	Plan 2000	Plan March 2001 (UK)	Plan April 2001	Plans November 2001	Plans June 2002	Plans November 2002	Plan 2003	TOTAL
Date of the 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 the board meeting granting 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⁾	1,655,954	2,178,683	4,322,611	691,129	3,808,015	434,467	2,099,893	15,190,752
1 st 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	
Term	18/07/2010	21/03/2011	02/04/2011	26/11/2011	04/06/2012	26/11/2012	26/11/2013	
Exercise price ⁽¹⁾	48.86 €	15.74 €	15.43 €	15.43 €	13.89 €	13.89 €	16.66 €	
Total number of options exercised as at 31/12/2004 ⁽¹⁾	0	738,055	741,778	179,413	149,965	16,305	0	1,825,516
Total number of options cancelled as at 31/12/2004 ⁽¹⁾	254,289	1,432,303	504,529	249,867	516,767	78,524	43,163	3,079,442
Total number of outstanding options as at 31/12/2004 ⁽¹⁾	1,401,665	8,325	3,076,304	261,849	3,141,283	339,638	2,056,730	10,285,794

(1) After conversion to France Telecom options, based on the 7/18 ratio exchange.

(2) 10% of the options became exercisable as at September 21, 2001, 10% as at March 21, 2002, 40% as at March 21, 2003 and 40% as at March 21, 2004.

(3) 5% of the options became exercisable as at June 26, 2003, 23% as at September 26, 2003, 5% as at June 26, 2004, 23% as at September 26, 2004 and 44% as at November 26, 2004.

(4) 8% of options became exercisable as at June 4, 2004. The remaining 92% will become exercisable as at June 4, 2005.

(5) 13.5% of options became exercisable as at November 26, 2004. The remaining 86.5% will become exercisable as at November 26, 2005.

Grants and exercise during the 2004 financial year

No stock subscription or purchase options were granted in 2004.

The total number of options exercised in 2004 pursuant to the plans granted by Wanadoo (after conversion of the Wanadoo options to France Telecom options) by the ten employees in the France Telecom Group who exercised the most options, amounted to 497,500 options representing the same number of France Telecom shares.

Orange liquidity contract

Upon completion of the tender offer followed by a compulsory purchase of the shares of Orange, France Telecom S.A. offered Orange stock option holders and holders of Orange shares obtained upon exercise of stock options following the offer, the possibility of entering into a liquidity contract.

The Orange shares covered by the liquidity contract are automatically transferred to France Telecom S.A. either upon the exercise by the holder of their related options or at the end of the lock-up period in respect of the options that had already been exercised. The shares are exchanged on the basis of the exchange ratio existing during the public exchange offer adjusted where necessary on the basis of changes to the share capital or shareholders' equity of France Telecom as described in the liquidity contract, pursuant to standard practices, i.e. 0.445 France Telecom shares for one Orange share at December 31, 2004.

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In consideration for the Orange shares, France Telecom may choose to remit (i) new or existing France Telecom shares; (ii) a cash payment equal to the value of the corresponding number of France Telecom shares on the basis of the exchange rate ratio such that the value is determined by reference to the average trading rate of France Telecom shares over the 20 trading days preceding the implementation of the transfer of Orange shares, in accordance with the terms of the liquidity contract, or (iii) a combination of cash and shares. At December 31, 2004, 98,938,143 Orange options were outstanding with a weighted average exercise price of €8.77.

Key dates of the Orange option plans

Option plans granted by Orange	Plans February 2001	Sharesave Plan Orange UK (5 years)	Sharesave Plan Orange UK (3 years)	Plan October 2001 (A)	Plan October 2001 (B)	Sharesave Plan Orange UK (3 years)	Plan May 2002	Sharesave Plan Orange UK (3 years)
Date of the 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 the board meeting granting the options	12/02/2001	21/03/2001	21/03/2001	24/10/2001	24/10/2001	4/12/2001	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
1 st 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
Term	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 31/12/2004	1,995,591	79,734	823,669	42,444	3,097,868	15,717	7,677,326	37,707
Total number of options cancelled as at 31/12/2004	17,215,932	2,545,724	1,523,563	139,929	2,394,314	359,791	2,817,956	503,451
Total number of outstanding options as at 31/12/2004	55,797,924	1,411,921	8,865	1,122,961	5,604,643	187,995	14,001,050	808,536

(1) Of which 0.4 million became exercisable in 2001, 7.2 million in 2002, 7 million in 2003 and 59.6 million as at February 12, 2004.

(2) Of which 1.2 million became exercisable only as at October 24, 2004.

(3) Of which 1.5 million became exercisable in 2002, 1.5 million in 2003 and 8 million as at October 24, 2004.

(4) Of which 4.1 million became exercisable as at May 15, 2003, 4.1 million as at May 15, 2004 and 15.5 million may be exercised as at May 15, 2005.

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Option plans granted by Orange	Plans December 2002	Sharesave Plan Orange UK (3 years)	Sharesave Plan Orange Nederland (5 years)	Plan May 2003 (A)	Plan May 2003 (B)	Sharesave Plan Orange UK (3 years)	TOTAL
Date of the 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 the board meeting granting 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
1 st possible exercise date	01/05/2003	01/03/2005	01/03/2006	13/05/2004	01/03/2005	01/07/2006	
Term	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 31/12/2004	748,616	9,952	1,565	2,605,328	0	422	17,135,939
Total number of options cancelled as at 31/12/2004	333,397	382,656	72,219	944,352	0	100,034	29,333,318
Total number of outstanding options as at 31/12/2004	1,886,227	877,146	158,402	15,172,470	1,700,000	200,003	98,938,143

(5) Of which 0.6 million became exercisable as at December 20, 2003, 0.6 million as at December 20, 2004 and 1.6 million will become exercisable as at December 20, 2005.

(6) Of which 3.4 million were exercisable as at December 31, 2004, 2.8 million may be exercised as of May 13, 2005 and 12.2 million will become exercisable as at May 13, 2006.

(7) 67,200 options expiring on December 20, 2014.

(8) 423,900 options expiring on December 13, 2015.

Grants and exercise during the 2004 financial year

No stock subscription or purchase options were granted in 2004.

The total number of Orange options exercised in 2004 by the ten employees or former employees in the France Telecom Group, who exercised the most options, amounted to 1,966,373 options, representing 875,036 France Telecom shares based on the adjusted exchange ratio of 0.445 France Telecom shares for one Orange share as at December 31, 2004.

Chapter 7

RECENT EVENTS AND FUTURE PROSPECTS

7.1 RECENT EVENTS

See Note 31 "Subsequent Events" of the Notes to the Consolidated Financial Statements for the events which occurred between December 31, 2004 and February 9, 2005, the date the financial statements were presented to the board of directors.

Increase of long-term debt rating by the rating agencies Standard & Poor's and Moody's

On February 10, 2005, Standard & Poor's increased its long-term rating of France Telecom to A- with a positive outlook.

On February 24, 2005, Moody's increased its long-term rating of France Telecom to Baa1 with a stable outlook.

France Telecom's acquisition of all of Equant's assets and liabilities

France Telecom announced on February 10, 2005 that it had signed a definitive agreement with Equant for the acquisition by France Telecom of all of the assets and liabilities of Equant, its 54.1% subsidiary specialized in global communications services for businesses, for a total aggregate consideration of €578 million for the portion not already held by France Telecom. The agreement's final terms have been approved at France Telecom's Board of Directors meeting of February 9, 2005, during which an independent expert attested to the fairness, from a financial point of view, of the terms of the offer for the Equant minority shareholders. At this meeting, the preliminary report from the college team comprised of one Dutch and one French legal expert was presented and confirmed, after carrying out the requisite due diligence, the conformity of the transaction with the corporate governance rules, applicable regulations (particularly securities regulations) and the corporate interests of France Telecom and Equant.

The acquisition is expected to be followed by a distribution of the purchase proceeds to Equant's shareholders.

The transaction remains subject to certain conditions, including approval by Equant's shareholders at an extraordinary general meeting. France Telecom has agreed to vote at this shareholders' meeting in favor of the transaction, which will require a simple majority for approval. In view of these conditions, the transaction should be completed and distributions paid to shareholders no sooner than May 2005. The shares of Equant NV will subsequently be delisted from the Euronext market of Euronext Paris and the NYSE, and Equant NV will be liquidated.

The distribution to Equant's shareholders will not be subject to withholding tax in the Netherlands.

France Telecom believes that this transaction, if completed, will provide it with the opportunity to accelerate the implementation of its integrated operator strategy in the business services market, and constitutes a long-term response to the structural challenges facing Equant as a stand-alone entity.

Sale of 8% of the capital in the PagesJaunes Group

On February 10, 2005, France Telecom sold 22,303,169 shares, or 8% of the share capital of PagesJaunes Group (that it held directly) to institutional investors through an accelerated placement for a price of €440.5 million, as a result of which France Telecom's holding of PageJaunes Group was reduced to 54%. The settlement and delivery of these shares was completed on February 15, 2005.

Decision rendered in the FTML arbitration case (Lebanon)

On February 22, 2005, the Arbitration Tribunal convened in 2002 in connection with proceedings brought under the France-Lebanon Treaty for mutual support and protection of investment, as well as under the UNCITRAL arbitration rules, notified its decision to the parties. The dispute before the Arbitration Tribunal related to the BOT contract (Build, Operate and Transfer) of FTML (67% of which is held by France Telecom) and in particular to its early termination in 2001 and the consequences of such termination. The Arbitration Tribunal accepted the main claims made by France Telecom, through its two subsidiaries FTML and FTMI, and awarded US\$266 million to FTML in damages. In addition, the Arbitration Tribunal declared that it was competent to rule on the recovery mandate ("mandat de recouvrement") issued by the Republic of Lebanon in April 2000 and ruled that FTML was not liable for the US\$300 million claimed in this respect.

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Appointment of Mr. Didier Lombard as Chairman and Chief Executive Officer of France Telecom

Following the resignation of Mr. Thierry Breton, the Board of Directors of France Telecom, on February 27, 2005, appointed Mr. Didier Lombard as Director as well as Chairman and Chief Executive Officer of France Telecom upon recommendation of the Compensation, Selection and Organization Committee of the Board of Directors.

Mr. Lombard paid tribute to Thierry Breton in stating that he had "directed the Group's financial recovery, finalized the reintegration into the Group of strategic assets and formulated a clear vision that will shape the Group's strategy and development for several years to come." Didier Lombard further stated that: "In the future, together with the management and employees of the France Telecom Group, we are determined to pursue our integrated-operator strategy, to make even faster progress in implementing our vision in service of our clients, and to continue along the path of operational excellence in furtherance of our financial commitments."

7.2 FUTURE PROSPECTS

Objectives of the Group

Having rapidly achieved reductions in operating expenses and optimization of investments, France Telecom developed the second phase of the TOP program with a view to generating structural gains in performance through the transformation of fundamental procedures and strengthening of Group synergies. France Telecom's objectives through 2005 are supported by the joint pursuit of the "TOP" operational improvement program and the "TOP Line" growth acceleration program.

Thus, France Telecom confirms its objectives for 2005 (on the basis of French GAAP):

- revenue growth between 3% and 5% on a comparable basis;
- operating income before depreciation and amortization in excess of €19 billion;
- a ratio of investments in tangible and intangible assets, excluding licenses, to revenues reaching to the top of the range between 10% to 12% in 2005.

To implement its profitable growth strategy in the changing environment of the telecommunications industry, France Telecom will initially rely on its ongoing transformation to achieve operational excellence. This is the purpose of the "TOP" program, which is not simply a program for the reduction of expenses, but rather a program seeking to improve the operational performance of France Telecom (more efficient work processes, functional excellence and customer service excellence), in addition to being a program for the in-depth transformation of France Telecom in order to implement the integrated operator strategy. Accordingly, France Telecom intends to rely on its portfolio of key assets, innovative potential and on strategic partnerships to succeed in implementing its integrated operator strategy and to accelerate its growth. During 2005, the Group's priorities remain:

- the reduction of net financial debt, such that the ratio of net financial debt to operating income before depreciation and amortization be less than 2 in 2005, on the basis of French GAAP;
- continued operational improvement;
- renewed investments in profitable growth.

Furthermore, research and development expenses for the Group (research and development costs excluding depreciation and amortization, plus investments in tangible and intangible assets related to research and development) as a percentage of revenues of the Group are projected to reach 1.5% in 2005 (compared to 1.3% in 2004 and 1.1% in 2003).

With respect to wireless technology in France, pursuant to the commitments made by Orange for the renewal of its GSM license in March 2004, the goal is to achieve by 2007 market coverage of 100% of the 36,000 communities and major transport hubs. In addition, Orange will supplement its UMTS technology with EDGE technology, which should result in complementary broadband coverage by spring 2005 for 85% of the population.

With respect to ADSL, total investments should reach €700 million for the period 2003 to 2005. Moreover, in January 2004, pursuant to the "Broadband for all" project commenced in June 2003, France Telecom announced a new voluntary initiative (the

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“Innovative Departments” charter) to accelerate and broaden the roll-out of Broadband services in France. The project obtained the support of the majority of French regions (départements) following the signing of 70 agreements during 2004. Having reached its objective of 90% Broadband coverage by the end of 2004, France Telecom intends to increase the coverage to 96% by the end of 2005, and by the end of 2006, 100% of telephone switching centers in France should have broadband capacities. Finally, before the end of the first half of 2005, ADSL 2+ will be rolled out over France Telecom’s entire domestic broadband network, increasing the rate to 16 megabits per second or more in the best circumstances.

In addition, efforts to accelerate and extend the Very High Speed (“Trés Haut Débit”) service plan for businesses will amount to an additional €250 million in France Telecom’s investments between 2005 and 2007, resulting in almost €1 billion in supplemental investment for Broadband and over €3 billion in combined investments made by France Telecom for its networks in France over the period 2005-2007.

France Telecom has established the following objectives for 2006-2007 on the basis of French GAAP:

- Sustained revenue growth of between 3% and 5% on a comparable basis;
- Growth in operating income before depreciation and amortization greater than the growth in revenues;
- A ratio of CAPEX to revenues of approximately 12%; and
- A ratio of net financial debt to operating income before depreciation and amortization of between 1.5 and 2.

Equant’s Objectives

Equant is facing a very challenging 2005.

In order to ensure its recovery and future success, Equant has defined its immediate priorities, strengthened its management team and implemented a new structure and strong company values to stimulate the commitment and ambition of its employees.

Three priorities have been determined: a drastic reduction in cash flow consumption, the development of profitable growth and the development of partnerships. These priorities are implemented by a strengthened management team including a new CEO (Chief Executive Officer) and COO (Chief Operating Officer) dedicated to the operating performance of the company. Additional positions were also created: Global Sourcing, Cash Generation and Sales Efficiency.

Equant has implemented a two tier structure with two business divisions (Equant Network Services and Equant Solutions & Services) in addition to four sales channels (Americas, Europe, Middle-East and Africa, Asia Pacific and indirect channels), reporting directly to the CEO.

Strong corporate values have been established to stimulate the commitment of employees: team spirit and solidarity, transparency, speed of delivery, commitment to the achievement of established goals, and ambition.

These priorities are designed to bring real benefits to Equant’s customers: a financially stable supplier, strengthened customer service and innovative solutions.

PagesJaunes Group’s Objectives

The financial goals of PagesJaunes are:

- growth of consolidated revenues of 5% to 7% during 2005;
- growth of more than 10% of consolidated operating income before depreciation and amortization in 2005, excluding telephone information services;
- achievement of the stated objective of reaching stable operating income before depreciation and amortization for QDQ Media by the end of 2006; and
- confirmation of the goal to distribute all of the 2005 net income from operating activities of PagesJaunes.

The goal with respect to a distribution should not be interpreted as a commitment by PagesJaunes Group; any future dividends will depend on PagesJaunes Group’s results, its financial position and any other factor that the Board of Directors and PagesJaunes Group’s shareholders may deem appropriate.

Glossary of Technical Terms

3BPQ: Relates to all short four-digit telephone numbers commencing with the number 3.

ADSL (Asymmetric Digital Subscriber Line): ADSL is a technology that permits high-volume data transmission across traditional telephone networks (most commonly access to the Internet) via paired copper cable (the most common type of telephone line found in buildings).

Application program interface (API): A programming interface between an operating system and an application, consisting in some basic low level functions specified by the operating system, well documented and made public, and enabling the programming of "higher level" applications based on the operating system.

ART (Autorité de régulation des télécommunications): French telecommunications regulatory authorities.

ATM (Asynchronous Transfer Mode): Asynchronous transfer mode (ATM) is a broadband multiplexing technology that utilizes connected packets (ATM packets) to carry different types of traffic with guaranteed quality.

Autonomous System (AS): A group of IP routers handled by a single administrative entity using the communal routing protocol (Internet Gateway Protocol), and identified using a unique Autonomous System Number (ASN).

Backbone: Fiber optic backbone transmission network for long distance and very high capacity (see DWDM and SDH).

BAS (Broadband Access Server): Broadband access grouper which collects incoming and outgoing traffic to DSLAMs and ensures the interconnection with the operator's IP network. The BAS is an essential element of an operator's ADSL network. The grouping equipment handles the management of user sessions (authentication, traffic control, etc.) and the concentration of Internet traffic.

Bit: Abbreviation of Binary digit. A unit of information codified in a binary (0 or 1) manner used by digital systems.

Blackberry: Wireless technology developed by Research In Motion (RIM) allowing personal assistants to continuously access and synchronize with the user's e-mail.

Blog: Abbreviation for Weblog. Personal journal website, which essentially includes news that is published on a regular basis and is often arranged in anti-chronological order and contains external links.

Bluetooth: Bluetooth is a wireless transmission technology that enables the construction of medium-speed (approx. 700 kbits/s) and short-range personal networks, most notably point-to-point exchanges between fixed and mobile devices (PCs, PDAs, telephones, wireless headphones, printers). This technology allows for wireless connectivity between hardware via radio bandwidths of 2.4 GHz over distances of approximately 10 meters.

Broadband: Transmission technology in which a single medium (wire) can carry several channels at once. Term used to describe high speed networks (speeds of at least several Mbits/s). Broadband access is also used to designate ADSL (individual connections provided from at least 128 Kbps downstream).

Centrex: Service enabling one or more businesses to use a public automatic switch while benefiting from all the services available on a PABX (Private automatic switch for businesses).

CFCs (Chlorofluorocarbons): chemical substances used as refrigerating gases in cooling systems and switches.

CLIP (Calling Line Identity Presentation): Caller's number is identified.

CLIR (Calling Line Identity Restriction): Caller's number is not revealed. A service through which the requestor prohibits (on a call by call or permanent basis) his number from being sent to the person receiving the call.

Content Delivery Network (CDN): Network of off-site cache servers (or proxy cache) ensuring the delivery, on an IP network, of significant data flux and high consumptions of passing bandwidth to handle increases in load that a central server could not manage.

Cross-connect: Intelligent patch panel that creates connections from any port to any other port on the device by mean of a fully programmable path between all the ports.

DCS 1800 (Digital Cellular System 1800) or GSM 1800: Wireless operating system using the GSM standard applied to the 1800Mhz wavelength and adapted to micro-cellular networks.

GLOSSARY OF TECHNICAL TERMS

DECT (Digital European Cordless Telephone): European wireless standard on the 1880-1900 Mhz wavelength, using digital compression.

Dense Wavelength Division Multiplexing (DWDM): A technology of transmission consisting of multiplexing wavelengths in a fiber optic and enabling the very high speed (up to 10 Gigabits per second) transfer of information on long distance networks.

Distribution frame: Telephone network interface equipment for the grouping of local lines or loops dedicated to each subscriber to transfer them to the local telephone switch.

DRM (Digital Rights Management): DRM is a technology that enables the secure distribution, advertisement and sale of digital content (media, documents, software), particularly on the Internet by protecting copyrights, and allows editors to maintain contact with users. In most instances, this protection is achieved through the encryption of digital content support and the limitation of access to only those people who have acquired a proper license.

DSL (Digital Subscriber Line): Technologies enabling the use of copper cables connecting subscribers of Public Switched Telephone Networks to complete broadband transfers of digital packets. See ADSL.

DSLAM (Digital Subscriber Line Access Multiplexer): DSL equipment for the demodulating of subscribers ADSL modems and the first level of aggregation of data transmissions on IP networks. The equipment also serves to filter voice and data. Installed at the level of local cross-connect, they generally manage between 100 and 2,000 subscribers.

DWDM: See Dense Wavelength Division Multiplexing.

Edge (Enhanced Data Rates for GSM Evolution): Radio technology constituting the intermediary stage between GRPS and UMTS, which is based on using existing GSM radio frequencies to offer Internet and multimedia services, with a nominal rates of up to 380 Kbits/s and effective rates of up to four times faster than GPRS.

Ethernet: A technology for local networks connections originally developed by Xerox, by which computers are connected by a combination of network interface cards installed on each PC and by coaxial cables which link the work stations at a rate of 10 Mbits/s. In an Ethernet network, each workstation may, at any moment, initiate a transmission.

Extranet: The distant interconnection of several Intranets. These are available to a restricted group of subscribers, connected to the Intranet using the Internet. As an example, this is the case for nomadic employees, providers, etc.

FDD (Frequency Division Duplex): Means of allocating UMTS frequencies, which consists in assigning a distinct frequency channel for the uplink (from the mobile terminal to the base station) and another for the downlink (base station to the mobile terminal).

Frame relay: A data transmission protocol, which only uses the first two layers of the model for the international OSI ("Open System Interconnection") standard destined to facilitate the interconnection of networks. It enables the simultaneous connection, by statistical multiplexing, of several communications using a single access and permits high speeds.

Gateway: Interface making communication possible between two different networks. Some gateways are two-way and some are one-way.

Gbits or Gigabits per second: Billions of bits transferred per second on a transmission network. See bit.

GPRS (General Packet Radio Service): Second generation mobile communication system (2.5 G) that allows for nominal volumes of up to 170 Kbits/s and effective volumes of approximately 50 Kbit/s.

GSM (Global System for Mobile Communications): European standard for second generation mobile telephones that operate in the 900 – 1800 MHz frequency bands.

Hotspot: Wi-Fi access point situated in a busy public location (cafe, hotel, station, airport) providing mobile terminal users (laptop computer, personal assistant) with wireless Internet connection with a rate of 11 or 54 Mbit/s depending on the Wi-Fi standard used (see Wi-Fi).

HSCSD (High-Speed Circuit-Switched Data Service): GSM circuit switches data transfer at high-volume.

Integrated Service Digital Network (ISDN): Public digital network allowing the transfer of different kinds of information at 64 Kbit/s: data, voice and video. France Telecom's commercial name is Numeris.

Intelligent Network (IN): Concept of network architecture aimed at facilitating the introduction of new services over basic services offered by the Public Switched Telephone Network. This principal lies on the installation of the service logic and data on a central computer, which manages the switches.

GLOSSARY OF TECHNICAL TERMS

Internet Access Provider (IAP): A company that provides access to the Internet to individual subscribers, businesses and corporations.

Internet Protocol (IP): One of two principal communication protocols between networks (the other protocol is ATM), in particular Internet and Intranet. IP is a specific transfer protocol based upon the principle of packet commutation.

Intranet: A local network that uses the same protocols and technology as the Internet, but which relies on a private set of computers and is not open to all Internet users. Examples include Intranets used by companies or by certain communities.

IP: see Internet Protocol.

IP Telephony: see Voice over IP.

Java: a programming language created by Sun and derived from C++ language. It allows small standalone applications (called "applets") to be created, which run under different operating systems and may be inserted in an HTML document.

Kbit/s or Kilobit per second: Thousands of bits transferred per second on a transmission network. See bit.

Livebox: Terminal sold by France Télécom, which offers broadband modem, router and Wi-Fi and Bluetooth wireless access point functions and provides broadband Internet connection, television and Voice over IP.

Local Area Network (LAN): Local business or corporation networks enabling work stations or PCs of the same entity on the same site to be interconnected with other local networks on other sites and be linked to the public network.

Local loop: Section of the telephone network connecting the local telephone switch to individual subscribers' homes.

Local Switch: A switch also known as a subscriber switch in the Public Switched Telephone Networks, which permits the completion of local calls. Subscribers are directly linked to the switch by a subscriber-linking unit. For national or international calls, local switches rely on higher level switches, called Transit Switches (TS).

Long Distance Network: Public or private network covering a very large geographic scope (national or international) enabling the connection of access networks or the interconnection of private broadband networks (LAN, MAN). See Backbones.

Mbit/s or Megabit per second: Millions of bits transferred per second on a transmission network. See bit.

Metropolitan Area Network (MAN): Broadband transmission networks with a limited geographic spread usually the size of a city or region.

MHz: Measure of frequency corresponding to one million cycles per second of an electric current (radio frequency) or a clock speed for microprocessors (computer).

Middleware: Layer of software between the operating system and the applications. This enables the provision of services, which do not exist in the operating system and serves as an abstract base for programming applications.

MMS (Multimedia Messaging Service): This service is an extension of SMS and e-mail. It allows the user to send multimedia documents through GPRS and U-TMS mobile telephone networks and terminals.

Multiplay: access solution for multiple services (Internet, television, Voice over IP) through a single broadband access point. Livebox is the multiplay solution offered by France Télécom.

Multiplexing: Technique to simultaneously transfer several communications on a same transmission channel.

Multi-Protocol Label Switching (MPLS): A project standard of the Internet Engineering Task Force (IETF), an international community open to operators and network designers whose goal is to coordinate the development of and resolve construction and protocol issues relating to the Internet. The MPLS improves efficiency and network speed allowing routers to transfer information along pre-defined paths depending in the level of quality required.

Multi-site Broadband Service: Solution for a company to connect several sites in a single city or region to transfer voice, data and picture information at speeds reaching 2.5 Gbits. This solution relies on a doubled and dedicated local loop to ensure maximum security.

MVNO (Mobile Virtual Network Operator): Operators that do not build and operate their own mobile network, but instead have access to the networks of one or more mobile operators and offer their own branded services to customers using another operator's network.

GLOSSARY OF TECHNICAL TERMS

Network Access Server (NAS): Sideline IP network equipment for the concentration of telephone modem accesses to the switched telephone network and connection to the IP network.

Next Generation Network (NGN): Networks based on a project to implement the technologies used for Data transfers and the Internet to provide all the services currently provided by the Public Switched Telephone Network.

NRA: Subscriber connection nodes or switch towards which telephone lines of subscribers are directed.

Outsourcing: Service agreement between a company and an operator consisting in the transfer of the management of all the telecommunication or computing needs.

PABX or PBX (Private Automatic Branch eXchange): Private business switch.

PCBs (Polychlorinated Biphenyls): Chemical products used in certain electric installations particularly power generators and capacitors.

PDA (Portable Digital Assistant): A handheld computer with a memory size ranging up to several megabytes and a touch-sensitive screen, often using a stylus to input data. The PDA is mainly used for calendar, address book and memoranda functions, but technological progress has enabled advanced, office or multimedia functions to be incorporated (player for mp3, images, videos and sometimes a telephone).

Public Switched Telephone Network: Voice transfer network consisting of handsets, subscriber lines, circuits and switches. Also used to access certain data services.

Roaming: Roaming allows wireless customers to make and receive calls while in the coverage area of a network of which they are not clients and to be billed for such service by their home network. A prime example of which is the use of a wireless device abroad on another operator's network.

Router: Interconnection gateway between several servers installed on a network node, whose function is to optimize the transmission of data and give users access to all available services on this network.

Semaphore Signal code 7: The exchange of information necessary to the management of a telephone call (completion and break, maintenance and supervision and billing) completed in a digital form by a distinct network to the one used for the call itself.

Single Visitor: Entity (individual or software), having consulted at least once a web site during a specific period. Internet servers record IP addresses of each visitor. Regardless of the number of pages viewed by the same visitor on a particular site, the server will only record one unique visitor.

SMS (Short Message Service): Two-way short message service.

Spam: Flooding numerous users' e-mail accounts by sending unsolicited "junk" electronic messages to promote products or services.

SS7: See Semaphore Signal code 7

Switches: Telephone call management systems with three functions: Interconnection (between an incoming and outgoing connection), call management (completion and termination of calls) and administrative orders (billing, operation and maintenance).

Synchronous Digital Hierarchy (SDH): Standard of very high speed fiber optic transmission which enables the transport of packets of information at various speeds in a secure manner and ease their management.

Tbit/s or Terabit per second: Trillions of bits transferred per second on a transmission network. See bit.

TDD (Time Division Duplexing): Means of allocating UMTS frequencies, which consists in allocating distinct time slots for the uplink (from the mobile terminal to the base station) and the downlink (base station to the mobile terminal) on the same frequency channel.

Transpac: see X 25.

UMTS (Universal Mobile Telecommunication System): Third generation mobile system (3G) that allows high volume communication (2 Mbits/s in symmetrical volume) on frequency bands of 1.9 to 2.2 GHz.

GLOSSARY OF TECHNICAL TERMS

Unbundling: The obligation for operator-owners of local loops to provide to a third party operator pairs of bare copper wires. The third party operator compensates the operator-owner for this use and installs its own transmission equipment at the end of the local loop to connect the subscribers with its own network. A housing of the equipment is also offered to third parties, in addition to the unbundling. The unbundling of the local loop can be shared or full. Shared unbundling enables the third party operator to offer a broadband service on the highest frequency spectrum of the local loop, whereas the operator-owner continues to provide the subscription and telephone service on the lowest frequency spectrum. Full unbundling allows the third party operator to control and use the full frequency spectrum of the local loop and provide telephone as well as broadband services.

UTRAN (UMTS Terrestrial Radio Access Network): UMTS access network.

Virtual Mobile Operator: See MVNO.

Virtual Private Network (VPN): A group of logically organized communication resources of the Public Switched Telephone Network which are offered by providers to clients as a private network.

Videophony: Technique consisting in telephoning and visualizing the person called on the screen, displaying photos, videos and using MMS services, by transmitting sound and images in real-time through a telephone line using a videophone. France Télécom's videophony offer is "Maligne visio".

VOD (Video on Demand): Option for selecting digital video content and downloading it from a computer or television onto a central server.

Voice over DSL (VoDSL): Transport of voice services (in packets) using DSL technology.

Voice over Internet Protocol (VoIP): Transport of voice services using IP technology.

WAP (Wireless Application Protocol): A protocol that optimizes Internet access from mobile terminals.

WDM (Wavelength Division Multiplexing): See Dense Wavelength Division Multiplexing.

Wide Area Network (WAN): Network spanning several buildings or a town. See MAN.

Wi-Fi (Wireless-Fidelity): Technology enabling the connection of wireless components using radio waves in the 2.4 GHz wavelength at a rate of 11Mbit/s (standard 802.11b) or 54 Mbit/s (standard 802.11g). By extending Ethernet protocol in the radio area, Wi-Fi offers businesses and individuals the ability to wirelessly connect several computers or shared devices in a network over distances of up to 10 meters.

WiMax: Wireless broadband transmission standard operating at 70 Mbit/s (standard 802.16), which enables several Wi-Fi access points to connect to a fiber optic network and therefore increase the range of the Wi-Fi networks. With a nominal range of 50km, it should enable the development of city networks (MAN) based on unique access points over the long term.

Wireless Local Area Network (WLAN): Wireless Local Area Network. See LAN, Wi-Fi.

X 25: Standardized communication protocol permitting the establishment of a link between two pieces of equipment using a network known as a "packet switch". The Transpac network was the first public X.25 network open to the world using this technology.

EXHIBITS

I - CHAIRMAN OF THE BOARD OF DIRECTOR'S REPORT ON THE CONDITIONS RELATING TO THE PREPARATION AND ORGANIZATION OF THE BOARD OF DIRECTORS' WORK AND INTERNAL CONTROL PROCEDURES FINANCIAL YEAR 2004

Pursuant to the provisions of Article L. 225-37 of the French Commercial Code, the Chairman of the board of directors presents in this report the conditions relating to the preparation and organization of the board of director's work and the internal control procedures implemented by France Telecom.

The Chairman appointed the Group's Finance Division to produce this report, and complete the preliminary work and necessary due diligence. The auditors have been informed of this work and due diligence.

This report presents the conditions relating to the preparation and organization of the work of France Telecom S.A.'s board of directors for the financial year 2004.

This report also presents the internal control procedures of the France Telecom Group.

In relation to accounting and finance matters, the France Telecom Group has implemented a process of internal controls for its principal activities based on internationally-recognized methodology of the COSO system of reference (see introduction to section 2 of this report).

In order to guarantee the quality and reliability of the financial information provided, a process for the continual improvement of internal controls is in place within the Group.

1 PREPARATION AND ORGANIZATION OF THE BOARD OF DIRECTORS' WORK

France Telecom follows the principles of corporate governance for listed companies set forth in the Medef/AFEP report of October 2003, in particular:

- the responsibility and integrity of executive officers and directors;
- the independence of the board of directors;
- the transparency and disclosure of information; and
- respect for the rights of shareholders.

Within the scope of France Telecom's specific legal framework, set forth in the *Document de Référence* (available on France Telecom's website at www.francetelecom.com), France Telecom endeavors to implement the recommendations of these reports, notably through the adoption of internal guidelines ("**Internal Guidelines**"), attached to this report, by the board of directors' meeting held on July 17, 2003. The Internal Guidelines of the board of directors provide the key principles relating to the board's operation and the conditions under which it carries out its work.

1.1 PREPARATION AND ORGANIZATION OF THE BOARD OF DIRECTORS' WORK

The board of directors is responsible for all decisions relating to France Telecom's general strategic, economic, social, financial and technological policies and supervises the implementation of these policies by management.

The France Telecom Group's corporate governance policy provides that the Chairman of the board of directors must obtain the authorization of the board of directors to commit France Telecom to investments or divestitures involving amounts in excess of €200 million per transaction, when such transactions are acquisitions or disposals (see Article 1 of the Internal Guidelines). In addition, any investment involving amounts in excess of €20 million that are not included in France Telecom's strategic policies must first be approved by the board of directors.

EXHIBITS

During 2004, the composition of the board of directors changed as a result of the transfer of the majority of France Telecom's share capital to the private sector on September 7, 2004. At December 31, 2004, the board of directors was composed as follows:

Seven members, appointed by the shareholders' meeting, who remained in office. The board of directors stated at its meeting of March 3, 2004 that five of these directors may be considered independent according to the criteria of the Bouton Report: Messrs. Marcel Roulet, Stéphane Richard, Arnaud Lagardère, Henri Martre and Bernard Dufau, all of whom were elected by the shareholders' meeting of February 25, 2003.

Three directors representing the employees who took office at the board of directors' meeting held on December 13, 2004. Two of the directors were elected in the first round of the election on November 9, 2004, and the third was elected in the second round on November 25, 2004. In addition, a director representing the employee shareholders is expected to be appointed during France Telecom's next shareholders' meeting.

The representatives of the French State, which were reduced to five (pursuant to the French law-decree of 1935) in proportion to the number of shares in France Telecom held by the French State. These five directors were appointed by an order issued by the Minister of the Economy, Finance and Industry dated September 7, 2004.

The composition of the board of directors is set forth in the *Document de Référence*.

France Telecom selects its directors based on certain criteria, particularly their availability, experience and expertise in the sectors relating to the operator's activities and environmental issues.

Articles 2 and 10 of the Internal Guidelines set forth the rules relating to information provided to directors and given at the meetings of the board of directors.

The board of directors met 16 times in 2004. On average, 16 of the 21 directors attended each board meeting during this financial year. The average board meeting lasted three hours. In general, one or more board committees met prior to the meeting in order to prepare its deliberations (see below).

The board's main activities were as follows:

- Examination of the financial statements and results: the board of directors approved the annual and half-year corporate and consolidated financial statements, management reports and regulated agreements. It examined quarterly revenues and key results. It approved the reports and resolutions submitted to the shareholders' meeting and the responses to the shareholders' written questions. It examined the budget for 2004. In addition, the board of directors was presented with an update regarding the status of the projects relating to the implementation and impacts of the IFRS accounting standards and the provisions of the U.S. Sarbanes-Oxley Act.
- Examination and approval of strategic operations: the board of directors considered or was given information regarding the following investments, acquisitions or disposals: the offer for Orange shares, the offer for Wanadoo shares, the IPO of PagesJaunes S.A., the merger of Wanadoo S.A. and Wanadoo France within France Telecom S.A., the disposal of Orange Denmark, the disposal of the cable network activity and the indirect disposal of shares of STMicroelectronics.
- Corporate governance: the board of directors reviewed the internal guidelines of the board committees and the implementation of the Ethics Committee. It examined the report drawn up by the Chairman pursuant to Article L. 225-37 of the French Commercial Code relating to the conditions for the preparation and organization of the board of directors' work and internal control procedures.
- The board of directors was informed of the changes to France Telecom's structure, which took place at the end of March 2004. In September 2004, it considered the follow-up action to be taken regarding the transfer of France Telecom to the private sector (arrangements for exercising management, election of directors representing the employees).
- Strategic and regulatory issues: the board of directors was presented with an update regarding strategic or regulatory issues and, in particular, the impact of the French law of December 31, 2003 relating to the public service telecommunications obligations and to France Telecom, the "Broadband" strategy and the information communicated on Investor Day in June 2004.

1.2 ROLE AND FUNCTIONING OF THE BOARD COMMITTEES

The board of directors has established four committees.

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1.2.1 Audit Committee

At December 31, 2004, the Audit Committee was composed of Messrs. Jean-Pierre Jouyet, Jacques de Larosière, Stéphane Richard and Bernard Dufau, who chaired the Committee. At its meeting held on December 3, 2003, the board of directors determined that the Audit Committee included at least one financial expert, pursuant to the definition in the U.S. Sarbanes-Oxley Act, namely Mr. Stéphane Richard.

Article 7 of the Internal Guidelines sets forth the role of the Committee.

The Audit Committee met 15 times in 2004. The Audit Committee met regularly with France Telecom's executive officers and managers of the Group's Finance Department, as well as the internal audit and risk control director and the statutory auditors, in order to examine their action plans and the work that had been accomplished.

The Audit Committee examined, in particular, the following:

- budgets for the full year 2004 and the second half of 2004;
- corporate and consolidated financial statements for 2003 and the Management Report;
- the report on the board of directors' activities and internal audit for 2003;
- the report of the statutory auditors relating to the finalization of the financial statements;
- dividends paid to the shareholders in 2003;
- half-year financial statements;
- revenues and key financial indicators for the first and third quarters of 2004;
- account reconciliation notes comparing the financial statements drawn up on the basis of U.S. GAAP with those drawn up on the basis of French GAAP for the annual and half-year accounts and the Form 20-F document;
- review of off-balance sheet items and litigation;
- schedule for the internal audit for 2004;
- update on the progress, key options and foreseeable impact of the IFRS accounting standards and the project launched for the implementation of the U.S. Sarbanes-Oxley Act;
- planned offers relating to the repurchase of minority interests in Orange and Wanadoo;
- planned disposals (Orange Denmark, cable network) and transactions with our minority partners in BITCO (Thailand) and TP SA (Poland, with Kulczyk Holding);
- update on proceedings and investigations by the European Commission.

1.2.2 Compensation, Selection and Organization Committee

At December 31, 2004, the Compensation, Selection and Organization Committee was composed of three members: Messrs. Arnaud Lagardère, Henri Serres and Marcel Roulet, who chaired the Committee.

Article 8 of the Internal Guidelines sets forth the role of the Committee.

The Committee met six times in 2004.

The Compensation, Selection and Organization Committee reviewed the objectives set and the arrangements for calculating the Chairman's incentive payments for each relevant half-year, identified the independent directors and examined, at the end of March, the new structure of the Group and the appointment of the members of the new Executive Committee.

Pursuant to the provisions of Article 10 of the Internal Guidelines, the board of directors examined at its meeting of December 13, 2004, the Compensation, Selection and Organization Committee's proposals with a view to evaluating the functioning of the board of directors.

EXHIBITS

The first stage of the evaluation of the board of directors will involve a questionnaire (composition of the board, role and powers, functioning of the board, etc.) and an analytical form. During the second stage, one-on-one meetings with each of the directors will be held to enable, in particular, the directors to comment on and complete the responses given in their questionnaire.

Based on the questionnaires and interviews, a summary of these meetings shall be drawn up and submitted to the Chairman of the Compensation, Selection and Organization Committee. A report shall be made to the board of directors during the first six months of 2005 to allow it to discuss its functioning and suggest options for improving the board's functioning.

1.2.3 Strategy Committee

At December 31, 2004, the Strategy Committee was composed of five members: Messrs. Pierre-Mathieu Duhamel, Henri Martre, Denis Samuel-Lajeunesse, Jean Simonin and Thierry Breton, who chaired the Committee. Pursuant to Article 6 of the board of directors' Internal Guidelines, the Chairman of the Audit Committee attends the Strategy Committee's meetings.

Article 6 of the Internal Guidelines sets forth the role of the Committee.

The Strategy Committee met twice in 2004 to review the follow-up action to be taken following France Telecom's successful public offer for Wanadoo, and the transfer of Orange A/S (Orange Denmark) to TeliaSonera AB.

1.2.4 Policy Committee

This Committee is composed of the directors elected and representing the employees: Messrs. Alain Baron, René Bernardi and Jean-Michel Gaveau.

It is chaired by the Chairman of the board of directors.

Following the organizational change of the composition of the board of directors resulting from the transfer by the French State of the majority of France Telecom's share capital to the private sector and the election of directors by and representing the employees in November 2004, the Compensation, Selection and Organization Committee proposed to the board of directors on December 13, 2004 an amendment to Article 3 of the Policy Committee's internal guidelines as follows:

"The Policy Committee is composed of directors elected by and representing the employees and any other individual invited to attend by its Chairman".

In view of France Telecom's privatization, the provisions of the French law of July 26, 1983 relating to the democratization of the public sector no longer apply to France Telecom.

The board of directors accepted this proposal.

Article 9 of the Internal Guidelines sets forth the role of the Committee.

The Policy Committee met eight times in 2004.

The Policy Committee examined information relating to the budget for 2004, the corporate and consolidated financial statements for 2003, the social report for 2003, the amended by-laws presented at the shareholders' meeting for approval, the Group's new structure (at the end of March), the half-year financial statements, the IFRS accounting standards and a number of strategic operations or issues (offers relating to Orange and Wanadoo, the disposal of Orange Denmark, strategic courses of action relating to the Voice over IP and "unlimited" offers).

1.3 RESTRICTIONS ON THE POWERS OF THE CHIEF EXECUTIVE OFFICER

While the provisions of Article L. 225-51-1 of the French Commercial Code did not apply to France Telecom S.A. prior to its transfer to the private sector as a result of its unique legal form, such provisions are now applicable. They authorize the board of directors to choose between a general management exercised (under its authority) either by the Chairman of the board of directors or by another individual appointed by the board of directors with the title of Chief Executive Officer.

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With effect from September 7, 2004, the aforementioned provisions of the French Commercial Code are automatically applicable to France Telecom, and the board of directors resolved in its meeting held on September 7, 2004 that the offices of Chairman and Chief Executive Officer be cumulatively performed, without any restrictions other than those set forth in Article 1 of the Internal Guidelines.

In April 2003, the Chairman and Chief Executive Officer of France Telecom S.A. implemented a new delegation of powers and signatory structure for each member of the Executive Committee. Each member of the Executive Committee may further delegate such authority within his own area of responsibility.

2 INTERNAL CONTROL PROCEDURES IMPLEMENTED IN THE FRANCE TELECOM GROUP

The methodology adopted by France Telecom is based on the system of reference of the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

According to the COSO system of reference, internal control should be a procedure implemented by the board of directors, the management and the employees, that is intended to provide reasonable assurance concerning the realization of objectives divided into the following categories:

- realization and optimization of operations;
- accuracy of financial information;
- compliance with applicable laws and regulations.

France Telecom's internal control procedures, which cover all of its activities, aim to provide reasonable assurance (and not a certainty) that risks will be managed and that the defined goals will be met. The procedures are described in an internal control charter.

2.1 ENVIRONMENT OF SUPERVISION

A combination of organizational rules, policies, procedures, mechanisms and oversight and evaluation as well as control committees contribute to the efficiency of internal control within France Telecom.

2.1.1 Values, Corporate governance and Mobilization of expertise

2.1.1.1 France Telecom's values and professional conduct

The board of directors adopted a code of business conduct and ethics (*charte de deontologie*) at its meeting held on December 3, 2003 (available on the website at www.francetelecom.com). This Code sets forth the values of France Telecom, its principles of action with respect to its customers, shareholders, employees, suppliers and competitors, and with respect to the environment and the countries in which France Telecom operates. The Code of Ethics also sets forth certain principles of behavior that each employee, director and manager of France Telecom must respect.

The principles and rules relating to market ethics are set forth in a specific document, which forms an integral part of the Code of Ethics. This document is intended to remind employees and directors of companies in the Group of the current regulations in this respect and the need to comply completely with them, as well as regarding certain preventive measures and, in particular, prohibitions on transactions carried out by "permanent insiders" (in particular, by directors and officers), for certain periods of time relating to securities of France Telecom S.A. and the other listed companies of the Group.

Moreover, in accordance with the provisions of Article 222-14 of the AMF's new General Regulation (implementing Article L. 621-18-2 of the French Monetary and Financial Code), France Telecom informed its directors that it is under the obligation to notify the AMF and disclose to the public by means of a press release, within five days of trading following receipt of the interested party's declaration, purchases, disposals, subscriptions and exchanges of France Telecom's financial instruments and transactions carried out in relation to these instruments by other financial instruments, realized by members of the board of directors and persons having close personal relations with them in accordance with the conditions that shall be defined by a government (*Conseil d'Etat*) decree.

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In accordance with the Code of Ethics, France Telecom created an Ethics Committee, which met for the first time in a meeting forming the committee on March 17, 2004.

In 2004, its work mainly involved ensuring that the entities in the Group had adopted the principles of the Code, distributed the Code and implemented the measures required for the most appropriate application of the Code.

The Ethics Committee met four times in 2004.

2.1.1.2 Corporate Governance

Under the authority of the Chairman of France Telecom S.A., the Group's Executive Committee, composed of executive directors from the Group's divisions and functions, defines the Group's strategies that contribute to the development of operating and commercial activities. The Group's Executive Committee directs and coordinates the implementation of these strategies. The Executive Committee oversees the realization of its objectives implementing its operational decisions and allocating the necessary resources. The Executive Committee meets once a week.

A certain number of specialized committees report to the Group's Executive Committee.

Certain of these committees, in particular the Investment Committee, the Internal Audit and Risk Committee, the Financial Liquidity Committee, the Disclosure Committee (See 2.2.1.1. below), the Fiscal Committee and the Commitments Committee, play an important role in control procedures. These Committees operate independently and are responsible for overseeing and implementing the Group's directives relating mainly to the realization of overall economic objectives. They also have the responsibility of overseeing risk management with regard to financial liabilities, thereby limiting the overall exposure of the Group.

The Group's Investment Committee is a research and advisory committee. It operates under the authority of France Telecom's Chairman. Chaired by the Corporate Senior Vice President of the Financial Rebalancing and Value Creation Program, it is composed of members of the France Telecom's Executive Committee. Its role is to advise the Group's Executive Committee or the Group's subsidiaries. It makes decisions (by majority vote) concerning acquisitions or sales of securities and commitments of specific programs relating to operating expenses or investments of more than €15 million. This Committee meets as often as it deems necessary, upon referral of one of the members of the Executive Committee.

The Investment Committee met 64 times in 2004 and reviewed 111 matters.

The Group's Internal Audit and Risk Committee, chaired by the Corporate Senior Vice President of the Financial Balancing and Value Creation Program, reviews and approves the Group's annual Internal Audit Program and its quarterly updates pursuant to a plan prepared with the members of the Executive Committee and their teams. It ensures consistency between the program to be realized and the resources (organization, expertise, Internal Audit budget, coordination with the external Audit, etc.) available and oversees the implementation of audit recommendations and corrective action plans.

It also reviews internal quality control reports provided by the Director of the Internal Audit and identifies improvements in this area to the Group's procedures and activities.

In 2004, internal control relating to "Revenue Insurance" (accounting, invoicing, collection and revenue recognition) was increased throughout the Group following the launch of specific "TOP" projects and organizational measures in this respect. Instructions were given to improve internal auditing of inter-company flows. Procedures and a group-wide Commitments Committee were implemented in 2004 to improve the quality of internal auditing of off-balance sheet undertakings, which was recognized as an area for improvement at the end of 2002. The total implementation of these procedures in a number of subsidiaries is yet to be completed and remains as an objective for 2005.

In general, the control environment was improved in 2004 as a result, firstly, of the committees' work and the implementation of procedures introduced in 2003 (e.g., an internal audit was carried out in 2004 on the functioning of the Investment Committee), and, secondly, of additional measures taken in 2004, such as for example, renewing delegations of power and signing authority and the creation of a Commitments Committee, as mentioned above.

The proposals, recommendations and opinions issued by the Committee are published in reports distributed to the Chairman of France Telecom S.A., France Telecom's Executive Committee and the executive committee of each concerned subsidiary.

Moreover, the Committee reported on its activities and presented a risk map to the Audit Committee in 2004.

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The Internal Audit and Risk Committee met four times in 2004.

The **Financial Liquidity Committee**, chaired by the Corporate Senior Vice President of Group Finance/Chief Financial Officer, meets once every three months. It decides on how to manage the Group's debt, in particular how it affects liquidity risks, examines interest and exchange rates for the coming months, and reviews the management of completed transactions and finalized financial results. The Financial Liquidity Committee met three times in 2004.

The **Fiscal Committee**, chaired by the Corporate Senior Vice President of Group Finance/Chief Financial Officer reviews the major tax-related matters in order to assess internal control quality so as to ensure the soundness of the tax-related choices that are being proposed (or have been taken) and to determine, if necessary, the accounting consequences. The materiality threshold of tax-related matters requiring the Fiscal Committee's input is €10 million.

The Committee meets quarterly. However, the Committee may convene special meetings to assess and approve the financial tax-related options to be taken on issues that are particularly important for France Telecom. The Fiscal Committee met three times in 2004.

The role of the **Commitments Committee**, chaired by the Corporate Senior Vice President and General Secretariat, is to ensure that legal risks in the form of provisions or off-balance sheet undertakings are adequately estimated in the Group's accounts. To this end, the Committee examines key disputes and off-balance sheet undertakings. The Committee was created in June 2004 and met twice in 2004 within the framework of the approval of the annual and half-year financial statements.

2.1.1.3 *The mobilization of expertise*

The Human Resources policy, as defined under the "Ambition FT 2005" Plan launched in December 2002 in relation to the debt reduction plan and improvement of the financial performance of the Group, takes into account the environment and future needs of France Telecom. As such, a group of procedures has been implemented to guide employment procedures and manage the workforce and expertise.

These procedures, monitored by the **Deployment Committee**, chaired by the Corporate Senior Vice President for Development and Optimization of Human Competencies, notably involve overseeing external hires, internal deployment and individual moves towards the public sector.

Moreover, 2004 was a pivotal year for the management of expertise: managers were appointed for priority expertise areas (sales, network, information systems, research and development) to implement expertise optimization programs and manage issues relating to France Telecom's progress towards becoming a fully integrated operator.

The mobilization of management and the workforce is assured, in particular, by the development of a results-oriented culture and the implementation of an incentive-based compensation policy for managers in relation to the goals achieved under the TOP Program. In addition, the creation of a single training center enabled the optimization of resources for training and the development of expertise required to improve employee professionalism and retrain employees.

Active dialogue with labor remains an ongoing priority for France Telecom. Several employment-related agreements illustrate this point, in particular the agreement relating to the implementation of a European Works Council (executed on April 14, 2004), the agreement on the implementation and functioning of staff representative bodies within France Telecom S.A. (executed on July 13, 2004) and the agreement on professional equality within France Telecom S.A. (executed on April 28, 2004). This last agreement affirms the policy to promote professional equality between women and men, particularly, with regards to access to employment, training, career development and work organization.

2.1.2 Internal Audit function

France Telecom's Internal Audit was formed in 1996 and consists of approximately 150 qualified auditors who work for all of the Group's entities and are primarily located in France, the U.K., Poland, and the U.S. During 2004, the Audit structuring process was introduced in the African continent. The Group's internal auditors adhere to the norms of the Institute of Internal Auditors (IIA) and are bound by its professional code of ethics and certification requirements. France Telecom's Internal Audit was awarded ISO 9001 V.2000 certification in October 2004.

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Beyond the supervisory functions of the other France Telecom corporate entities (the board of directors, advisory committees, the Executive Committee and specialized committees), it is ultimately the Internal Audit's responsibility to ensure compliance with audit procedures and bring sensitive issues to the Executive Committee's attention.

The Internal Audit assists France Telecom in maintaining appropriate audit control procedures by evaluating efficiency of the procedures and encouraging continued improvement. On the basis of the results of the evaluation of risks, the Internal Audit evaluates the pertinence and efficiency of internal audit procedures by assessing, in particular, the quality of the environment of control within the Group, the quality of the functioning of the internal corporate governance bodies, the reliability and integrity of financial and operating information, the efficiency and effectiveness of operations, the protection of assets and compliance with laws, regulations and contracts. On an ongoing basis, the internal auditors review transactions and projects in order to determine if the results correspond to established goals, if the transactions and projects were implemented or realized as planned and if they are consistent with values of the France Telecom Group.

Based on the risk evaluation, (established in accordance with the Group's priority objectives), that is submitted to the Group's Internal Audit and Risk Committee at least once a year, the internal audit program is reviewed by the Audit Committee of the board of directors.

The statutory auditors ensure that the audit work is appropriately coordinated. The Internal Audit was instructed, at the beginning of 2004, to monitor all the recommendations made by the external Audit as well as its own recommendations.

The Internal Audit's assignments (220 assignments completed in 2004) are subject to a systematic monitoring of recommendations, particularly action plans drawn up and implemented by segments and subsidiaries of the Group. In addition to these assignments, 60 cyclical internal audit assignments were carried out in 2004 in the operational entities (Branches, Operating Units, Network Units France). Each quarter, France Telecom's Internal Audit and Risk Committee prepares a report on the progress of corrective action plans. Moreover, each listed subsidiary brings its own requirements in line with the monitoring of recommendations, as well as with the requirements of the Internal Audit, in association with its executive committee.

2.1.3 Other elements of internal control

2.1.3.1 Risk management

"Risk management" has been implemented in the France Telecom Group and its major subsidiaries. Risk management consists in identifying and analyzing impact factors and the probability of events that are likely to affect the realization of the Group's objectives (operating, financial, compliance with laws and regulations, etc.).

The "identification of risks" and their prioritization, approved by the Executive Committee, is an ongoing process that takes into account new risks and parameters related to the environment of the Group. This procedure is founded on an approach on a segment-by-segment basis as well as on the basis of the most important categories of professions. It leads to the identification of risk holders and the implementation of risk processing by them.

2003 was notable since this procedure, already implemented within France Telecom S.A., was extended to major subsidiaries and has played an essential role in the internal control of the Group. In 2004, the introduction of risk maps for top-rated subsidiaries continued with Equant, which has completed this project.

For the purposes of managing crises and incidents that may occur in the operator's divisions (Network, Information Systems), in its processes France Telecom has integrated crisis management procedures and communication management in the event of a serious crisis. In particular, this resulted in the efficient handling of the major network incidents of 2004 in terms of the time frame for reestablishing service and external communication. France Telecom updates these crisis management procedures based on new techniques available and changes in the Group's scope of consolidation.

Moreover, France Telecom has taken out an insurance plan with major insurance and reinsurance providers to cover its principal risks. This insurance plan, which covers the parent company and applies to the entire Group, covers the following risks:

- Damage to assets and insurance for operating losses;
- Liability insurance;
- Car insurance.

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The insurance coverage takes into account the company's development and is regularly renewed in the market in order to maintain an optimal level between the quality of the guarantees and their cost.

2.1.3.2 The development of self-evaluation of internal control

As a tool made available by the Internal Audit to guide managers and favor the deployment of internal control, the self-evaluation of the efficiency of these internal control procedures is a formalized and normal procedure established in a uniform manner and progressively implemented within the Group. It aims to identify improvements related to the internal audit, within each operating division, and to carry out the necessary corrective actions.

This procedure was completed at the end of 2003 by distributing to financial directors and managers of operating divisions a guide on annual self-evaluation of key components of the control environment and the management of financial risks within their divisions, in addition to a related procedure and questionnaire.

2.1.3.3 Internal control reviews

Internal control review meetings (Business Controls Group) are the basis for the information process for Divisions relating to areas of improved internal control and the coordination of internal control improvements. These meetings are attended by the Corporate Senior Vice President of each Division, Internal Audit, Risk Management and the director of the program for continued improvement of internal financial control (Sarbanes-Oxley project).

Their role is to ensure that the Corporate Senior Vice President regularly reviews the following items related to internal control in their Division:

- the progress of the internal audit program in the current year;
- points raised by internal audit during the period under review;
- points raised by the statutory auditors relating to internal control;
- compliance with the main recommendations made by internal and external audit;
- definition and assessment of the Division's risks.

The internal control review meetings, which are held approximately once a year for the major Divisions and functional Departments, form an internal control review body. A summarized report of the meeting is drawn up, which is examined by the Internal Audit and Risk Committee.

In 2004, seven internal control reviews were carried out relating to the Group's main divisions and functions.

2.1.3.4 The identification and treatment of violations of the Code of Ethics

Within the scope of the Ethics Committee's work (see section 1.2.2 above), the conclusions of an assignment completed by the Audit Division during the second half of 2004 were submitted in December. The report confirms that the main subsidiaries and the divisions have adopted the principles of the Code of Ethics and have the required resources to ensure its implementation.

In particular, entities carry out investigations or enquiries using their own resources or request the assistance of specialized departments in the Group. The General Control department plays an important role in this respect. It aims to detect fraud and misconduct committed to the detriment of France Telecom and to draw up a list of the resulting consequences.

As a result, in the event of a suspicion of fraud or serious misconduct, an enquiry is carried out in order to determine individual or collective responsibilities and to analyze the consequences for the company. When the enquiry highlights the requirement to improve one of the internal control procedures, recommendations are made in the report and follow-up action is taken at the appropriate level. The Ethics Committee and Director of Internal Audit are informed of the most serious matters and the latter submits a report to the board of directors' Audit Committee and the Internal Audit and Risk Committee.

At the end of 2004, the Audit Committee, in agreement with France Telecom's board of directors, approved the implementation of a warning system provided for by the Code of Ethics and the provisions of the Sarbanes-Oxley Act. The system has been

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operational since January 2005 and any employee who is aware of misconduct or fraud may report it through a message system. A procedure has been established to ensure that such alerts are processed independently and that the protection of the employees is guaranteed.

In order to guarantee the efficiency of the procedures for controlling compliance with the Code of Ethics in the Group, the General Control department has redefined in 2004 the reporting and data consolidation arrangements relating to violations of the Code of Ethics that are detected and dealt with in the Group.

2.1.3.5 TOP Program (Total Operational Performance)

The TOP Program (which is described in the *Document de Référence*) has been deployed throughout the Group. It is divided into projects designed to detect and implement the necessary strategies to improve performance: resource sharing, systematic searching for synergies between Group entities and the sharing of best practices. The majority of these projects provides the opportunity to review procedures that also contribute to improving internal control.

In this respect, for example, the efforts made to improve working capital requirements brought about a close examination of billing and collection procedures. Similarly, for the "Revenue Insurance" project, a systematic review of major procedures in all of the operational divisions occurred, leading to greater success regarding invoicing services and collections after billing.

These projects are reviewed regularly (see section 2.2.1.3.4 below).

2.2 INTERNAL CONTROL PROCEDURES RELATED TO THE PREPARATION AND TREATMENT OF ACCOUNTING AND FINANCIAL INFORMATION

The accuracy of published accounting and financial information is reinforced by (i) a group of corporate bodies, regulations, procedures and controls; (ii) a policy for managing expertise and (iii) continued improvement of procedures.

2.2.1 Internal control of accounting and financial information

The internal control of accounting and financial information is organized around the following points:

- the financial Information Committee;
- the organization of the Group's accounting and management;
- a unified accounting and management control reporting;
- the system of reference and accounting methods common to the Group; and
- the planning of settlement procedures.

2.2.1.1 The Disclosure Committee

Financial information and its control are organized in a manner consistent with the managerial organization and management of France Telecom, as described in the *Document de Référence*. In order to reinforce the quality and reliability of financial information, France Telecom has established a procedure to guide and control financial information, which relies on interventions by the financial Information Committee.

This Committee (a "Disclosure Committee" as contemplated by the U.S. Sarbanes-Oxley Act), aims to ensure the integrity, accuracy, compliance with applicable laws and regulations and recognized practices, and consistency and quality of financial information within the entire France Telecom Group. It is informed of financial information required to be published by France Telecom's listed subsidiaries and reviews the financial information published at the Group level. This review also involves press releases containing financial information, the management report and the *Document de Référence*.

The Committee is involved in procedures relating to the preparation and validation of financial information as defined by the Group. It is chaired by the Corporate Senior Vice President of Group Finance/Chief Financial Officer and is comprised of, in particular, the Executive Director of External Communications and the relevant directors within the accounting, legal and management audit and control departments. The Committee, formed in February 2003, met 22 times in 2004.

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2.2.1.2 Accounting and Management

2.2.1.2.1 Role

Under the authority of the Corporate Senior Vice President of Group Finance/Chief Financial Officer, the Management Control and Accounting Division is responsible for the important tasks of conforming the Group's financial information. Accordingly, it:

- ensures the production of the Group's consolidated accounts and France Telecom S.A.'s corporate accounts within the time periods determined by the financial markets and legal requirements;
- guides the budget and estimated budget process and produces monthly management reporting in a timely manner, ensuring the consolidation and conformity of data;
- produces the necessary documentation for the financial results communication and the summary of management reporting for the Executive Committee;
- develops and implements methods, procedures and accounting and management systems of reference for the Group;
- identifies and carries out the necessary changes to the Group's accounting and management systems.

2.2.1.2.2 Organization

Legal constraints and the listing of certain subsidiaries led France Telecom to organize its process of consolidating accounts according to a procedure based on the following transparent levels: consolidation of reporting units with similar activities within France Telecom S.A., "Personal" Communication Services Division, TP Group, Equant and PagesJaunes, while the other subsidiaries were consolidated directly.

The accounting activity of the principal listed subsidiaries reflects their structural organization. The accounting activity is generally divided among several accounting centers operating in close collaboration with a centralized accounting service (with the operating units) responsible for producing summaries and overseeing the adherence of various centers to the accounting principles. These subsidiaries adopt accounting and management procedures similar to those of France Telecom S.A.

France Telecom S.A.'s accounting activity regroups the Management Control and Accounting Division and six accounting units (a total of approximately 1,000 people). The Management Control and Accounting Division ensures the production of accounts as well as the reporting and the financial and customs notifications of the parent company and certain of its French subsidiaries. It also ensures the updating and maintenance of accounting information systems and the Group's accounting referential.

France Telecom S.A.'s accounting units are responsible for the operational accounting of business units and the bookkeeping of a limited number of its subsidiaries.

Within the Management Control and Accounting Division, the Management of the Production of Consolidated Accounts is responsible for producing, analyzing and restating the Group's consolidated accounts at each stage of the management cycle (plan, budget, monthly reporting, quarterly and annual accounts) according to various accounting systems of reference.

The Management audit activity is represented and organized at each level of the Group's management (operating unit, subsidiary and Division). The Management Control and Accounting Division coordinates these management audit services.

In order to ensure that France Telecom S.A.'s subsidiaries and business units work efficiently toward the Group's economic performance goals, in 2003 the Group Finance division implemented a two-way service that connects reporting for management controllers to their specific entity and to the Controlling Group for functional purposes.

2.2.1.3 Unified accounting and management reporting

All of the Group's entities are involved in the management and guidance cycle, which is composed of the following four major components:

- the projected three-year economic model (EFM);
- a half-year budget process and half-year and annual re-projections;
- monthly reporting; and
- monthly and quarterly business reviews.

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2.2.1.3.1 A projected three-year financial model

Each year, the Group establishes an economic model for the upcoming three years. This economic model is developed on the basis of France Telecom's strategic choices with regards to changes in the financial markets, the sector of activity, and competition.

The components of this plan constitute the basis of the business plans, formulated in relation to the appropriate time frame, that are used to analyze goodwill, the value of subsidiaries' and holdings and the collection of deferred taxes.

2.2.1.3.2 The budget process and the half-year and annual re-projections

The budget process involves all of the Group's business units and subsidiaries. The major steps of the budget process are the following:

- in November, each business unit develops a budget for the first half and second half of the following financial year as well as an end of the year projection (*prévision de fin d'année*) for the current financial year;
- in May, the initial projection for the first half of the current financial year (end of half-year projection) is updated and compared to the initial draft. On the same date, the budget for the second half of the year is also updated (end of year projection); and
- in the beginning of November, the budget for the current financial year is updated (end of year projection).

Under the budget process, the Divisions establish and analyze the indicators for the measurement of performance. The budget and the re-projections are completed on a monthly basis so that they serve as references for the Group's reporting.

2.2.1.3.3 Monthly reporting

Monthly reporting is a major element in the procedures of control and financial information. It serves as an important tool of follow-up, control and guidance for France Telecom's management (*Direction Générale*). The reporting is made up of several documents prepared by the Management Control and Accounting Division, approved by the Group Finance division and submitted to the Group's Executive Committee.

The monthly reporting contains figures, discussion of changes, and key performance indicators (KPIs).

The reconciliation of accounting and projected data, used in the monthly review at each level of the Group, contributes to the quality and accuracy of the information produced. This method, established by management control and accounting activities, is prevalent in all of the Group's divisions and at each level of the organization. In this context, Group Finance establishes the accounting and management principles and oversees compliance with the Group's procedures.

Applying the principle of uniqueness of the accounting and management figure allows the management controllers of the Group's business units to use the same referential or information system in preparing the actual reporting and budget (CARAT). As a result, the consolidation and the referential of these projected budget procedures (Projected Financial Model, budget, re-projections) are consistent with procedures of actual reporting.

Relating more specifically to France Telecom S.A., the controls procedures for thoroughness, accuracy and consistency are divided into three levels:

- the collection of economic and financial information that serves as the data for the accounting system (purchases, human resources, sales, fixed assets, etc.);
- recording and processing data generated by the specific accounting units; and
- the work relating to the closing of accounts carried out by the Management Control and Accounting Division for synthesis and reporting purposes.

2.2.1.3.4 Business reviews

Business reviews are a key element in the Group's procedures relating to business direction and control. Their main objective is to ensure the appropriateness between corporate actions and the Group's goals, and notably to monitor the progress of the TOP projects.

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Monthly business reviews are organized at the Division level by the Management Control and Accounting Division. The Corporate Senior Vice President of group Finance with the Corporate Senior Vice President and the key managers of each division conduct business reviews on a quarterly basis. Each Division carries out its own monthly reviews, in which the Management Control and Accounting Division participates.

2.2.1.4 The Group's shared referential and accounting methods

The Group, in producing its projected and actual consolidated accounts, has adhered to a unified principle that leads to:

- consistency among the systems of reference, accounting methods and methods of consolidation,
- standardization of refunding formats, and
- the use of an integrated information system within the Group (CARAT).

The Group has a single referential that standardizes the entire CARAT consolidated reporting rubrics, including off-balance sheet commitments. The group Finance Division is responsible for maintaining and ensuring the updating of this system of reference. All of the Group's consolidated companies have adopted this system of reference.

It should be noted that the France Telecom Group prepares its consolidated accounts according to French GAAP (CRC regulation no. 99-02). As its ADRs are listed on the New York Stock Exchange, France Telecom provides a US GAAP reconciliation of its accounts (including in relation to the Group's net revenues and shareholder's equity).

The methods of consolidation are established in accordance with local accounting rules and include restating for consistency in order to comply with the Group's norms. On a case-by-case basis, the central teams of consolidation, at the levels of the pertinent entities for consolidation purposes or at the central level, may be brought in to complete these restatements.

The Management Control and Accounting Division circulates within the Group memoranda on the process and timetable for closing the accounts. France Telecom S.A. and its subsidiaries adhere to these processes and timetables within their organization.

The consolidated accounts of the France Telecom Group for the financial year ending on December 31, 2005 shall be prepared in accordance with international accounting standards together with a comparison with the financial year 2004 prepared on the basis of the same standards.

In this respect, the Group implemented a project to convert to international standards (IAS/IFRS) in July 2003 in order to identify and deal with the major differences in accounting methods at the end of December 2004, to start the preparatory work for the opening balance sheet on January 1, 2004 and restate monthly figures for 2004.

This project is carried out within the scope of a wider program aimed at improving management reporting and implementing a new consolidation tool and a new common system of reference throughout the Group. In order to ensure the consistency of accounting policies and their implementation in the Group, the IFRS conversion project is run by a central team, which manages the whole project on behalf of the Group and the sub-groups.

The work carried out by the Group to implement the IFRS standards, the agreed solutions and an initial evaluation of the financial impact are set forth in Section 1.6.2 "Implementation of IFRS (International Financial Reporting Standards) within the France Telecom Group" in the financial report included in France Telecom's 2004 *Document de Référence*. In mid-April 2005, France Telecom will communicate IFRS financial information relating to the financial year ended December 31, 2004. With effect from the end of April 2005 (publication of the revenues for the first quarter 2005 under IFRS), all of the Group's financial information will be published using IFRS.

2.2.1.5 Closing procedures

In order to decrease the time required to close the financial accounts, France Telecom has launched a program to better formalize and plan the procedures for closing the accounts. This program is based on:

- the processes of budgetary monitoring;
- the realization of the pre-closing of the accounts;

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- the enhanced formalization to the closing process;
- the anticipatory planning of the treatment of complex accounting operations and estimates.

The major factors in the progress achieved by the Group in the closing of its accounts have been the planning of actions of coordination between the Group's different divisions and functions, the improvement in the quality of the financial projections and the increasing control over the financial processes, and the upstream planning and acceleration of the procedures for closing the accounts.

The statutory auditors are involved on a quarterly basis in performing the agreed procedures in addition to their legal responsibilities: the submission for the first six months, in the form of a limited examination at the level of the Group; and, for the annual closing, a revue of the pre-closing followed by an audit of the accounts at December 31. They also perform an external evaluation, in addition to the internal evaluation. The Internal Audit ensures that their recommendations are adopted.

2.2.2 The development of joint competencies

The organization of the Group regarding internal control of accounting and financial information is accompanied by:

- a program for the development and management of skills based on the training of accounting personnel, management control personnel and corporate finance personnel of the Group; and
- the development of a professional network common to the Group.

The main steps taken were as follows:

- organization by category or profession or by specialty allowing a consistent and uniform management of resources; for key positions requiring specific financial expertise or a management role, the Chief Financial Officer and the deputy director of the Finance group are now responsible for hiring key financial executives.
- introduction by the Finance group, in partnership with Human Resources, of training programs and the development of training tools and methods (specific training program called ARGOS program);
- for France Telecom S.A., the pooling of resources and employees throughout the national accounting units; these units gradually accept the accounting from subsidiaries that prepare their accounts according to French standards. An expanded common accounting services center in France is also being studied.

2.2.3 Continued improvement

2.2.3.1 ISO 9001 certification

In 2001, France Telecom S.A. was awarded an ISO 9001 V2000 certificate by the AFAQ for each service in the Accounting Department and for the accounting units. This certificate covers all the management systems by type. The certificate was renewed in 2002, 2003 and 2004 following an annual review by the AFAQ.

Under the program of continual improvement and after identification of control activities, the efficiency of internal control is evaluated on the basis of compliance tests and self-assessment tools, following which preventive or corrective measures are taken.

In 2004, the renewal of this certificate was accompanied by a change in consolidation. This change was carried out by a regrouping of all of the management systems by type (a single certificate) and by the gradual extension of this step to the accounting procedures of the subsidiaries managed by the Accounting Department.

2.2.3.2 Converging accounting and management information systems

The "Convergence" project was launched in 2000 to conform the accounting procedures and systems of reference within the large listed subsidiaries on the basis of a software adopted by France Telecom S.A. This application contributes to the accuracy of basic accounting information and relies on the shared accounting referential, a key and unique accounting tool, and notably includes predefined and integrated control procedures.

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Extending this project, France Telecom launched the “New Convergence” program at the beginning of 2004 in order to further improve the conformity of procedures, referential and tools within the whole Group. The program is designed primarily for subsidiaries that have not yet adopted the Group’s application. On the basis of developing a core common solution, it aims to introduce a generalized common implementation of ERP (Enterprise Resource Planning) in the Group’s key subsidiaries. TP S.A. shall be the first entity to implement the New Convergence solution.

The New Conso and Reporting project was launched in September of 2003 with the following four objectives:

- meeting the new IFRS regulatory requirements;
- expanding the Group’s management reporting from the perspective of the professions;
- creating a single consolidating/reporting system based on a single and shared referential; and
- improving the level of integration of the consolidation/reporting system with upstream systems.

The realization of these objectives is expected to produce a more uniform set of accounting procedures and implementation within the Group as well as improved management of the Group’s systems of reference, in particular, those linked with the systems of reference used in systems for operation.

The launch of the new system within the Group’s divisions is planned for the first half of 2005.

The New Conso and Reporting project and the New Convergence project were presented to the board of directors’ Audit Committee.

2.2.3.3 The program for the continuing improvement of internal financial control procedures

In 2004, France Telecom continued a group-wide program to reinforce the effectiveness of internal control in the production of financial and accounting data launched in 2003.

General objectives

This program forms part of a long-term step aimed at providing the Company with an adequate general internal control framework that ensures well-conceived and efficient internal control relating to areas that are significantly affected, in a broad sense, by financial information.

In this respect, the improvement of the environment of control is a major objective, which is carried out through specialized projects (human resources, internal audit, risk management, information systems, etc.) enabling in each relevant area the dissemination of a well-adapted internal control culture, to clarify the policies decided by the Group, adapt them locally for the Group entities and evaluate their effectiveness. An update is performed on an annual basis on the progress recorded and additional measures to be taken.

An important additional objective involves documenting the most significant control activities in order to increase the security of the processes contributing to the Group’s accounts and to test the design and efficiency of these control activities. This leads to the implementation of a circular process for continual improvement of the processes and, where applicable, the adoption of appropriate corrective measures. The in-depth analysis of the internal control process is intended to enable the Chairman and the Chief Financial Officer to certify the efficient internal control relating to the production of accounts and for the statutory auditors to validate this certification and perform their own review.

Program 2004-2005

Within this framework the program introduced by France Telecom must enable the Group to meet the requirements of Article 404 of the Sarbanes-Oxley Act in a timely fashion. France Telecom is subject to this law due to its listing on the New York Stock Exchange.

The management of this far-reaching program is overseen, at the Group level, by a Steering Committee. The Steering Committee is chaired by the Executive Directors in charge of Group Finance and the General Secretariat, and by a Project Team,

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which defines, moderates and coordinates the work of the Committee and ensures that the project runs smoothly. Each Division or large listed subsidiary has put in place an implementation system, which operates in close collaboration with the structure at the Group level.

In addition to the ability to systematically and consistently perform a documented review of all of the internal financial control processes, the work carried out in 2004 has enabled control activities to be documented using a common tool and the undertaking of the review of the most important activities. These early reviews have in some cases led to plans for improvement aimed at achieving the objectives fixed by the Group for the project.

In 2005, France Telecom intends to pursue this program by:

- the pursuit of improvement of the internal financial control processes by the relevant operational managers;
- the implementation of ongoing reviews, with the tools necessary for analysis, in order to demonstrate the efficiency of the internal control system in accordance with legal requirements;
- the implementation of a permanent structure to centrally manage the internal financial control program, guaranteeing the quality of the internal control system.

The Group will carry out an annual review, the conclusions of which will be set forth in the report prepared in accordance with the provisions of the Sarbanes-Oxley Act. Concurrently, the auditors will carry out their review and summary in accordance with the principles laid down by U.S. law.

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II - INTERNAL GUIDELINES FOR THE BOARD OF DIRECTORS

The Board of Directors of France Telecom has decided to define in these internal guidelines rules and procedures for conducting its business.

Article 1. Strategic policies

The Board of Directors shall give its opinion on all decisions relating to the company's general strategic, economic, social, financial and technological policies and supervises the implementation of these policies by management.

The medium-term business policies for the group shall be defined annually in a strategic plan. The proposed plan shall be drawn up and submitted by the Chairman and approved by the Board of Directors. This proposal shall include a forecast of likely variations in the group's principal operational and financial indicators. The Chairman's proposal will also include a draft annual budget.

The Chairman shall first submit the plan for study and advice from the Strategic Committee and the Policy Committee of the Board.

The Chairman shall be responsible for implementing the policies contained in the strategic plan.

The Chairman shall obtain the authorization of the Board of Directors before committing the company to investments or divestitures involving amounts in excess of 200 million euros per transaction, when such transactions are acquisitions or disposals. Any investments involving amounts in excess of 20 million euros that are not included in the company's strategic policies, shall first be approved by the Board of Directors.

The Chairman shall inform the Board of any problems and, more generally, any events that could affect the implementation of a policy set out in the strategic plan.

Article 2. Information for directors

In addition to the agenda for each Board meeting, each director shall be provided with documents that allow him or her to adopt positions with full knowledge of the facts regarding the items on the agenda.

At each board meeting, the chairman shall report to the members the principal facts and significant events concerning the Group which have occurred since the date of the previous board meeting.

Directors may visit any France Telecom facility or place of business in order to obtain any information required to perform their duties. To do so, directors must submit a written request to the chairman via the secretary of the board of directors explaining the purpose of such a visit. The general secretariat of France Telecom defines the terms of access and organizes the conditions of such visits, to ensure that they do not disturb the regular operation of the facility or place of business.

Article 3. Inspection by the Board of Directors

The Chairman of the board of directors or the Chairman of the audit committee may request any inspection or verification from the board of directors (see section "6.1.2 Committees of the board of directors"). In any case, the board of directors shall deliberate such issues within the shortest possible time.

When the board of directors decides that it should do so, it shall specifically define the purpose and methods of such an inspection in a resolution, and either conduct such an inspection itself or entrust it to one of its committees, one of its members, or a third party.

The Chairman shall define the conditions for the performance of the inspection or verification. In particular, measures are taken to ensure that the performance of such an operation causes the least possible disruption to the Group's business. Interviews with Group employees shall be organized when necessary.

The Chairman shall ensure that useful information for the audit or verification is provided to the person performing such inspection or verification. The person performing such an inspection or verification is not authorized to interfere with the management of the business.

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On completion of the audit or verification, the findings shall be reported to the board of directors. The board shall determine the follow-up action to be taken.

Article 4. Possibility of Giving an Assignment to a Director

When the board of directors decides that it should entrust one or more of its members, or a third party, with an assignment, it will formulate the principal characteristics of such an assignment. When the persons responsible for performing the assignment are members of the board of directors, they do not take part in the vote.

On the basis of such a resolution, a draft assignment letter is drawn up at the Chairman's initiative:

- defining the precise purpose of the assignment;
- outlining the form that the assignment report is required to take;
- setting the duration of the assignment;
- determining, where appropriate, the compensation due to the persons performing the assignment and the terms of payment;
- if required, setting a ceiling for reimbursement of travel and accommodation expenses and for any other expenses that may be incurred by the persons in carrying out the assignment.

If appropriate, the Chairman shall submit the draft assignment letter for opinion to the Compensation, selection and organization Committee and to the other interested Board Committees and shall deliver the signed assignment letter to the Chairmen of these committees.

The report shall be delivered by the Chairman to the directors of the company.

The board of directors shall deliberate the follow-up measures, if any, to be adopted in respect of the report.

Article 5. Committees of the Board of Directors

The Board of Directors shall set up committees to assist in preparing its decisions.

The Board of Directors defines the scope of work and responsibilities of each committee in the present Internal Regulations. Within its scope of work, each committee shall formulate proposals, recommendations or opinions according to the circumstances. It may decide to undertake surveys to assist the Board in making informed resolutions.

The Board of Directors shall appoint the Chairman and members of each committee. Committee members shall take part in meetings personally, using audio communication or video communication systems where required.

Once it has been informed of the schedule of business of the Board of Directors, each committee shall approve a provisional annual work schedule for its own meetings. Committee meetings shall be held at the company's registered office or any other location selected by its Chairman.

The Chairman of each committee shall draw up an agenda for committee meetings and shall inform the Chairman of the Board of this agenda.

The Chairman of each committee may decide to invite all or some of the members of the Board of Directors or any person of his choice to various committee meetings. He shall inform the Chairman of the Board of Directors which executives he expects to attend a meeting.

A committee shall undertake work on the following basis:

- it shall assume responsibility for any matter that falls within its area, as defined in these Internal Regulations, and shall define its annual work schedule;
- the Chairman of the Board of Directors may refer any matter included, or to be included, on the agenda of the Board of Directors to a committee for its consideration;
- the Board of Directors and its Chairman may refer any matter within its jurisdiction to any committee at any time.

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The Secretary to the Board of Directors shall act as secretary to each committee.

The Chairman of the Board of Directors shall ensure that all the information required for the committees to conduct their work is made available to them. He will also ensure that each committee is kept regularly informed of any changes to the legislation and regulations relevant to its scope of work.

The proposals, recommendations and opinions given by the committees will be set out in reports, first submitted by the committee Chairmen to the Chairman of the Board of Directors and then passed on to its members.

Article 6. Strategic Committee

Each year, the Chairman of the Board of Directors shall refer the proposal for updating the strategic plan provided for in Article 1 of these Internal Regulations to the Strategic Committee.

Other than in cases of emergency, the Strategic Committee shall be instructed to consider the facts and issues referred to in Article 1 of these regulations.

The Strategic Committee shall be consulted on projects related to the Group's development, changes in industrial partnerships and proposed strategic alliances. It shall then report and make recommendations for each project to the Board of Directors.

The Strategic Committee reviews projects for strategic agreements and alliances, technology and industrial cooperation, and major asset purchasing and transfer projects.

The Strategic Committee met once in 2003 to review, most notably, the plan for France Telecom's public exchange offer for outstanding Orange shares. Five members of the Strategic Committee attended this meeting.

The committee shall review projects for:

- strategic agreements, partnerships and technological and industrial cooperation;
- material acquisitions and disposals of assets.

The matters submitted to the committee for its consideration shall be accompanied by relevant information allowing it to assess the risks that such transactions may entail.

In view of the potential impact of these risks on the company's financial position, the Chairman of the Audit Committee shall attend the meetings of the Strategic Committee.

Article 7. Audit Committee

On behalf of the Board of Directors, the Audit Committee shall:

- ensure compliance with accounting rules adopted for the preparation of individual and consolidated financial statements;
- verify that internal information gathering and control procedures are properly applied;
- ensure the quality and relevance of information provided to the shareholders.

On behalf of the Board of Directors, the Audit Committee shall:

- review drafts of individual and consolidated, half-year and annual, financial statements submitted to it by the Chairman of the Board of Directors or the Chief Financial Officer before they are submitted to the Board of Directors. The committee may meet with the statutory auditors without management present;
- review drafts of management reports, activity and income tables, and all accounts drawn up for the purposes of specific transactions (contributions to capital, mergers, payments of interim dividends, etc.) before they are disclosed;
- consider any changes to accounting rules and procedures applied in preparing financial statements and any possible violation of these rules and procedures;
- ensure that the procedures comply adequately with the relevant financial and stock exchange regulations.

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On behalf of the Board of Directors, the Audit Committee shall:

- organize the procedure for selecting the company's statutory auditors. This mandate shall be subject to open market competition at the end of each term of office. The Audit Committee shall make a recommendation to the Board of Directors regarding the choice of statutory auditors and their terms of compensation;
- study on a yearly basis with the statutory auditors and the Audit and Risk Management Director their respective working plans, their conclusions, recommendations and the resulting action to be taken. It will, in particular, analyze the internal audit report for the previous year and the schedule of internal audit assignments for the current year;
- examine on a yearly basis the management report on the Group's exposure to risks, particularly financial and litigation risks, and material off-balance sheet commitments;
- assess the internal audit valuation methods and results and check that the procedures used help producing corporate and consolidated financial statements that truthfully and accurately reflect the actual situation of the company and the group and comply with the accounting rules;
- ensure that systems and procedures used to prepare the financial statements are reliable and that the methods of handling material transactions are valid;
- be notified of any accounting or audit irregularities;
- analyze the company's financial communication policy and approve the main disclosures before they are published.

The Chairman of the Board of Directors or the statutory auditors shall refer to the Audit Committee any event that may expose the company to significant risk.

The Audit Committee may conduct interviews of the Chief Financial Officer, the Controller, the Treasurer or the Director of the Internal Audit without the Chief Executive Officer present.

The Audit Committee may request that an internal or external audit be conducted on any matter that, in its view, falls within its scope of work. The Chairman of the committee shall inform the Board of Directors of any such action.

The members of the Audit Committee are required to have requisite financial and/or accounting skills and expertise.

The Chairman of the Board of Directors may not serve as a member of the Audit Committee.

Article 8. Compensation, selection and organization Committee

The Compensation, selection and organization Committee shall submit recommendations to the Board of Directors relating to the nomination of:

- members of the Board of Directors;
- the Chairman of the Board of Directors;
- members of the committees of the Board of Directors.

The Chairman of the Board of Directors shall inform the Compensation, selection and organization Committee of all nominations to the Group's Executive Committee.

The committee shall submit proposals to the Board of Directors relating to compensation levels for senior executives who serve as board members.

At the request of the Chairman of the Board of Directors, the committee may be consulted for advice on the methods used for setting compensation of executive officers (fixed portion, variable portion, method of calculation, indexing).

The committee shall make proposals for improving the functioning of the Board of Directors and for the regular updating of its internal guidelines.

Article 9. Policy Committee

The duties of the Policy Committee include evaluating the major economic, social and technological policies of the company. In particular, the committee shall review the impact of regulatory changes on the company's strategy.

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It will then draw up recommendations to the Board of Directors.

Article 10. Meetings of the Board of Directors

Each year, on the Chairman's recommendation, the Board of Directors shall set a calendar of board meetings for the following year.

This calendar shall set the dates of regular Board meetings (first and third quarter revenues ; results for the first half-year; meeting prior to the annual shareholders' meeting etc.) and on a provisional basis subject to review, the dates to be set aside by directors for possible additional Board meetings.

The Chairman shall set the agenda for each Board meeting and communicates the agenda to the board members in a timely manner and through all appropriate means.

The documents that allow the directors to make a fully informed decision on the items included on the agenda set by the Chairman shall be transmitted by the Chairman to the directors at least 48 hours before the board meeting, except in emergency situations or where there is a need to preserve absolute confidentiality

In any case, during any meeting, the board of directors may, in emergencies and at the proposal of the Chairman, deliberate issues not included on the agenda.

The board of directors reports once a year on its operations and reviews the proposals made in this regard by the Compensation, Selection and Organization Committee.

Article 11. Videoconference attendance to meetings of the Board of Directors

The Chairman shall ensure that a videoconference system providing continuous retransmission of the proceedings at Board meetings is made available to directors living outside Paris or abroad, or for those that are temporarily outside Paris or abroad for legitimate reasons, so that they may take part in Board meetings.

Where members are called to a Board meeting elsewhere than at the company's registered office, the Chairman shall take the necessary measures to allow directors wishing to meet at the company's registered office to part in the meeting via a videoconference system.

The directors attending a Board meeting via a videoconference system are deemed present at the meeting and shall be counted for the purpose of calculating the quorum and voting majority.

The type of videoconference system used shall be technically capable of guaranteeing effective participation in the Board meeting. There must be continuous transmission of the proceedings at the meeting. If not, the directors concerned shall not be deemed present at the meeting and if the quorum is not satisfied, the meeting shall have to be adjourned.

The attendance register for meetings of the Board of Directors must, if this is the case, stipulate that some directors took part in the meeting via a videoconference system.

The minutes of the Board meeting must specify the names of those directors taking part in the meeting via a videoconference system. The minutes must also mention any videoconference technical incident that disrupted the meeting.

The above provisions do not apply when passing the resolutions referred to in Article 10 (1) and (3) of the law No. 83-675 of July 26, 1983 and in Articles L. 225-47, L. 225-53, L. 225-55, L. 232-1 and L. 233-16 of the Commercial Code, pertaining to:

- appointing or removing the Chairman of the Board of Directors under the specific provisions contained in the law of July 26, 1983;
- appointing or removing the Chairman of the Board of Directors under the general provisions contained in the Commercial Code;
- setting the compensation of the Chairman of the Board of Directors;
- appointing *Directeurs Généraux Délégués* or setting their compensation;
- removing *Directeurs Généraux Délégués*;

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- drawing up the annual financial statements and management report;
- drawing up the group consolidated financial statements and management report.

Article 12. Directors' duty to preserve confidentiality

The members of the Board of Directors are bound by an absolute obligation of confidentiality with respect to the discussions and resolutions of the Board of Directors and its committees. This duty covers any information presented at the meetings.

In general, the members of the board of directors are required not to disclose any such information to anyone outside the board of directors, in particular to the press.

The Chairman shall inform the directors of the information to be disclosed to the markets as well as the text of statements or releases issued for this purpose in the name of the Group.

In the event of the demonstrated failure by a director to honor his or her confidentiality obligation, the Chairman of the board, after consulting with committee chairmen, shall report to the board on any actions, including legal actions that he intends to take as a result of this breach of confidentiality.

Article 13. Directors' duty to maintain independence

In the performance of their duties, each director must make decisions without consideration of any interest other than the interest of the company.

Each director is required to inform the Chairman of any situation that could create a conflict of interest with the company or one of the companies of the Group; if necessary, the Chairman shall consult the Compensation, Selection and Organization Committee on any such question. The director concerned shall then act accordingly pursuant to applicable legislation.

The members of the board of directors shall register any France Telecom shares of the company they hold at the time they are appointed to the board, as well as any shares acquired during their tenure as board members.

Every six months, the members of the board of directors shall report to the Chairman, at his request, the information that will allow the Chairman to report to the *Autorité des marchés financiers* on the transactions they have executed with regard to France Telecom securities.

The members of the board of directors are prohibited from:

- performing any transactions with respect to the securities of the listed companies of the Group as long as they have privileged information; and
- directly or indirectly engaging in short sales with respect to such securities.

The first prohibition above applies in particular during the period in which the Group's half-year earnings and quarterly information are being prepared and presented. It also applies during special periods in which projects or transactions that justify such a prohibition are being prepared.

The Chairman shall set or confirm the start and end dates of blackout periods and shall notify the directors of such blackout periods in timely fashion.

The Code of Ethics, which specifies in particular the rules governing privileged information, applies to the members of the board and its committees.

The Chairman shall report to the board of directors on the measures adopted to ensure that the employees of the Group who, by reason of their position, have such information and/or participate in such transactions, comply with these rules.

Article 14. Directors' duty of diligence

In accepting a board position, each director undertakes to fully discharge the duties of the position, in particular:

- to devote the time necessary to analyze the issues brought before the board of directors and, as applicable, the committee on which he or she serves ;

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- to request any additional information he or she deems useful ;
- to ensure that these guidelines are applied ;
- to form an opinion freely before any decision, considering only the interest of the company ;
- to actively participate in all meetings except when unable to do ; and
- to formulate any proposals intended to improve the working conditions of the Board and its committees.

The Board of Directors shall continually work to improve the information provided to the shareholders. Each director, particularly through his or her contribution to the work of the board committees, must strive to achieve this objective.

Each director undertakes to resign his or her position on the board when he or she believes in good faith that he or she is no longer in a position to fully assume the duties and obligations of the position.

EXHIBITS

III - STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH THE LAST PARAGRAPH OF ARTICLE L. 225-235 OF THE FRENCH COMMERCIAL CODE (CODE DE COMMERCE), ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS OF FRANCE TELECOM S.A., ON THE INTERNAL CONTROL PROCEDURES RELATING TO THE PREPARATION AND PROCESSING OF FINANCIAL AND ACCOUNTING INFORMATION

This is a free translation into English of a report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders,

In our capacity as Statutory Auditors of France Telecom and in accordance with the requirements of the last paragraph of Article L.225-235 of the French Commercial Code, we hereby report to you on the report prepared by the Chairman of your company in accordance with Article L.225-37 of the French Commercial Code for the year ended December 31, 2004.

It is the Chairman's responsibility to report, in his report, notably on the conditions in which the duties of the board of directors are prepared and organized and the internal control procedures in place within the company.

It is our responsibility to report to you our observations on the information set out in the Chairman's report concerning the internal control procedures relating to the preparation and processing of financial and accounting information.

We performed our procedures in accordance with professional guidelines applicable in France. These require us to perform procedures to assess the fairness of the information set out in the Chairman of the Board's report on the internal control procedures relating to the preparation and processing of financial and accounting information. These procedures notably consisted of:

- Obtaining an understanding of the objectives and the general organization of the internal control, as well as the internal control procedures relating to the preparation and processing of financial and accounting information, as set out in the Chairman's report;
- Obtaining an understanding of the work performed to support the information disclosed in the report.

On the basis of these procedures, we have no matters to report in connection with the information given on the company's internal control procedures relating to the preparation and processing of financial and accounting information, contained in the Chairman's report, prepared in accordance with Article L.225-37 of the French Commercial Code.

Paris La Défense and Neuilly sur Seine, February 10, 2005

The Statutory Auditors

DELOITTE & ASSOCIES

ERNST & YOUNG Audit

French original signed by

French original signed by

Etienne Jacquemin

Jean-Paul Picard

Christian Chiarasini



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