

france telecom

Morgan Stanley TMT  
conference

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### cautionary statement

- this presentation contains forward-looking statements about France Telecom's business, in particular for 2008. Although France Telecom believes these statements are based on reasonable assumptions, these forward-looking statements are subject to numerous risks and uncertainties, including matters not yet known to us or not currently considered material by us, and there can be no assurance that anticipated events will occur or that the objectives set out will actually be achieved. Important factors that could cause actual results to differ materially from the results anticipated in the forward-looking statements include, among others, overall trends in the economy in general and in France Telecom's markets, the effectiveness of the integrated operator strategy including the success and market acceptance of the "NEXt" plan, the Orange brand and other strategic, operating and financial initiatives, France Telecom's ability to adapt to the ongoing transformation of the telecommunications industry, regulatory developments and constraints, as well as the outcome of legal proceedings and the risks and uncertainties related to international operations and exchange rate fluctuations.
- more detailed information on the potential risks that could affect France Telecom's financial results can be found in the Registration Document filed with the French Autorité des Marchés Financiers and in the Form 20-F filed with the U.S. Securities and Exchange Commission. Except to the extent required by law, France Telecom does not undertake any obligation to update forward-looking statements.

## agenda

- 1 strong 9m08 results fully on track with full year objectives
- 2 in a challenging economic environment, FT is structurally advantaged
- 3 beyond 2008, FT will continue to leverage on its five drivers for strong cash flow generation
- 4 conclusion

3

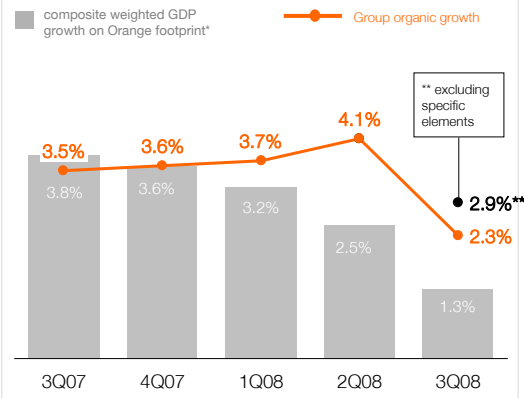
## 9m08 key financial achievements in line with announced trends and full year guidance

in millions of euros	9m07 CB	9m08 actual	var. comp basis	key points
<b>revenues</b>	38,562	<b>39,854</b>	<b>+3.4%</b>	<ul style="list-style-type: none"> <li>as expected, 3Q08 growth in line with market trends evolution</li> </ul>
<b>GOM</b>	14,295	<b>14,766</b>	<b>+3.3%</b>	<ul style="list-style-type: none"> <li>GOM growth in line with revenue leading to stabilization of the GOM rate</li> </ul>
<i>in % of rev</i>	37.1%	<b>37.1%</b>	-	
<b>CAPEX</b>	4,400	<b>4,617</b>	<b>+4.9%</b>	<ul style="list-style-type: none"> <li>stable capex ratio in 3Q08, with higher level expected in 4Q due to seasonality</li> </ul>
<i>in % of rev</i>	11.4 %	<b>11.6%</b>	<b>+0.2pt</b>	
<b>GOM - Capex</b>	9,895	<b>10,149</b>	<b>+2.6%</b>	<ul style="list-style-type: none"> <li>on track to increase organic cash flow in 08 vs 07</li> </ul>

4

## revenue: strong resilience vs GDP growth slowdown

### revenue growth per quarter on a comp. basis vs weighted GDP growth



\* France Telecom estimates

### insight

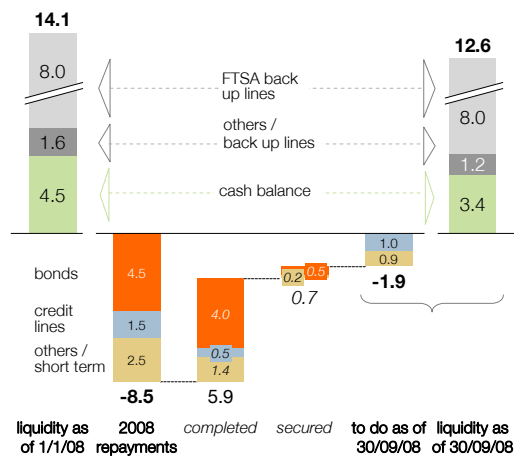
- after 4 quarters of strong growth, 3Q08 growth continues to be resilient
- some specific elements impact 3Q in France, weighting for 0.6pt in revenue growth:
  - end of subscription fee increase (i.e. €1 in July 07)
  - Chatel law (free waiting time for hotlines)
  - wholesale DSL price cuts in July 08

5

## debt management: France Telecom has secured its 2008 debt repayments

### liquidity situation for 2008 repayments at the end of September

in billions of euros



### insight

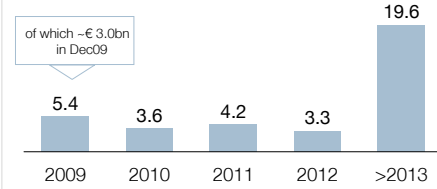
- strong liquidity position as of end of sept 08: €12.6bn**
  - €8bn of back-up line on FT SA with no material adverse change clauses maturing in 2012
- debt refinancing mostly **completed** in 1H08 with attractive conditions
- €0.7bn of **secured** refinancing through bank commitments
- €1.9bn still **to do** with available cash or recurrent refinancing (securitization & credit lines renewal)

6

## sound financial structure

next years repayments at a reasonable level compared to our cash flow generation

### gross debt repayments of FT SA and main subsidiaries<sup>1</sup> at end of sept 08 (in euros billions)



<sup>1</sup> these amounts represent nearly 95% of gross debt as of end of September 08 and exclude other instruments (about €1.9 bn)

### gross debt structure as of end of September 08

Moody's/S&P rating	A3/A-
% of debt with a fixed rate	95%
% of debt in €	80%
average maturity	7.1 years
average cost of debt for 9m08	6.5%

following interim dividend payment in 3Q08, net debt as of end of sept. 08 is stable vs end of June

7

## 9m08 results fully on track with full year objectives

indication	2008		
	market trend	achievement for 9m08	
revenue growth	2-3%	3.4%	✓
guidance	FY target	achievement for 9m08	
GOM rate	stabilization	stabilized	✓
CAPEX to sales ratio	around 13%	11.6%	✓
organic cash flow	> €7.8bn	€3.65bn in 1H08	✓

- group FY08 revenue trend should be at the **high end of average market growth** evolution in spite of expected slowdown in some countries

- no major trend change** foreseen in 4Q08 vs 3Q08

- stable margin rate expected in 4Q08** YoY to reach our FY guidance

- identified savings** in current transformation programs and opex control in order to offset regulatory and commercial investment impacts

8

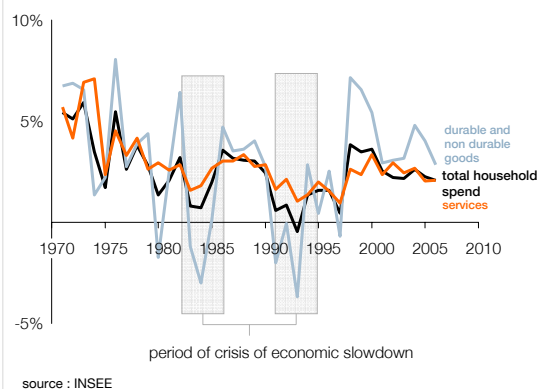
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9

## in difficult times, households cut on spend, but not uniformly across categories

France: annual change in household spend

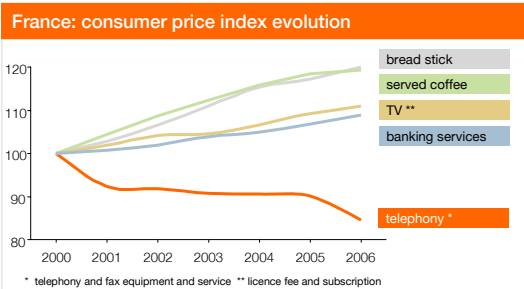
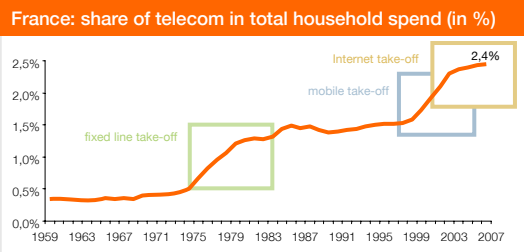


### insight

- while not immune from economic slowdown, **services** tend to be less impacted than other spend categories
- among services, predominantly pre-committed spend such as **telecom services, housing and food** (partly obliged and partly discretionary) tend to resist better

10

## among services, telecom have built a very robust position over time



11

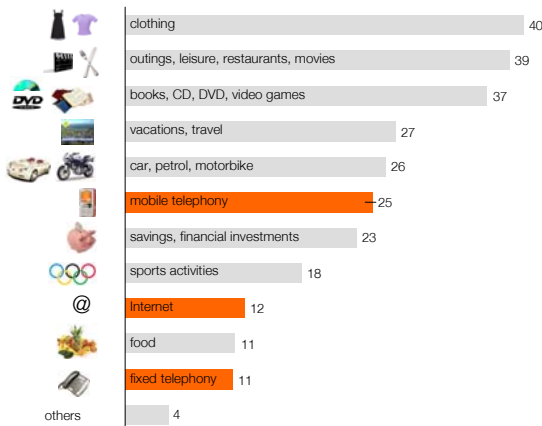
### insight

- telecom services have captured a growing share of customers' wallet over 3 successive waves of technology
- this position is all the more robust that consumer have received more value for money compared to other necessities

source : INSEE

## household intend to preserve telecom services if having to reduce their overall spend

Question : if you had to reduce your spend, which item would you cut as a priority ? (in %)



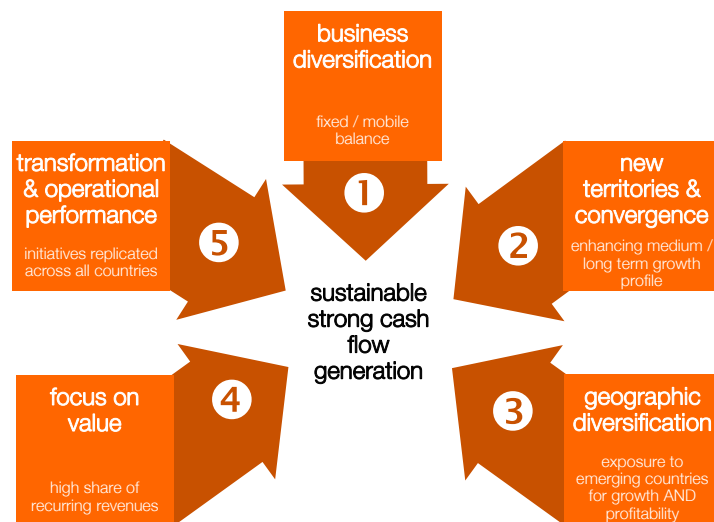
### insight

- in an economic slowdown, there are several other spend categories to be reduced first, before consumers cut down on telecom
- in telecom, mobile is exposed, mainly in prepaid
- internet and fixed telephony are more stable with non variable monthly subscriptions

source : Orange France survey, 1565 mobile-equipped respondents, aged 15+, May 2008

12

## France Telecom has five drivers to sustain a strong cash flow generation



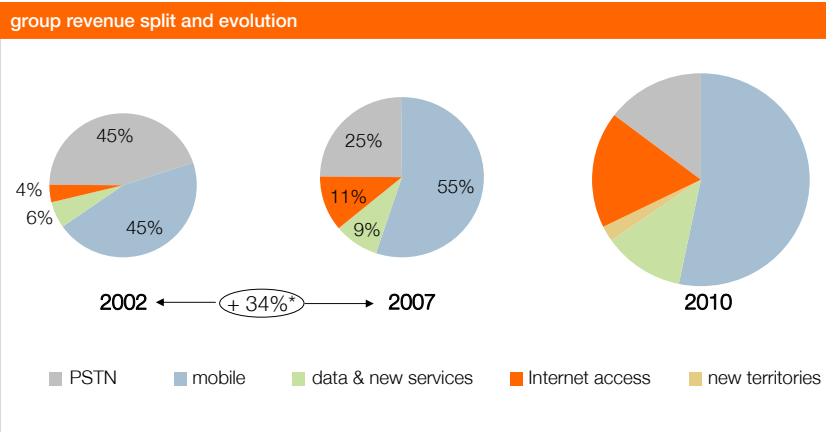
13

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14

**1 NExT plan has enhanced business mix diversification ...**

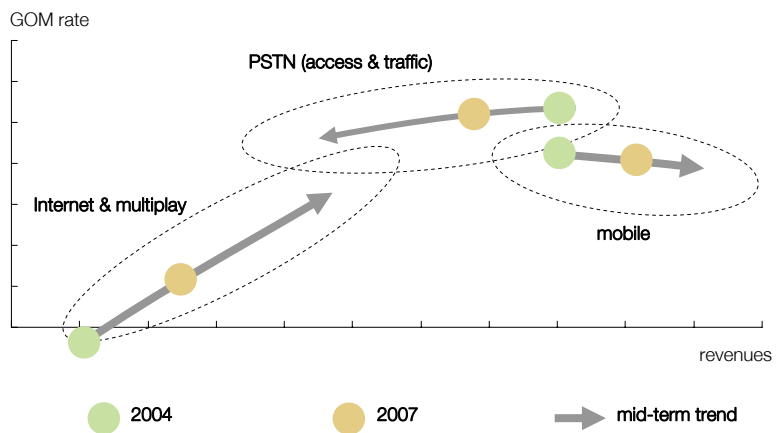


\* actual growth rate, excluding OBS

15

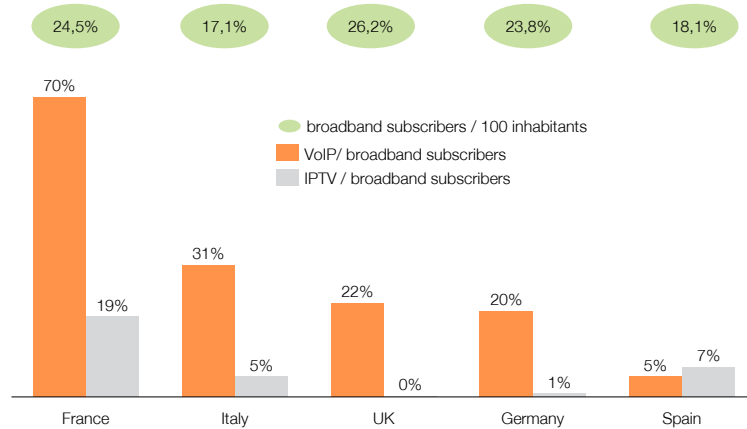
**1 ...which should contribute to revenue and GOM resilience**

France : business evolution (2004–2010e)



16

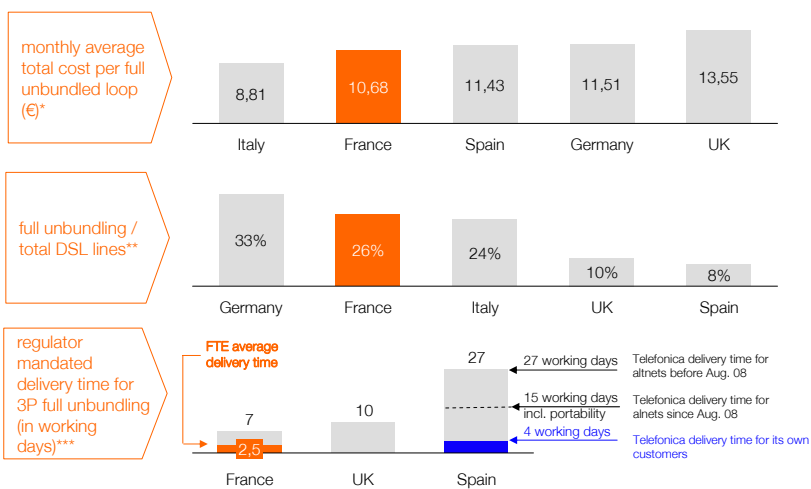
**1 diversification in France has been done through new generation products such as VoIP and IPTV ...**



source : Idate, 2007 data

17

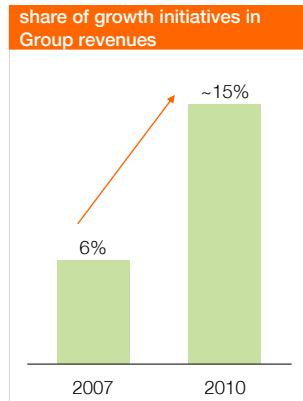
**1 ... despite a regulation strongly stimulating competition vs. major European countries**



\* European Electronic Communications Regulations and Markets 2007 (13th Report), October 2007 data  
 \*\* ECTA broadband scorecard, Q1 2008  
 \*\*\* ARCEP, OFCOM, CMT, Spain data for naked DSL unbundling

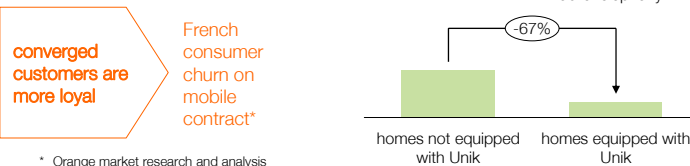
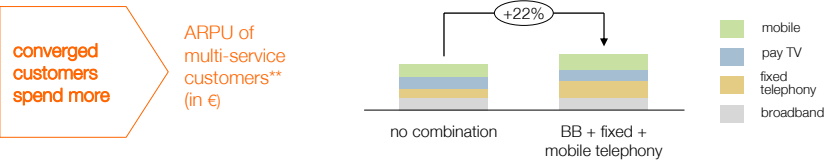
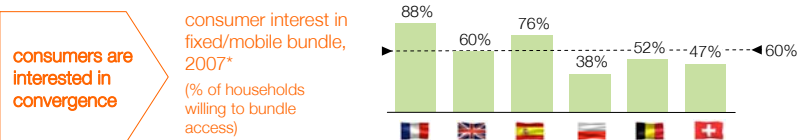
18

## 2 entry into adjacent new territories is enhancing medium / long term growth profile



19

## 2 France Telecom has a head start on convergence ...



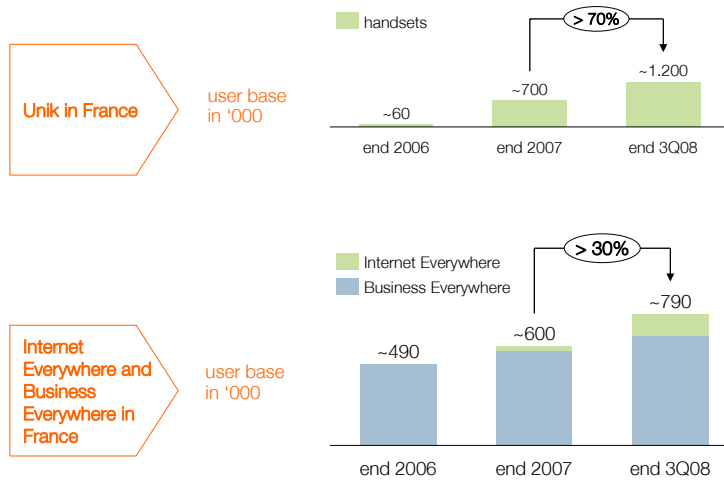
\* Orange market research and analysis

\*\* France, Spain, UK, Switzerland, Italy, the Netherlands, Germany

source: Ovum, 2006 Yankee Group European broadband consumer survey

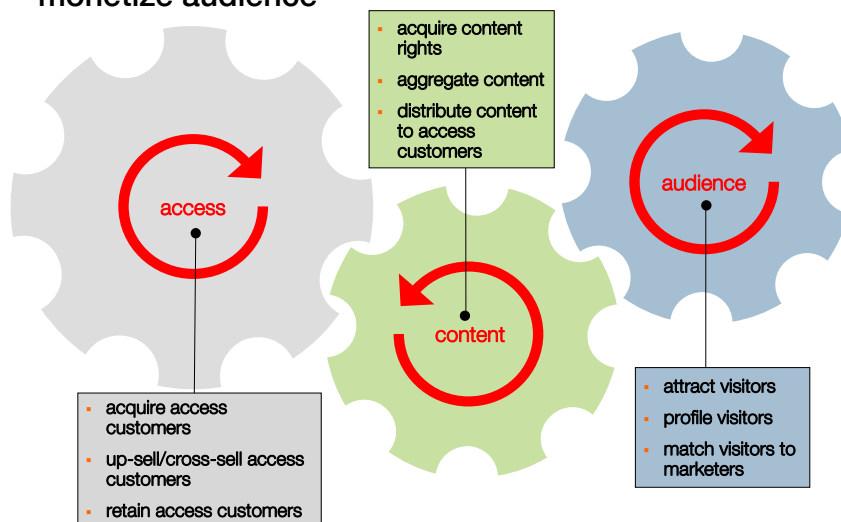
20

**2 ...as demonstrated by the uptake of France Telecom's converged offers**



21

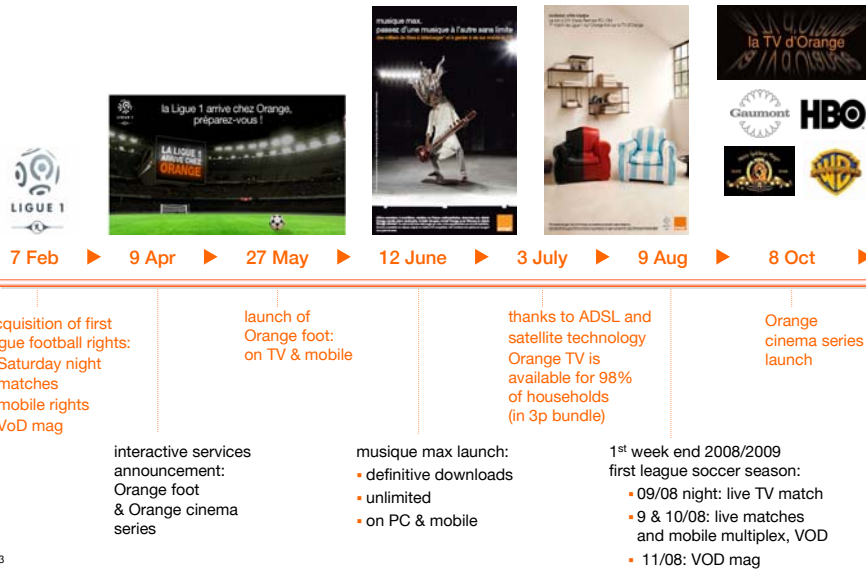
**2 business model in content: distribute content to acquire / grow / retain access customers and monetize audience**



22

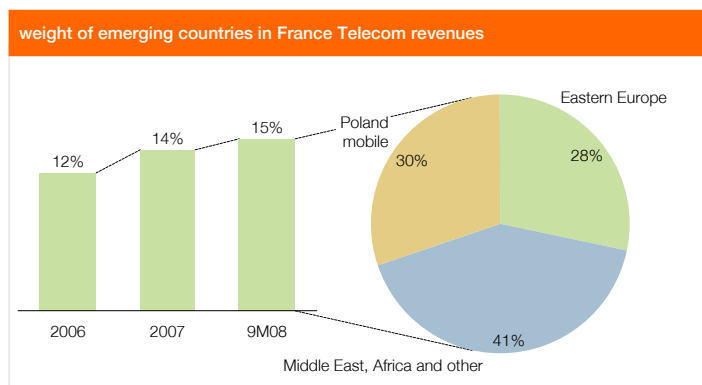
→ first mover advantage : returns increase with scale in access, content and audience

## 2 2008 : content everywhere deployment in France



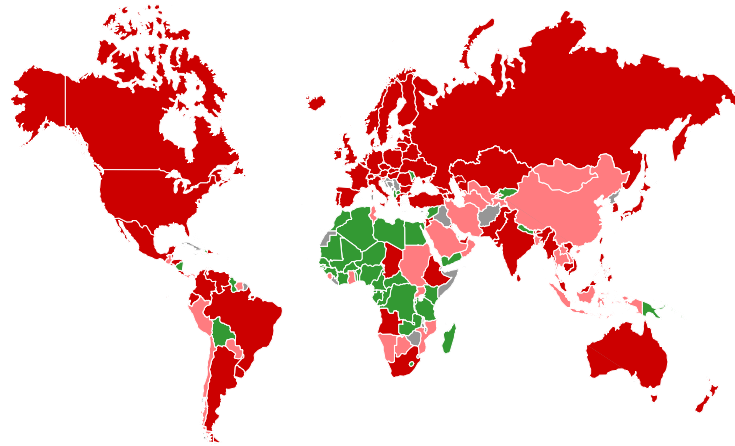
23

## 3 increasing exposure to emerging countries for growth AND profitability



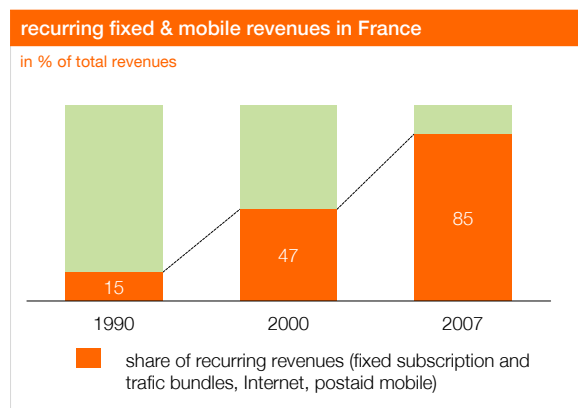
24

**3** according to IMF, Africa should resist better to the current economic downturn in 2009



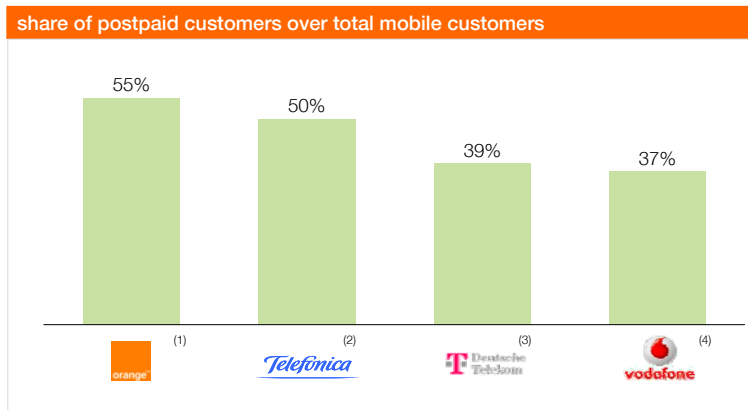
25

**4** focus on value and share of recurring revenues



26

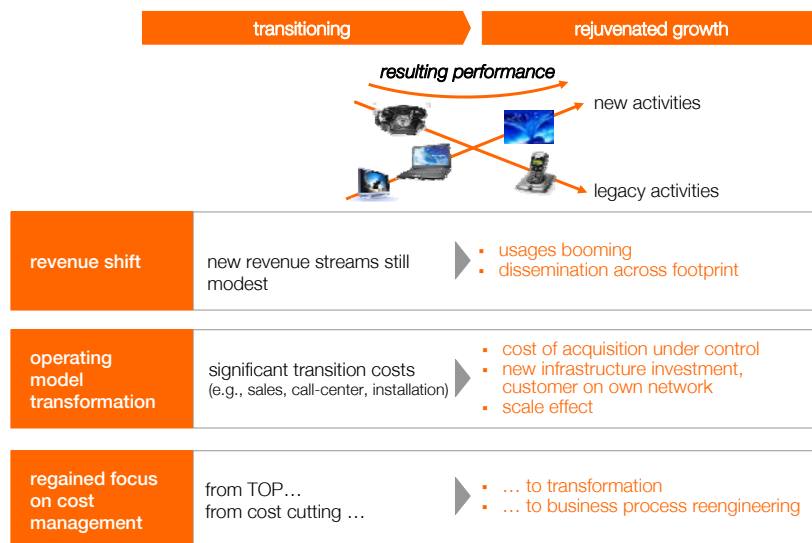
**4** among peers, France Telecom has the highest share of postpaid mobile in Western Europe



source : company figures, end of June, 2008  
 1 France, Spain, UK, Belgium, Switzerland  
 2 Spain, UK, Ireland, Germany  
 3 Germany, UK, Austria, Netherlands  
 4 Germany, Italy, Spain, UK, Greece, Ireland, Malta, Netherlands, Portugal

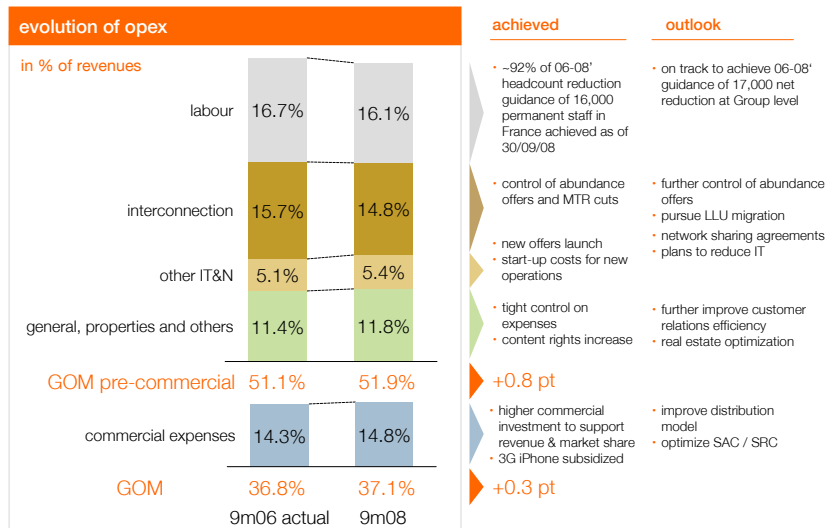
27

**5** ongoing focus on operating model transformation and excellence in execution

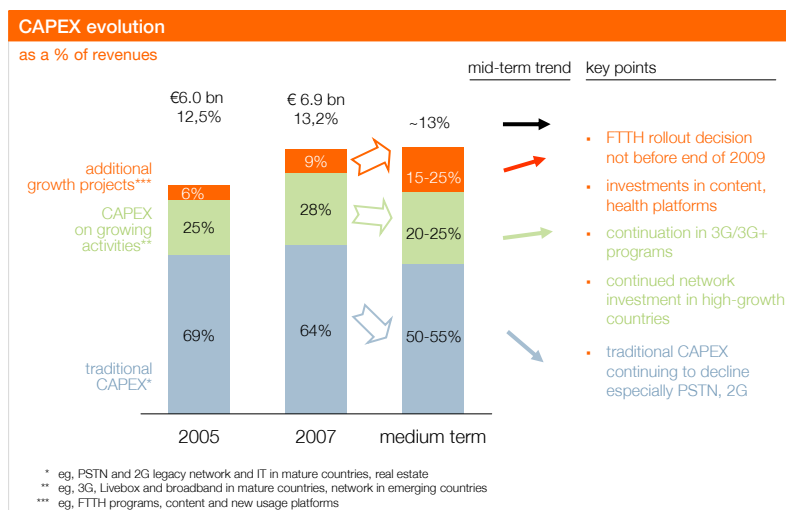


28

## 5 on OPEX, we strive for continuous operational improvement and cost management



## 5 CAPEX maintained at around 13% of revenues to invest in new sources of growth



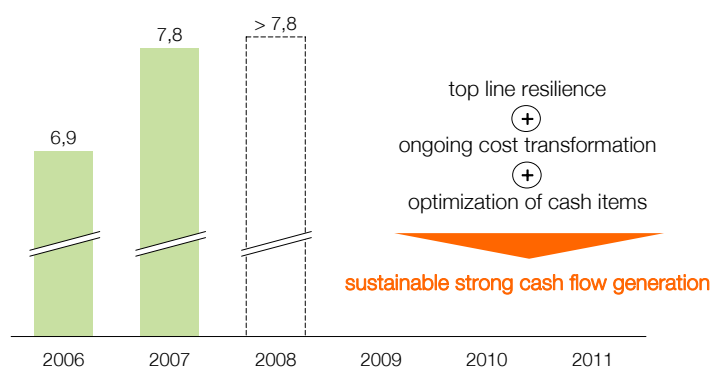
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31

## as a result, FT should deliver strong resilience in its organic cash flow

FT organic cash flow, in €bn



32

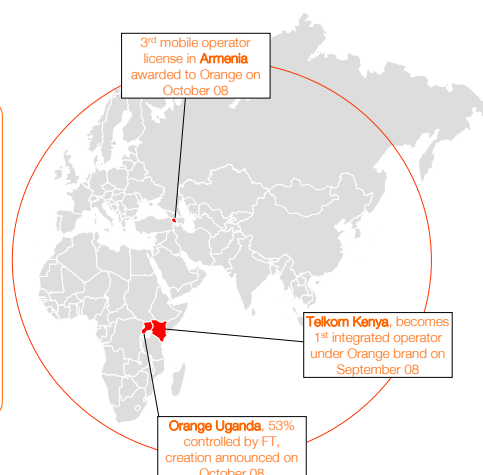
## M&A policy and 08 achievements

### 3 main objectives

reinforce our footprint on emerging markets

strengthen our positions on some specific activities in Western Europe

develop our competencies



33

## dividend policy unchanged

while keeping in the medium term a net debt to GOM ratio below 2 under current market conditions

- possibility for the Board to distribute above 45% of organic cash flow vs. 40-45% before  
→ change in ordinary dividend payment terms with the establishment of an interim dividend

- in addition, the Board will consider annually additional remuneration depending on cash flow projections and investment plans  
→ additional remuneration to be examined in March 09

- €0.6 per share of interim ordinary dividend was paid September 11, 2008
- FY08 ordinary dividend indication confirmed to be above €1.3/share to be decided on 3 March 09

34