



France Telecom  
Canada – June 2006

## Agenda

Strengths of France Telecom

NExT strategic plan

FY05 and Q1 06 results

## A player solidly positioned in its businesses



Presence in 220 countries & territories

147 million customers worldwide <sup>(1)</sup>

2005 Revenues: €49 billion <sup>(2)</sup>

203,008 employees <sup>(2)</sup>

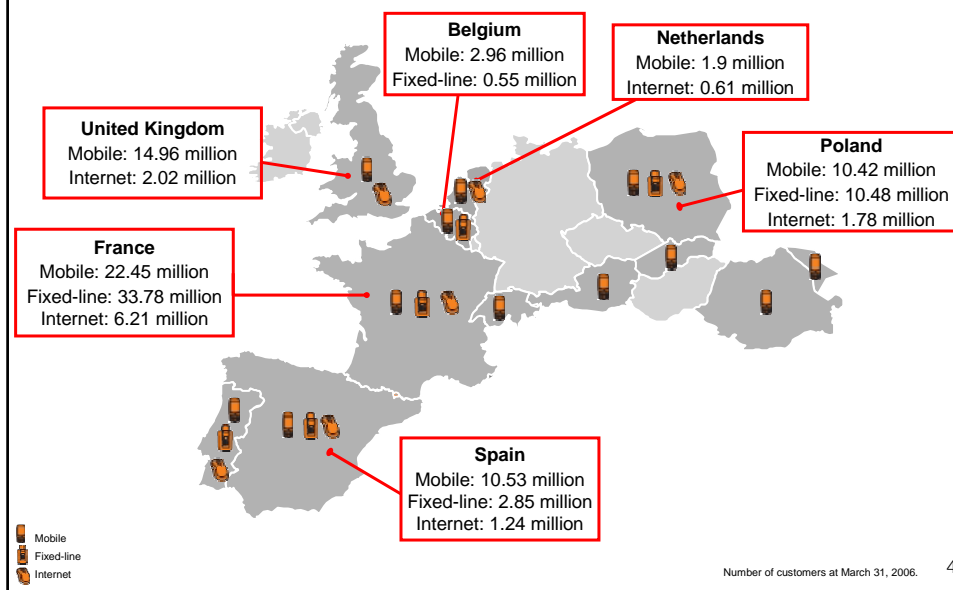
A world leader in telecommunications R&D

A leader on its key markets

<sup>(1)</sup> At 03/31/06  
<sup>(2)</sup> At 12/31/05

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## Following the Acquisition of Amena, Europe's leading integrated operator...



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## NExT:

... to answer the industry changes and new entrants plans

... to anticipate new usage patterns

A solid strategic framework

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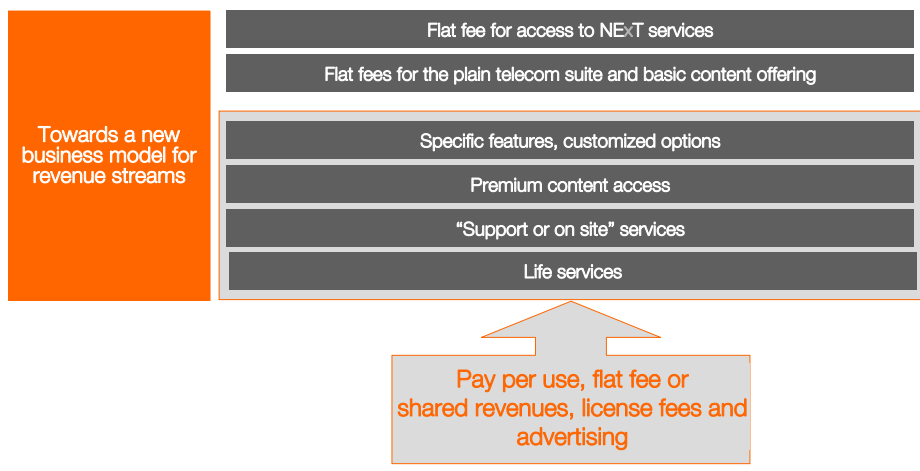
# NEXT is about new usages

New customer needs	France Telecom answers
Growing role of content and entertainment	Aggregate & distribute all major digital contents / Develop TV, music & games on all platforms.
More multiplay and "all you can eat" offers	Converged offers & Livebox at the heart of our Broadband strategy / Over 7m multiplay customers in 08 / over 12m mobile broadband customers by the end of 08
Customisation & services	Build an integrated customer experience / Best in class for customer care / A full range of services for every day's life
Communication suite versus plain voice	Major initiative for multi-access portal & Communication Suite (Orange Link), bringing together mobile broadband and Internet

**The best way to anticipate industry's transformation**

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## The NEXT business model



→ A progressive change from current business model

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open

## Orange HD

### HD-TV

ADSL access



HD decoder

+



Digital HD Option

+



TPS HD option



### HD-Voice

Unlimited VoIP with High Definition standard



Free for all Livebox + VoIP customers

Compatible devices available from 69 €



Thomson V1590



SAGEM D45W

## unik unlimited mobile at home

Unlimited mobile calls at home thanks to a connection to the **Livebox**



### All you need is

A broadband Internet Access with **Livebox**

An **Orange** broadband contract

One out of a **range of mobile device compatible** with the **Livebox**

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## unik unlimited mobile at home

### What is new...

- Unlimited calls towards fixed and Orange mobile phones from home 7 days a week, 24 hours a day
- Unik connects automatically to the Livebox
- The Livebox allows for numerous Unik connections and 3 simultaneous calls + TV and ADSL connections

### What is different...

- A single number (GSM/WiFi), the mobile number
- A unique voice mail
- A unique contact book
- A simple mid-range device with no specific application
- Handover for call started at home (the call automatically switches to the Orange mobile network)

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## FY 05 results: From Revenues to Gross operating margin

<i>Euro millions</i>	<b>FY04 actual</b>	<b>FY04 Pro-forma</b>	<b>FY05</b>
<b>Revenues</b>	<b>46,158</b>	<b>47,841</b>	<b>49,038</b>
<b>Non labour costs as a % of revenues</b>	<b>19,385 42%</b>	<b>20,669 43.2%</b>	<b>21,860 44.6%</b>
<b>Of which external purchases as a % of revenues</b>	<b>17,870 38.7%</b>	<b>19,169 40.1%</b>	<b>20,149 41.1%</b>
<b>Labour costs as a % of revenues</b>	<b>8,850 19.2%</b>	<b>8,908 18.6%</b>	<b>8,762 17.9%</b>
<b>Gross Operating Margin as a % of revenues</b>	<b>17,923 38.8%</b>	<b>18,264 38.2%</b>	<b>18,416 37.6%</b>

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## From Gross Operating Margin to Operating Income

<i>Euro millions</i>	FY04	FY05	<i>Chge in EURm</i>
<b>Gross Operating Margin</b>	<b>17,923</b>	<b>18,416</b>	<b>+ 493</b>
Employee Profit Sharing	- 280	- 382	- 102
Share-based payment	- 399	- 178	+ 221
Amortization	- 7,990	- 7,034	+ 956
Impairment of goodwill	-534	-11	+ 523
Impairment of assets	-179	-568	- 389
Disposal of assets	922	1,475	+ 553
Restructuring costs	- 181	-454	- 273
Associates	30	20	20
<b>Operating Income</b>	<b>9,312</b>	<b>11,284</b>	<b>+ 1,972</b>
Total Financial Charges, net	-3,625	-3,356	
Income taxes	-2,477	-1,568	
<b>Net result</b>	<b>3,210</b>	<b>6,360</b>	
Minority Interests	-193	-651	
<b>Net Result Group Share</b>	<b>3,017</b>	<b>5,709</b>	

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## FY05 financing: From GOM to Net cash provided by operating activities

<i>Euro millions</i>	FY04	FY05
Gross Operating Margin	17,923	18,416
Interest Expense, net* (cash)	-3,078	-3,074
Cancellation of Forex impact included in GOM	-20	-15
Income Taxes (cash)	- 762	-811
Early Retirement Plan (cash)	-791	-918
Employee Profit Sharing (P&L)	- 280	- 382
Others (ow restructuring costs)	- 864	- 839
Change in Working Capital requirement (inventories + receivables - payables)	796	783
Change in Working Capital requirement (others)	-227	214
<b>Net Cash provided by operating activities</b>	<b>12,697</b>	<b>13,374</b>

\*Net Financial charges excluding discounting, disposal/provision on financial assets and foreign exchange (gain/loss)

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## Financing in FY05

<i>Euro millions</i>	<b>FY04</b>	<b>FY05</b>
<b>Net Cash provided by operating activities</b>	<b>12,697</b>	<b>13,374</b>
<b>Purchase of tangible and intangible assets, net of change in fixed asset vendors</b>	<b>- 5,208</b>	<b>- 6,108</b>
<b>Low Capex</b>	<b>-5,134</b>	<b>-6,045</b>
<b>Proceeds from sale of tangible and intangible assets</b>	<b>199</b>	<b>215</b>
<b>Organic Cash Flow *</b>	<b>7,688</b>	<b>7,481</b>

\* Net cash provided by operating activities, less net cash used in investing activities, less asset disposals and less disposals of financial assets. It also corresponds to Net Cash Provided by Activities, less purchase of Tangible and Intangible Assets, and less Proceeds of Sales of Tangible and Intangible Assets

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## 1Q06: key figures

<i>Euro millions</i>	<b>Actual 1Q05</b>	<b>Comparable Basis - 1Q05</b>	<b>1Q06</b>	<b>Actual % change</b>	<b>Comparable Basis - % chg</b>
<b>Revenues</b>	<b>11,621</b>	<b>12,542</b>	<b>12,813</b>	<b>10.3%</b>	<b>2.2%</b>
<b>Gross Operating Margin</b>	<b>4,376</b>	<b>4,668</b>	<b>4,671</b>	<b>6.7%</b>	<b>0.1%</b>
As a % of revenues	<b>37.7%</b>	<b>37.2%</b>	<b>36.5%</b>		
<b>G.O.M. before commercial expenses</b>	<b>5,766</b>	<b>6,343</b>	<b>6,499</b>		
As a % of revenues	<b>49.6%</b>	<b>50.6%</b>	<b>50.7%</b>		
<b>CAPEX</b>	<b>1,157</b>	<b>1,242</b>	<b>1,390</b>		
As a % of revenues	<b>10.0%</b>	<b>9.9%</b>	<b>10.8%</b>		
<b>GOM - CAPEX</b>	<b>3,220</b>	<b>3,426</b>	<b>3,281</b>		

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## Conclusion

**1Q 2006  
in line with  
full year  
guidance**

- **A tough but anticipated environment**
  - Mobile maturing markets spurring competitive pressure
  - Home broadband market consolidation not achieved
  - No favorable change in regulatory context and pending uncertainties
- **Leadership confirmed on new fast growing Telecom markets**
  - Since December 2005
    - + 737k fixed broadband subscribers
    - + 697K mobile broadband subscribers

**Rebranding and  
New offers**

- **On track to deliver NExT thanks to :**
  - Rebranding starting in France, UK and Netherlands in 1H06
  - First new convergent offers and all included & unlimited offers

**Managing  
Organic  
Cash Flow  
generation**


- **Tightened cost management**
- **Reinforced control of CAPEX**

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December 5 2002, « Ambition FT 2005 » presentation

**" 15 + 15 + 15 "**



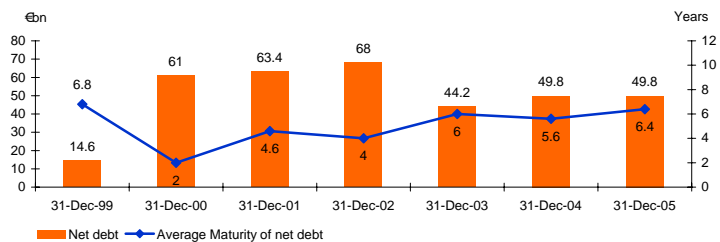
**Refinancing Plan:**  
 23 December 2002: €2.9bn  
 28 January 2003: €6.4bn  
 23 January 2004: €2.5bn

**Thanks to Plan Top** which allows to increase Free Cash Flow from the end of 2002 until mid 2004 of around €15bn

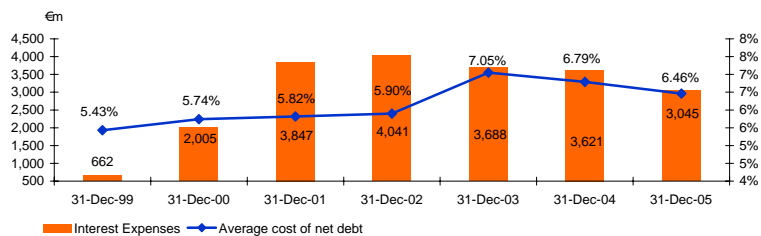
**Share Capital** increase of April 2004

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Net Debt Evolution (IFRS on and after 2004)

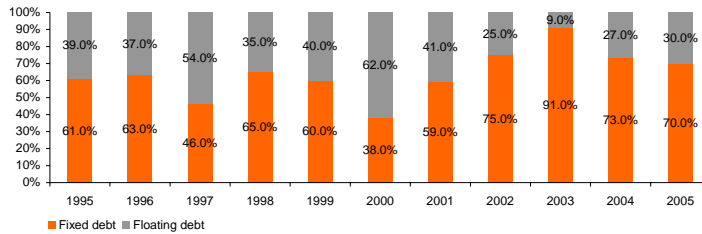


2004 figures include 4,2bn Euro of perpetual debt (TDIRA) which previously accounted as equity (excepted for the average maturity of net debt)



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## Net Debt Allocation: Fixed - Floating - by Currency (after swaps)



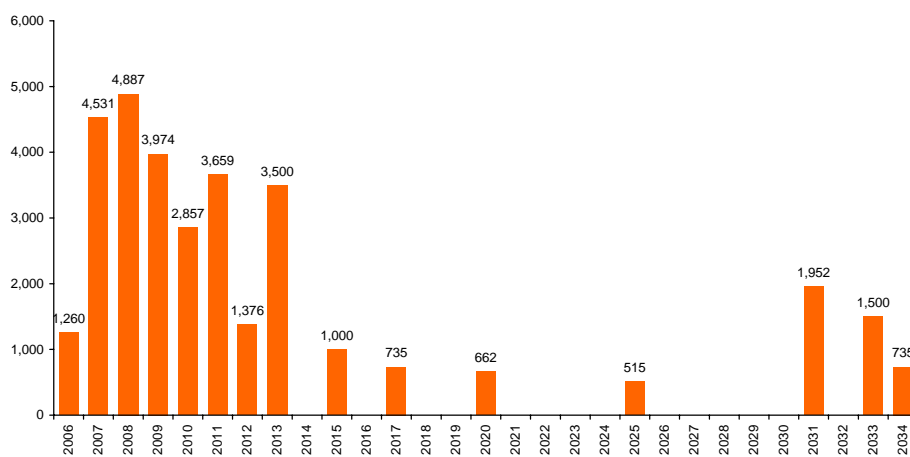
A share capital increase of over €14.8bn explains the increase of fixed debt in 2003

## Majority of Outstanding Debt is Euro Denominated



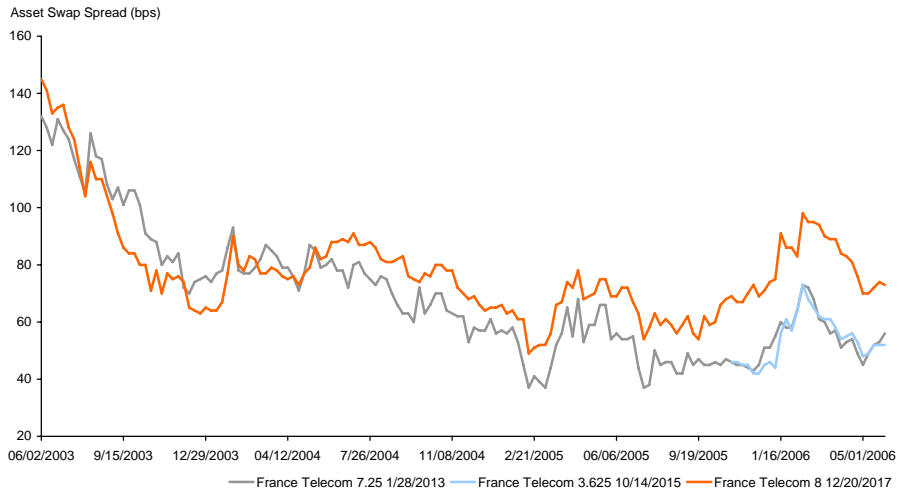
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## France Telecom SA Debt Distribution



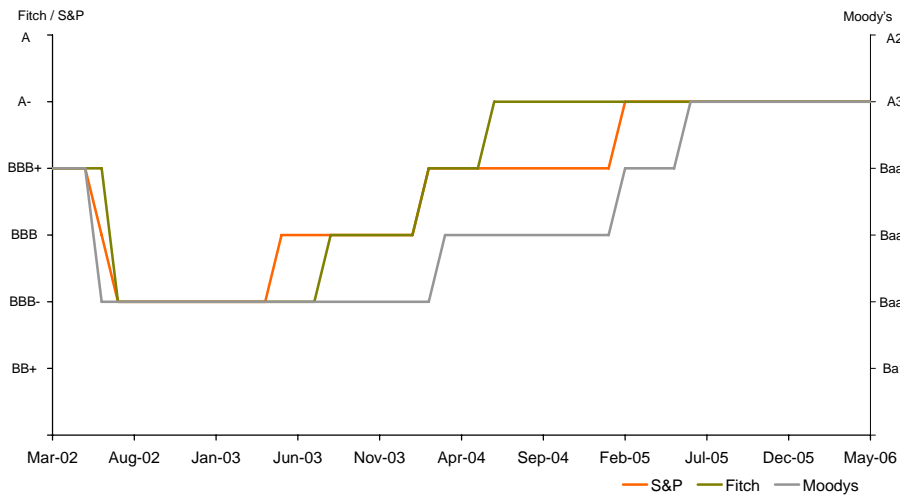
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## France Telecom Historical Spreads



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## S&P, Moody's and Fitch Ratings

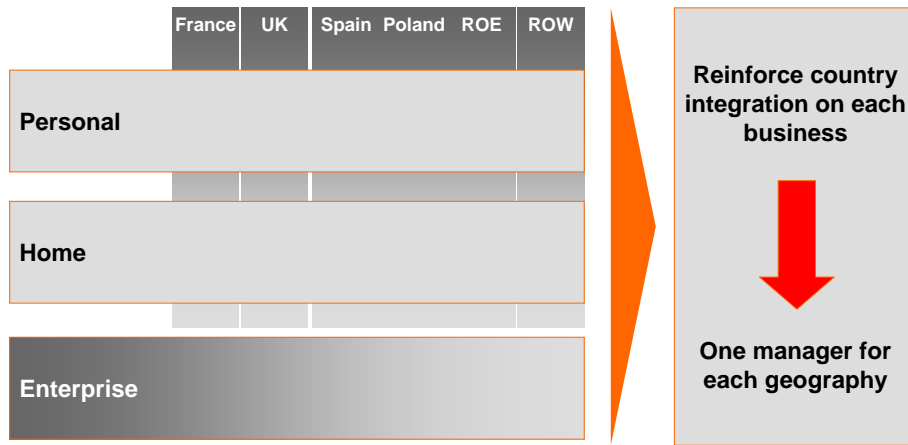


The notches improvement of rating agencies allowed France Telecom to come back in 2006 :

- On the USCP market : about 1 billion US\$ - about C\$ 1,125 billions
- On the swiss franc market : CHF 400 millions - C\$ 370 millions
- On the Yen market : Yen 22 Billions yen - C\$ 225 millions

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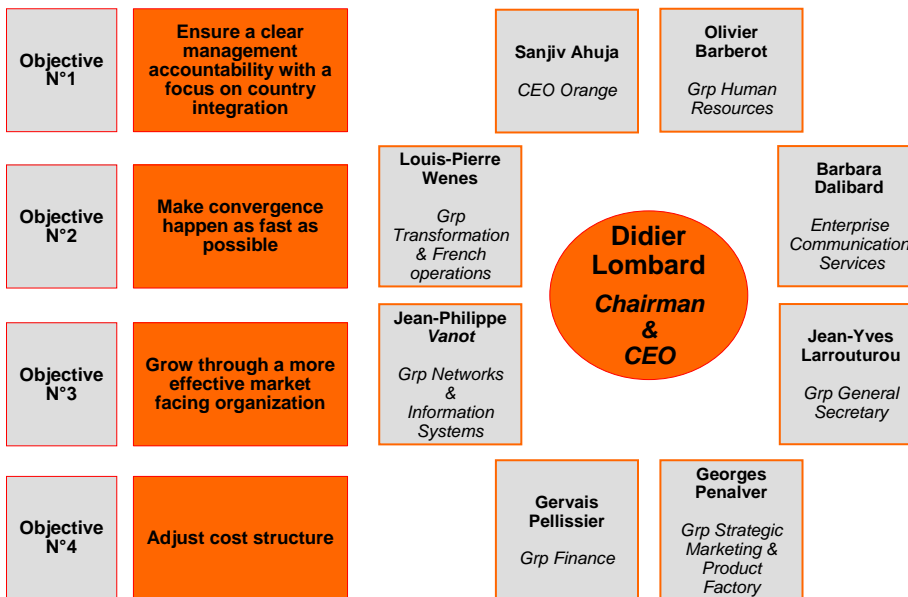
## Managing strong local businesses and taking advantage of global business lines



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






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## Tightened management organization



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## Annexe 1 : France Telecom and its Canadian and US Competitors...

	 (1)	 (2)	 (2)		
<b>Ratings (Moody's/S&amp;P)</b>	A3/A- Stable/Positive	Baa1/A- Stable/Negative	Baa2/BBB+ Positive/Stable	A2/A Negative/Negative	A3/A Stable/Negative
<b>Market Cap</b>	\$55,794	\$21,448	\$13,957	\$59,003	\$89,821
<b>Total Revenue for Full Year 2005</b>	\$62,901	\$17,055	\$7,269	\$20,547	\$75,112
<b>Net Income</b>	\$8,158	\$1,751	\$625	\$3,294	\$7,397
<b>Wireless Subscribers (Millions)</b>	89.3	5.5	4.6	55.8	53.0

All figures in US\$ millions. Source Bloomberg

(1) FX Rate: USD per EUR 1.28270

(2) FX Rate: USD per CAD 0.89791

Source: Bloomberg, Company website