



France Telecom

FY 2004 IFRS

April, 14th 2005

Cautionary Statement



This presentation contains forward-looking statements, in particular relating to France Telecom's outlook for 2005 as restated under International Financial Reporting Standards (IFRS).

Such statements are not historical facts and include expressions about management's confidence and strategies and management's expectations about new and existing programs, opportunities, technology and market conditions. Although France Telecom believes its expectations are based on reasonable assumptions, these forward-looking statements are subject to numerous risks and uncertainties. These statements should not be regarded as a representation that anticipated events will occur or that expected objectives will be achieved. Important factors that could cause actual results or performance to differ materially from the results anticipated in the forward-looking statements include, among other things, the success of the FT 2005 plan, including the TOP LINE and TOP programs, France Telecom's other strategic initiatives (based on the integrated operator model and including the FT Ambition 2008 program) as well as other financial and operating initiatives, changes in the competitive environment and the telecom market regulatory environment, and risks and uncertainties attendant upon exchange rate fluctuations, technological trends, business activity and international operations. In addition, these forward-looking statements and the other information relating to France Telecom's 2004 results as presented in accordance with IFRS are subject to additional specific risks and uncertainties relating to the possibility of changes in IFRS standards prior to December 31, 2005. More detailed information on the potential risks that could affect France Telecom's financial results is found in the *Document de Référence* filed with the AMF on March 2, 2005 and in filings made with the U.S. Securities and Exchange Commission.

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Key messages



Organic Cash flow Generation potential maintained

Positive impact on Net result Group Share (+ 233 million euros) and EPS (+8%)

Net Debt (+ 6 bn euros) and Equity (+ 2bn euros) impacts consistent with December 2004 communication

No change in guidance

New business segments fitted to company organization

Strategic priorities unchanged

2004 Key figures French GAAP ⇒ IFRS



Euros, in millions

	French GAAP	IFRS
Revenues	47,157	46,158
Gross Operating margin*	18,261	17,923
Gross Operating Margin rate	38.7%	38.8%
Net Result Group Share	2,784	3,017
Net debt (year end)	43,938	49,923
Equity (year end)	15,681	17,683

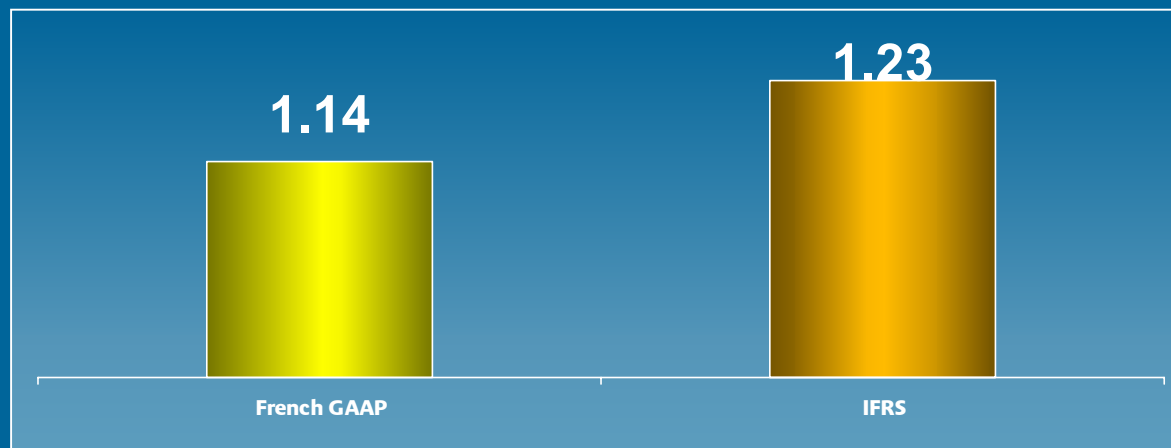
➔ Final figures consistent with Dec, 2004 communication

*: EBITDA proxy

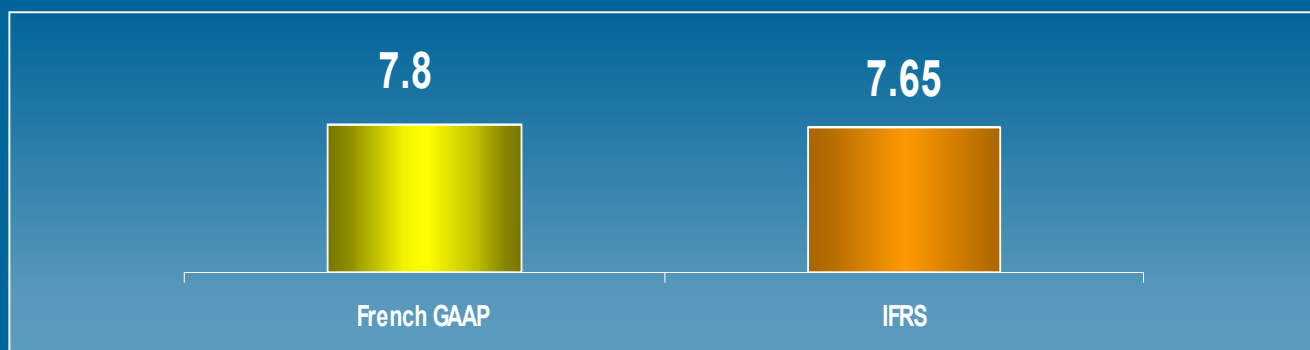
2004 Key figures French GAAP ⇒ IFRS



EPS (in euros)



Organic Free Cash Flow* (in billion of euros)



➔ No impact on organic cash generation potential

* Cash Flow excluding Equant CVR payment and excluding Disposals and Minorities buy out (Kulczyck put not included)

2005 Guidance



French GAAP

IFRS

Pro forma Revenues growth	+3% to 5%	+3% to 5%
REAA → Gross Operating Margin	Over 19 bn euros	Over 18.5 bn euros
CAPEX to sales	Upper range of 10% to 12%	Upper range of 10% to 12%
Net debt to REAA → Net debt to Gross Operating Margin	Below 2 end of 2005	Below 2.5 end of 2005

→ Guidance unchanged, priority remains to debt reduction

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2004 IFRS Income Statement



<i>Euros, in millions</i>		French GAAP 12/31/04	IFRS 12/31/04	Delta
A	Revenues	47,157	46,158	- 999
	Non labour costs	- 20,022	- 19,385	+ 637
	Ow External purchases	- 18,617	- 17,870	+ 747
	Labour costs (excl. share-based payment, employee profit sharing & discount on share offers)	- 8,874	- 8,850	+ 24
B	Gross Operating Margin	18,261	17,923	- 338
C	Share-based payment-Employee profit sharing		- 416	- 416
	Discount on share offers to employees		-263	- 263
	Amortization	- 7,437	- 7,990	- 553
	Impairment of goodwill		- 534	- 534
	Impairment of assets		- 179	- 179
	Disposal of assets		+ 922	+ 922
	Restructuring costs		- 181	- 181
	Associates		+ 30	+ 30
	Operating Income	10,824	9,312	- 1,512

➔ Gross Operating Margin remains the key operational performance indicator

A - Revenues



Euros, in millions

FY 2004

Revenues under French GAAP

47,157

Revenue Recog

Revenue share arrangements

- 352

Equipment sales through third party

- 345

Connection fees

- 80

Others

- 5

Scope of consolidation

- 217

Revenues under IFRS

46,158

Revenue share arrangements reviewed to determine if FT acts as an agent (net revenue presentation) or a principal in the transaction (gross revenue presentation)

- Already netted for content distribution
- Mainly for fixed-line in France (special numbers)

Revenues based on end customers payment
→ Mainly Orange UK

Differed over the average expected customer relationship period
→ Mainly Fixed Line in France

Sonatel (Senegal) consolidated on a proportional basis

→ Mainly netting impacts and scope of consolidation

IFRS Revenues recognition impacts



Euros, in millions

	Revenues	Non labour OPEX	Gross Op. Margin
Revenues share arrangements	- 352	+ 352	neutral
Equipment sales through third party	- 345	+ 345	neutral
Connection fees	- 80	0	- 80
Others	- 5	+44	+39
Total	- 782	+741	- 41

➔ Revenue recognition impact neutral on Gross Operating Margin

B - From REAA to Gross Operating Margin



<i>Euros, in millions</i>	FY 2004	Margin rate
REAA (French GAAP)	18,261	38.7%
<i>Revenue reconciliation impact</i>	<i>- 41</i>	
<i>Capitalization of development costs</i>	<i>+ 86</i>	
<i>Change in scope of consolidation</i>	<i>- 141</i>	
<i>Non Operating Income now included in Gross Operating Margin, and others</i>	<i>- 242</i>	
Gross operating Margin (IFRS)	17,923	38.8%

➔ Gross Operating Margin slightly improved (+0.1 point)

C - From Gross Operating Margin to Operating Income



<u>Euros, in millions</u>	French GAAP FY 2004	IFRS FY 2004	
Gross operating Margin	18,261	17,923	€- 553m IFRS reconciliation impact Ow €- 582 from client base amortization
Share-based payment-Employee profit sharing		- 416	
Discount on share offers to employees		-263	
Amortization	- 7,437	- 7,990	Equant : €- 519m exceptional GW in 1H04 & € - 15m recurring GW amortization in H104
Impairment of goodwill		- 534	
Impairment of assets		- 179	Ow €- 184m for Equant impairment
Disposal of assets		922	
Restructuring cost		-181	Ow €199m Pages Jaunes IPO, €249m STM, €73m Radianz, €57m Pramindo Ikat, €38m Orange Denmark disposals
Associates		30	
Operating income	10,824	9,312	

➔ Increased volatility of Operating Income

C' - Share-based payment, employee profit sharing and discount on share offers to employees



Euros, in millions

FY 2004

Employee Profit Sharing

- 280

Previously below Operating Income

Stock option plans (IFRS 2)

- 136

Mainly related to Orange

Total

- 416

Discount on share offers to employees (IFRS 2)

- 263

Linked to French State Placement and Page Jaunes IPO

2004 IFRS financial charges analysis



Euros, in millions

Total financial Charges, net – French GAAP

- 3,365

TDIRA (additional interests charges on debt component)

- 63

Impact of amortized costs

- 20

Carry back interest charge

- 77

Change in Fair Value of Derivatives

- 32

Interests capitalized on tangible assets

- 32

Foreign exchange gain (loss) impact related to Net Debt only

- 36

Total financial Charges, net – IFRS

- 3,625

➔ No impact on interests paid

2004 IFRS Income Statement



<i>Euros, in millions</i>	French GAAP 12/31/04	IFRS 12/31/04
Operating Income	10,824	9,312
Total financial Charges, net	- 3,365	- 3,625
Current income from integrated companies	7,459	
Other non-operating income/(expense), net	113	
Income taxes	-1,998	- 2,477
Employee profit-sharing	-269	
Net income/(loss) from integrated companies	5,305	
Equity in net income/(loss) of affiliates	4	
Goodwill amortization	-1,788	
Exceptional goodwill amortization	-519	
Net result	3,002	3,210
Minority Interests	-218	- 193
Net result Group Share	2,784	3,017

Delta mainly due to discounting of Deferred taxes

➔ 233 million euros positive impact on Net Result Group share

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Reconciliation of Equity



<u>Euros, in millions</u>	01/01/04*	12/31/04
Equity under French GAAP	11,444	15,681
Reclassification of minority Interests	+ 5,447	+ 4,052
Goodwill amortization		+ 1,743
TDIRA	+1,267	+1,236
Minority interests commitment	- 983	- 547
Customers' relationship amortization	-2,469	-3,100
Revenue recognition impact	-1,052	-1,105
Others	+ 341	- 277
Equity under IFRS	13,995	17,683

*: Include post-employment benefits & Tele-Invest consolidation (Kulzyck put) + impact of Sonatel proportionate integration

➔ Closing balance sheet consistent with Dec, 2004 communication

Reconciliation of Net Debt



<u>Euros, in millions</u>	01/01/04 *	12/31/04
Net debt under French GAAP	47,744	43,938
TDIRA	+ 4,031	+ 3,994
Carry back	+ 1,431	+ 1,508
Equant CVR	+ 2,049	
Derivatives and associated cash collateral	- 892	- 1068
Accrued interests	+ 1,308	+ 1,172
Minority interests commitments	+ 984	+ 547
Other	+ 38	- 168
Net debt under IFRS	56,693	49,923

➔ **Net debt to Gross Operating Margin : < 2.5 at the end of 2005**

* Including securitization and Tele-Invests consolidation (« Kulczyk put »).

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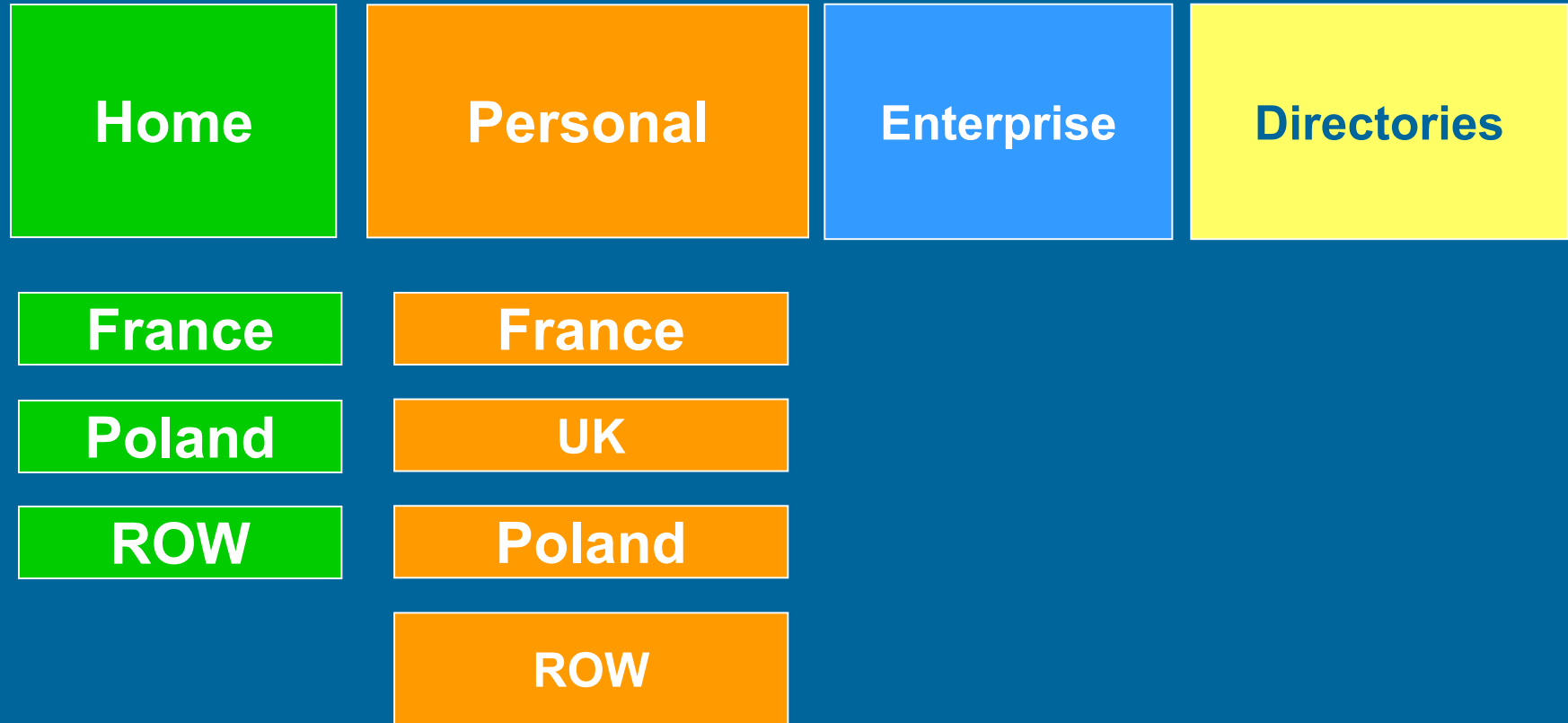
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New business segments



➔ New segmentation reflects FT new organization

New business segments' 2004 IFRS key figures



Euros, in millions

	Home	Personal	Enterprise	Directories	Eliminations	Total
Revenues	22,440	20,564	8,235	978	-6,059	46,158
Gross Op Margin	7,401	8,076	2,039	407		17,923
Margin rate	33.0%	39.3%	24.8%	41.6%		38.8%
CAPEX	2,051	2,702	388	8	- 8	5,141

Conclusion



No change in guidance

No impact on cash generation potential

No impact on return to shareholders potential

Priority remains deleveraging

**Next steps for communication : 1Q05 figures on April 28, 2005
– Investor Day in June**

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Reconciliation of FY 2004 net result



Euros, in millions

Total

Net result under French GAAP

3,002

Customer relationship amortization

- 582

Ow :
€ - 331m Orange UK
€- 149m TP SA

Reversal of Goodwill amortization

+1,773

Equant tangible and intangible impairment, excl. goodwill

+ 299

Difference between
+ €483m of
French GAAP
asset impairment
And - € 184m
IFRS asset
impairment

Share-Based remuneration

- 342

Derivative financial instruments
and amortized cost method

- 72

Deferred taxes net impact

- 493

Ow €- 206 discount
offer on shares to
employee*,
€ - 136m for Stock
option

Other

- 375

Net result under IFRS

3,210

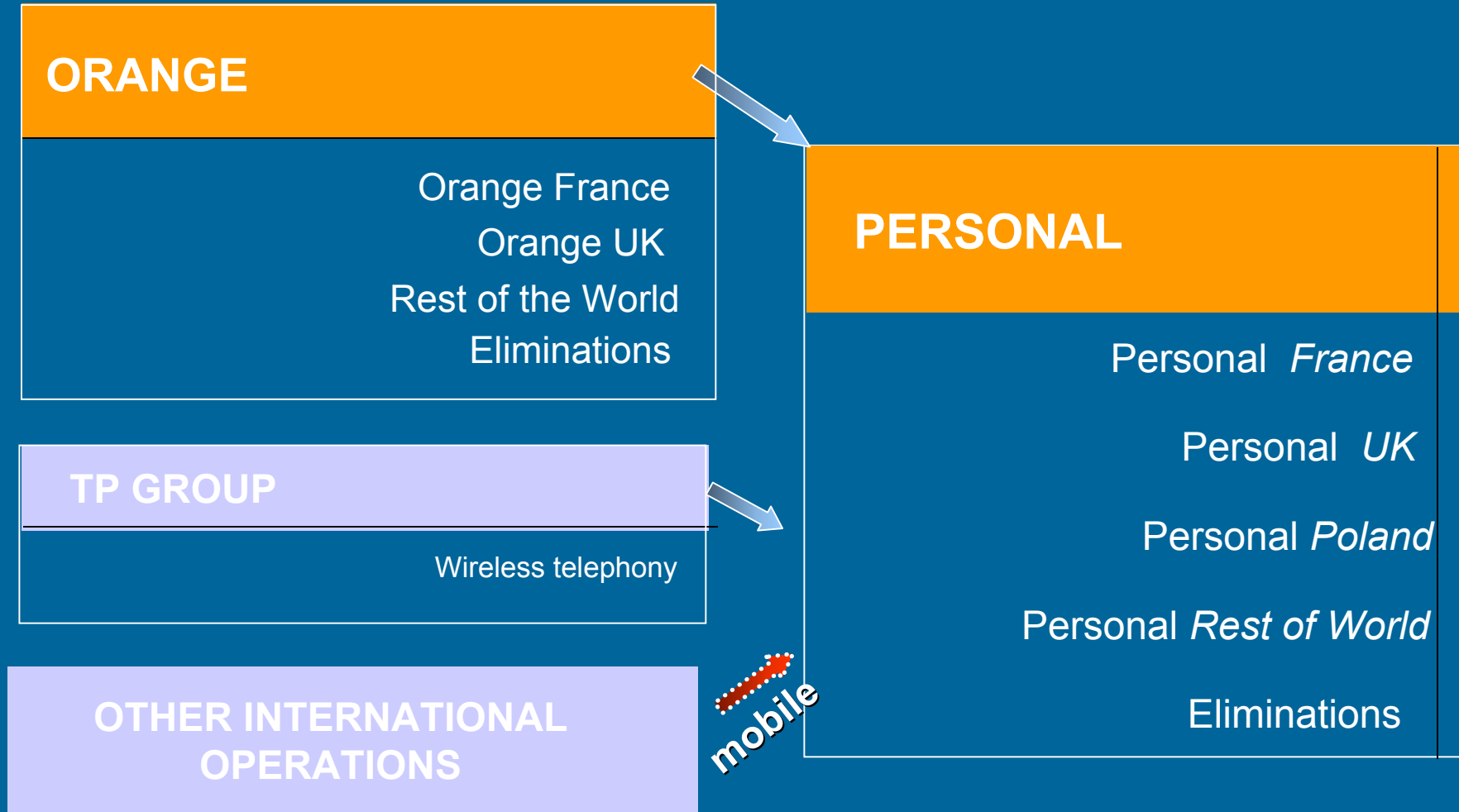
*: €57m already accounted for in French GAAP

2004 Financing IFRS vs French GAAP

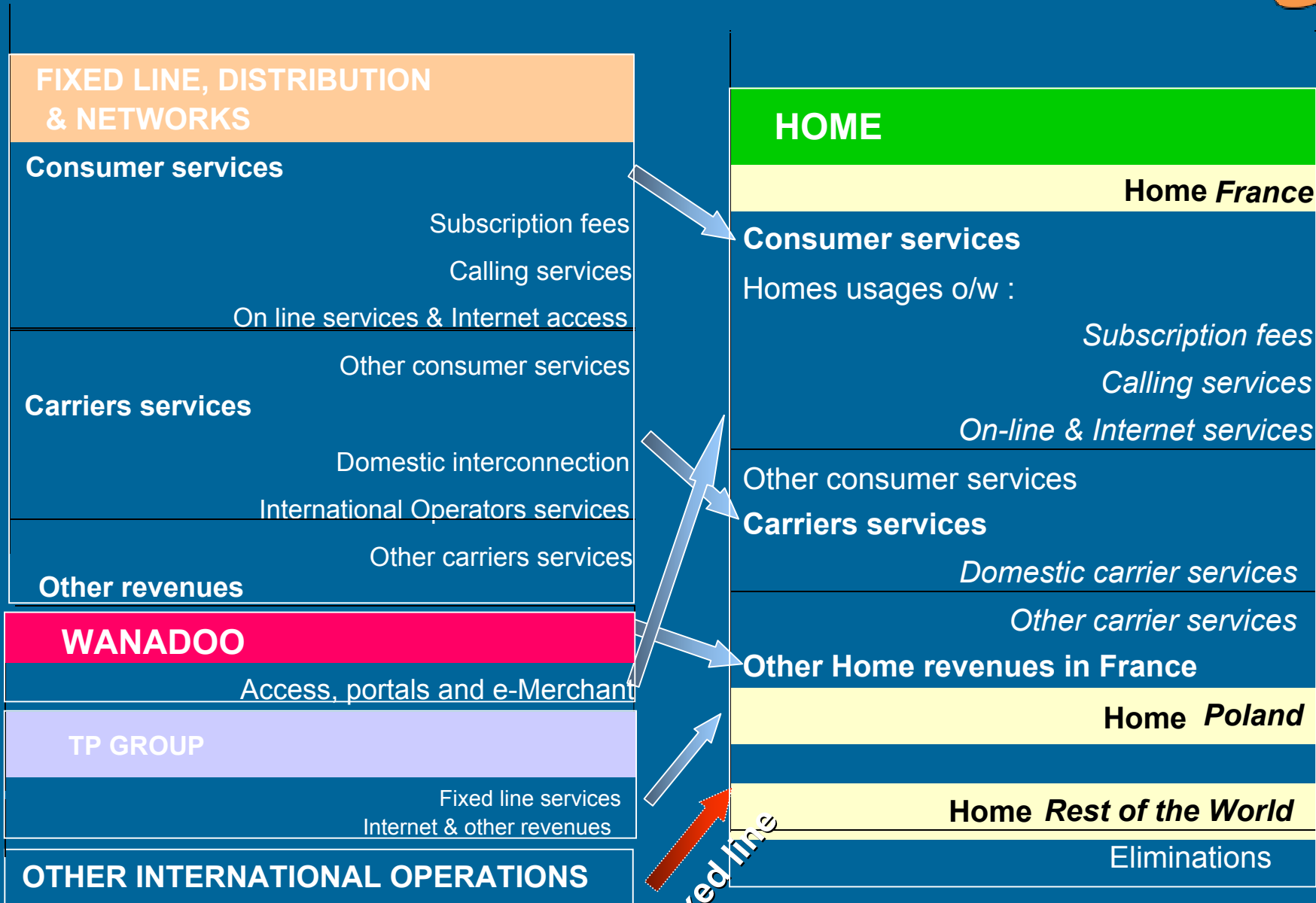


<i>Euros in millions</i>	French GAAP	IFRS
A - Net Cash provided by operating activities	12,818	12,697
B - Net cash provided by investing activities	-5,564	-5,591
C - ow Disposals of financial investments	- 2,716	- 2,716
D - Impact of investment in short term marketable securities	- 1,601	- 1,601
Free Cash Flow excl. disposals (A+B-C+D)	2,937	2,789
E - Orange & Wanadoo minorities buy out	2,842	2,842
Cash Flow excl. disposals & minorities (A+B-C+D+E)	5,779	5,631
F – Equant CVR payment	2,015	2,015
Organic Cash Flow (Cash Flow excluding Equant CVR payment and excluding Disposals and Minorities buy out (Kulczyck put not included) (A+B-C+D+E+F)	7,794	7,646

Revenue presentation : personal



Revenue presentation : home



Fixed line

Revenue presentation : entreprise, Directories



FIXED LINE, DISTRIBUTION & NETWORKS

Business services

Business Fixed line telephony

Business networks

Other Business services

EQUANT

WANADOO

Directories

ENTERPRISE

Business Fixed line Telephony in France

Business networks in France

Other Business services in France

Global Services

Eliminations

DIRECTORIES

Opening balance sheet options



Business combinations	No restatement of business combination accounting as compared to French GAAP (no pooling method accounting was used in FT accounts)
Tangible assets	Historical cost maintained except in very limited circumstances, for which fair value has been used
IAS 32/39 adoption	Implemented as of January 1, 2004 the full version of IAS 32/39 (no use of the carved out version likely to be promulgated in Europe)
Cumulative translation differences	The cumulative translation differences for all foreign operations are deemed to be zero as of January 1, 2004 (reclassification within equity, no impact on total equity)
Employee benefits	All actuarial gains and losses have been reclassified in retained earnings as of January 1, 2004 (as in French GAAP)

Other issues with no impact for France Telecom



Employee benefits

- Pension schemes are not an issue in France and Poland due to the social security regime
- Pension schemes of the group in other countries are defined contribution plans (such as Orange UK) with minor exception of defined benefits plans (however properly funded or provided for).

Scope of consolidation

- TP group is fully consolidated, as in French GAAP, since it is controlled
- Sonatel, previously consolidated on global basis, is now consolidated on a proportion basis (42.33%)

Definition of Net Debt



French GAAP



IAS/IFRS

Net debt is defined in the financial statements as:

- Total gross borrowing (converted at hedging rate)
- Cash, cash equivalents and marketable securities

Net debt will be defined as:

- Total gross borrowing (converted at closing rate)
- Asset derivatives
- Asset cash collateral
- + Liability derivatives
- + Liability cash collateral
- Cash, cash equivalents and marketable securities
- + Accrued interests

Net debt: TDIRA (IAS 32)



French GAAP	IAS/IFRS
<ul style="list-style-type: none">→ Perpetual bonds redeemable for France Telecom shares are classified in a quasi-equity caption in the balance sheet→ Interest charge is based on the contractual arrangement	<ul style="list-style-type: none">→ Breakdown between an equity component and a debt component→ Interest charge is computed based on the effective interest rate

Impact on the 2004 IFRS balance sheet
<ul style="list-style-type: none">→ Debt component cc. 3/4 of the nominal value→ Equity component cc.1/4 of the nominal value (subject to deferred tax liability)

<i>Impact on future IFRS financial statements</i>
<ul style="list-style-type: none">→ <i>Increased interest charge when the effective interest rate is higher than the contractual interest rate (as it is the case at the moment)</i>→ <i>Such additional interest charges are compensated by an increase of the debt amount</i>

Net debt: Carry back (IAS 32 / IAS 18)



French GAAP	IAS/IFRS
→ The carry back receivable sale is accounted for as a true sale with an usual guarantee (Note 28.2.2 of FT financial statements)	→ Carry-back receivable sale with a guarantee is considered as a secured financing

Impact on the 2004 IFRS balance sheet
→ Additional financial debt and carry-back receivable of €1.5 Bn (present value)

<i>Impact on future IFRS financial statements</i>
→ <i>Notional interest charge (no cash out since interest were prepaid at the time the receivable was sold)</i> → <i>Carry back receivable and financing mature in 2007 (net debt reduction), no cash impact</i>

Net debt: Equant CVR (IAS 39)



French GAAP	IAS/IFRS
→ Equant CVR is accounted for as a provision for risk and contingencies	→ Equant CVR is a derivative instrument → As a derivative instrument: → Any change in the value is recorded through income statement → It is included in the Net Debt

Impact on the 2004 IFRS balance sheet
→ Reclassification from provision for risk and contingencies to derivative included in Net Debt on January 1, 2004 → As Equant CVR was repaid in July 2004, no impact on Net Debt at December 31, 2004

Impact on future IFRS financial statements
→ <i>Equant CVR have been paid in July 2004.</i>

Net debt: derivatives and associated cash collateral (IAS 39)



French GAAP	IAS/IFRS
<p>→ Hedging instruments are presented off balance sheet</p> <p>→ except currency hedging instruments since French GAAP debt is converted at the hedging rate (debt at hedging rate = debt at closing rate + hedging instrument)</p>	<p>→ Debt is converted at the closing rate</p> <p>→ Derivatives are accounted for at fair value in the balance sheet</p> <p>→ Changes in the fair value of derivatives are recorded through income statement (except for cash flow hedge accounting)</p>

Impact on the 2004 IFRS balance sheet	
<p>→ IFRS Net debt (on 31/12/04) lower by €1.1 Bn</p>	
<p>→ Closing rate conversion instead of hedging rate</p>	-€1.9 Bn
<p>→ Currency and interest rates derivatives evidenced in the balance sheet</p>	+€1.8 Bn
<p>→ Prepayment of derivatives constituted by the cash collateral</p>	-€ 1.1 Bn
<p>→ Others</p>	+€0.1Bn

Impact on future IFRS financial statements
<p>→ Increased volatility (income statement, shareholders' equity)</p> <ul style="list-style-type: none"> • Expected to be limited since major interest rates derivatives follow the IFRS documentation requirements for hedge accounting qualification

Expected Impact on net debt: minority interests commitments (IAS27/IAS32)



French GAAP



IAS/IFRS

→ Minority interests commitments are off balance sheet commitments unless there is a risk of an outflow of resources with no symmetrical economic benefits

→ When minority have a right to sell shares and the entity has obligation to buy these shares, the entity should record a financial liability (present value of the exercise price) and reduce equity for the same amount (no corresponding asset)

• Purchase offers made to minority shareholders enter in this category

Impact on the 2004 IFRS balance sheet

→ Total impact for conditional and unconditional put options €0.55 Bn:

→ Conditional put: Orange Slovensko, Orange Dominicana: €0.52 Bn

→ Purchase of minority interests commitments as of December 31st 2004: €0.03 Bn

Impact on future IFRS financial statements

→ Changes in the present value of the put option is recorded through income statement

• Limited impact for purchase of minority interests since they are paid for during 2004
• Potential impact for conditional puts

Revenues: IAS 18 (1) - Revenue recognition sales equipment through dealers



French GAAP



IAS/IFRS

→ The legal analysis of the commercial relationship between FT and its dealers prevails over for the accounting treatment and revenue is recognised based on billing (handset sales in direct and indirect channels are accounted for differently)

→ The substance of the commercial relationship prevails over its legal form (handset sales in direct and indirect channels are accounted for the same way)

- The remuneration of the service rendered by the distributor is the net payment between FT and the dealer. This remuneration is disclosed in cost of sales
- Revenue from equipment is estimated based on the customer selling price

→ 2004 revenue impact: <€345m> ; No impact on MBO and Net Result

Revenues: IAS 18 (2) - Revenue share arrangements



Arrangements between FT, a content provider or an other operator, and an end customer

French GAAP



IAS/IFRS

→ The legal analysis of the commercial relationship prevails over for the accounting treatment and revenue is recognised based on billing

→ When it can be argued that the entity determines the main characteristics of the transaction, the amount of revenue is to be reported on a gross basis. When the entity cannot argue that it determines the main characteristic of the transaction then revenues are to be reported net

→ Characteristics are defined by the followings:

- who is the customer ?
- Who sets the price ?
- Who determines the specifications of the service ?
- Who has the credit risk ?

→ 2004 impact: <€352m> ; No impact on on MBO and Net Result

Revenues: IAS 18 (3) - Connection fees



French GAAP



IAS/IFRS

→ Under French GAAP, connection fees and costs related to connection are recognised in the P&L when the service (connection) has been rendered

→ Connection fees are deferred over the average expected customer relationship period

- ❑ Costs related to connection that can not be capitalised (and therefore amortised) are expensed as incurred

→2004 impact: <€80m>

Share-based compensation (IFRS 2)



French GAAP	IAS/IFRS
<ul style="list-style-type: none">→ Stock options granted in certain subsidiaries (Orange, Wanadoo, Equant)→ No impact on the accounts until the stock option is exercised→ No compensation expense accounted for (labor OpEx)	<ul style="list-style-type: none">→ The fair value of stock options is amortized over the vesting period as a compensation expense→ France Telecom position is to apply IFRS 2 to all stock options plans (vs. the option to apply IFRS to plan granted after November 7, 2002)→ Discount offer of shares to employees should be also accounted for as compensation expenses

Amortization of customer relationships (IAS 38)



French GAAP	IAS/IFRS
<p>→ Customer relationships accounted for in case of business combinations</p> <p>→ No amortization and no deferred tax</p>	<p>→ Deferred tax liability</p> <p>→ Customer relationships amortized over the expected contractual relationship (between 4 and 5 years in most cases)</p>

Impact on the 2004 IFRS balance sheet
<p>→ Retrospective amortization charge lead to a decrease in total equity of €3.1 Bn at December 31, 2004</p>

Impact on future IFRS financial statements
<p>→ Decrease in EBIT as long as customer relationships not fully amortized</p> <ul style="list-style-type: none">• Negative impact of €0.6 Bn in 2004• Impact should reduce in 2005 and subsequent years

IFRS impact on income statement: other impacts



SAC's and SRC's

- No difference with French Gaap accounting
- SAC's and SRC's are expensed as incurred

R&D

- Expensed as incurred under French GAAP
- Under IFRS, development costs meeting certain criteria should be capitalized

Goodwill amortization

- Under French GAAP: amortization + impairment testing
- Under IFRS: impairment testing only

Interest capitalization

- Under French GAAP, interest expenses are capitalised for assets in progress
- Under IFRS, FT has chosen not to capitalise interests



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