

€755 million placed in escrow following the ruling of the European Court of Justice on 18 October 2007

In its ruling of October 18, 2007, the European Court of Justice concluded that the French authorities had failed to respect their obligation to execute within the prescribed time limits the August 2, 2004 decision of the European Commission relating to the special business tax regime which the law of July 2, 1990 had imposed upon France Telecom. Following the October 18 ruling, The Commission requested its rapid execution using as a basis the minimum amount of €798 million mentioned in the 2004 decision.

Under these circumstances, France Telecom has decided to place €755 million in an escrow account pending the final decision on the substance of the matter. Both the French state and France Telecom having challenged the August 2, 2004 decision before the Court of First Instance in Luxembourg. The amount of €755 million represents an estimation of the net minimum amount set by the Commission after taking account of the impact of corporation tax and late interest charges, pursuant to European rules. The escrow payment deprives the company of the full benefit of the amount of the so-called prohibited state aid, and in doing so enables the Commission decision to be implemented. The escrow account will be established promptly following a bid process with financial institutions. The amount in escrow will either be returned to France Telecom should the August 2, 2004 decision be overturned by the European Court of First Instance, or alternatively will be transferred to the French state.

In its ruling, the European Court naturally did not express any opinion on the validity of the underlying Commission decision. The decision of the Court of First Instance on the fund is expected in 2008.

Given these conditions, the assessment of the risk in this litigation, classified at present as a contingent liability (see France Telecom Group's annual filings) is unchanged. Placing these funds in escrow impacts the net debt while not affecting the Group's objective in terms of net debt to GOM ratio; it does not impact the organic cash-flow of the Group.

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