

2007



2007 Annual Financial Report

This document constitutes the English translation of the Annual Financial Report established pursuant to article 451-1-2 of the French *Code Monétaire et Financier*.

It forms the second volume of the France Telecom 2007 Registration Document.

table of contents

nota	3	III - report of the board of directors to the shareholders	159
I - group management report	5		
1. overview	6	IV - non consolidated documents	201
2. analysis of the group's income statement and capital expenditures	11	1. report of the statutory auditors on the annual financial statements	202
3. analysis by business segment	23	2. financial statements	204
4. cash flows, shareholders' equity and financial debt	39	V - fees paid to auditors	245
5. additional information	46	VI - chairman's report on corporate governance and internal control	247
II - consolidated financial documents	55	VII - report of the statutory auditors on the report of the chairman of the board of directors	269
1. report of the statutory auditors on the consolidated financial statements	57		
2. consolidated financial statements	59		



nota

This Annual Financial Report incorporates by reference the financial reports for 2006 and 2005 forming the second volumes of the France Telecom Registration Documents relating to 2006 and 2005, as filed with the AMF on March 30, 2007 and March 10, 2006 respectively.

Forward-looking information

This document contains statements regarding France Telecom's objectives, notably in Section 1.3 "Outlook" of the Group Management Report. These statements can sometimes be identified by the use of the future and conditional verb tenses and words such as "believes", "expects", "should", "estimates" or "may". These indications 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. By their very nature, these objectives are subject to numerous risks and uncertainties, which may lead to differences between the objectives announced and actual results. The most significant risks are described in Chapter 4 "Risk factors".

Definition

In this Registration Document, unless otherwise indicated, the terms "Company" and "France Telecom S.A." refer to France Telecom S.A. and the terms "France Telecom", the "Group", and the "France Telecom Group" refer to France Telecom S.A. together with its consolidated subsidiaries.

Inventory of marketable securities

The inventory of equity interests and marketable securities of France Telecom S.A. is set forth in chapter IV Non consolidated documents, section 2, notes 5.1.2.1 and 5.1.5.

Glossary

A glossary of the main technical and financial terms used is provided at the end of the first volume of the Registration Document, before the exhibits.

The financial glossary constitutes Section 5.6 of the Group Management Report.

I - group management report



1. overview	6		
1.1 FINANCIAL DATA AND WORKFORCE	6	3.1.3 Capital expenditures on tangible and intangible assets excluding licenses - PCS	30
1.2 SUMMARY OF RESULTS OF THE YEAR	7	3.1.4 Telecommunication licenses - PCS	31
1.3 IMPACT OF REGULATORY RATE CHANGES	8	3.2 HOME COMMUNICATION SERVICES (HCS)	31
1.4 MAIN EVENTS THAT TOOK PLACE IN 2007	8	3.2.1 Revenues - HCS	32
1.5 OUTLOOK	10	3.2.2 Gross operating margin - HCS	35
		3.2.3 Capital expenditures on tangible and intangible assets excluding licenses - HCS	36
		3.3 ENTERPRISE COMMUNICATION SERVICES (ECS)	37
		3.3.1 Revenues - ECS	37
		3.3.2 Gross operating margin - ECS	38
		3.3.3 Capital expenditures on tangible and intangible assets excluding licenses - ECS	38
2. analysis of the Group's income statement and capital expenditures	11		
2.1 FROM GROUP REVENUES TO GROSS OPERATING MARGIN	11	4. cash flows, shareholders' equity and financial debt	39
2.1.1 Revenues	12	4.1 LIQUIDITY AND CASH FLOWS	39
2.1.2 Operating expenses	13	4.2 SHAREHOLDERS' EQUITY	43
2.1.3 Gross operating margin	15	4.3 FINANCIAL DEBT AND FINANCING RESOURCES	44
2.2 FROM GROUP GROSS OPERATING MARGIN TO OPERATING INCOME	16	4.3.1 Net financial debt	44
2.3 FROM GROUP OPERATING INCOME TO NET INCOME	19	4.3.2 Financing resources	44
2.3.1 Finance costs, net	19	4.3.3 Exposure to market risks and financial instruments	45
2.3.2 Income tax	20	4.3.4 France Telecom's debt ratings	45
2.3.3 Consolidated net income after tax of continuing operations	20		
2.3.4 Consolidated net income after tax of discontinued operations	20	5. additional information	46
2.3.5 Consolidated net income after tax	20	5.1 TRANSITION FROM DATA ON A HISTORICAL BASIS TO DATA ON A COMPARABLE BASIS	46
2.4 GROUP CAPITAL EXPENDITURES	21	5.2 RESEARCH AND DEVELOPMENT	49
2.4.1 Capital expenditures	21	5.3 SOCIAL AND ENVIRONMENTAL INFORMATION	51
2.4.2 Investment commitments	22	5.4 CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET COMMITMENTS	51
2.4.3 Investment projects	22	5.5 EVENTS OCCURRING AFTER CLOSING	52
		5.6 FINANCIAL GLOSSARY	52
3. analysis by business segment	23		
3.1 PERSONAL COMMUNICATION SERVICES (PCS)	25		
3.1.1 Revenues - PCS	26		
3.1.2 Gross operating margin - PCS	29		

The following comments are made on the basis of the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) (see Note 1 and 2 to the consolidated financial statements). Data relating to the business segments and sub-segments presented in the following sections is assumed, except where otherwise indicated, to be prior elimination of inter-segment and inter-sub-segment transactions. Business segments are described in Section 3 "Analysis by business segment". In addition, the changes below are calculated on the basis of data in thousands of euros, although displayed in millions of euros.

The transition from data on a historical basis to data on a comparable basis (see definition in Section 5.6 "Financial glossary") for 2006 is described in Section 5.1 "Transition from data on a historical basis to data on a comparable basis".

1. overview

1.1 FINANCIAL DATA AND WORKFORCE

■ Operating data

(in millions of euros)	2007	Years ended December 31			
		2006 comparable basis ⁽¹⁾	2006 historical basis	Change (%) comparable basis ⁽¹⁾	Change (%) historical basis
Revenues	52,959	51,541	51,702	2.8%	2.4%
GOM ⁽²⁾	19,116	18,486	18,539	3.4%	3.1%
GOM/Revenues	36.1%	35.9%	35.9%		
Operating income	10,799	-	6,988	-	54.5%
Operating income/Revenues	20.4%	-	13.5%		
CAPEX ⁽²⁾	6,979	6,721	6,732	3.8%	3.7%
CAPEX/Revenues	13.2%	13.0%	13.0%		
Telecommunication licenses	85	283	283	(70.0)%	(70.0)%
Average number of employees ⁽²⁾	183,799	191,343	189,028	(3.9)%	(2.8)%

(1) Unaudited data. See Section 5.1 "Transition from data on a historical basis to data on a comparable basis".

(2) See Section 5.6 "Financial glossary".

■ Net income

(in millions of euros)	2007	Years ended December 31	
		2006 historical basis	2006 comparable basis ⁽¹⁾
Operating income	10,799	6,988	
Finance costs, net	(2,650)	(3,251)	
Income tax	(1,330)	(2,180)	
Consolidated net income after tax of continuing operations	6,819	1,557	
Consolidated net income after tax of discontinued operations	-	3,211	
Consolidated net income after tax	6,819	4,768	
Net income attributable to equity holders of France Telecom S.A.	6,300	4,139	
Minority interests	519	629	

■ Net financial debt and organic cash flow

(in millions of euros)	Years ended December 31	
	2007	2006 historical basis
Organic cash flow⁽¹⁾	7,818	6,906⁽²⁾
Net financial debt⁽¹⁾	37,980	42,017
Ratio of Net financial debt/GOM	1.99	2.27

(1) See Section 5.6 "Financial glossary".

(2) Excluding PagesJaunes Groupe, operation disposed of on October 11, 2006 (see Note 4 to the consolidated financial statements). With PagesJaunes Groupe, organic cash flow amounted to 7.157 billion euros in 2006.

1.2 SUMMARY OF RESULTS OF THE YEAR

Revenues

Revenues amounted to 52.959 billion euros in 2007, up 2.4% on a historical basis compared to 2006. On a comparable basis, annual growth comes in at 2.8%, 1.6 points above from the previous year. The improvement concerned the mature markets (see Section 5.6 "Financial glossary") in Western Europe, with in particular the operations in France, the United Kingdom, and Spain, and Enterprise Communication Services. In parallel, markets with high growth potential (see Section 5.6 "Financial glossary") continued to be buoyant with revenues up 15.3%.

Gross operating margin

Gross operating margin (referred to hereinafter as "GOM", see Section 5.6 "Financial glossary") amounted to 19.116 billion euros in 2007, up 3.1% on a historical basis and up 3.4% on a comparable basis. The ratio of GOM to revenues were at 36.1% in 2007, which is a 0.2 point improvement compared to 2006, on a historical basis as well as on a comparable basis. This change is higher than the announced target of near stabilization of the ratio of GOM to revenues in 2007. It reflects:

- the 0.5 point drop in the ratio of purchases and inter-operator costs to revenues, which was 14.9% in 2007 compared to 15.4% in 2006 on a comparable basis (15.6% on a historical basis);
- and the 0.2 point drop in the ratio of labour expenses (wages and employee benefit expenses) included in the GOM (see Section 5.6 "Financial glossary") to revenues, standing at 16.6% in 2007 compared to 16.8% in 2006 on a comparable basis (16.6% on a historical basis). The number of employees (active employees at end of period, see Section 5.6 "Financial glossary") changed from 192,024 at December 31, 2006 to 187,331 at December 31, 2007 on a comparable basis, i.e. a drop of 2.4% on a comparable basis (1.9% drop on a historical basis).

In parallel, the increase in commercial expenses (see Section 5.6 "Financial glossary") remained under control, with a ratio of commercial expenses to revenues of 15.3%, i.e. slight increase of 0.2 points compared to the previous year on a comparable basis (up 0.3 points on a historical basis).

Operating income

Operating income amounted to 10.799 billion euros in 2007, up from 6.988 billion euros in 2006 on a historical basis, i.e. an improvement of 3.811 billion euros, linked to a large extent to the very sharp drop in the impairment of goodwill, limited to 26 million euros in 2007 compared to impairment of 2.800 billion euros in 2006. To this were primarily added the upturn of 672 million euros in gains on disposal of assets (769 million euros in 2007 compared to 97 million euros in 2006), and the increase of 577 million euros in GOM.

Net income

Consolidated net income after tax amounts to 6.819 billion euros in 2007, up from 4.768 billion euros in 2006 on a historical basis, i.e. an increase of 2.051 billion euros, linked to the sharp improvement in consolidated net income after tax of continuing operations between the two years (up 5.262 billion euros). This improvement stemmed from the increase of 3.811 billion euros in operating income, the drop in income tax expenses of 850 million euros, and the improvement of 601 million euros in finance costs, net. These favorable changes are partially offset by the consolidated net income after tax of discontinued operations, as no consolidated net income after tax of discontinued operations was booked in 2007 although 3.211 billion euros was recognized in 2006 for this item, linked to the disposal of 54% of PagesJaunes Groupe.

Minority interests totaled 519 million euros in 2007 compared to 629 million euros in 2006, which a decrease of 110 million euros between the two years. Net income attributable to France Telecom S.A. equity holders rose to 6.300 billion euros

in 2007, up from 4.139 billion euros in 2006, i.e. an increase of 2.161 billion euros.

Capital expenditures on tangible and intangible assets excluding telecommunication licenses

Capital expenditures on tangible and intangible assets excluding telecommunications licenses and investments financed through finance leases (referred to hereinafter as "capital expenditures on tangible and intangible assets excluding licenses" or "CAPEX", see Section 5.6 "Financial glossary") rose to 6.979 billion euros in 2007, up 3.7% on a historical basis and 3.8% on a comparable basis. The ratio of capital expenditures on tangible and intangible assets excluding licenses to revenues were 13.2%, in line with the objective announced of a ratio of about 13%. The growth in capital expenditures between 2006 and 2007 concerns growing markets in which investments, up 23.3% on a comparable basis, accompany the sharp growth in mobile services. Investments in mature markets, which represent a little more than three quarters of the Group's capital expenditures on tangible and intangible assets excluding licenses, were down on the overall 0.5% on a comparable basis. The drop in investments in mobile networks, after the large programs of the previous years, is to a large extent offset by the growth in investments pertaining to ADSL broadband services, especially in France and in Poland.

Organic cash flow

Organic cash flow (see Section 5.6 "Financial glossary") totaled 7.818 billion euros, higher than the target of 7.5 billion euros announced during the presentation of third quarter 2007 results. This is an increase of 912 million euros compared to the organic cash flow for the previous year which was 6.906 billion euros excluding PagesJaunes Groupe, which was disposed of on October 11, 2006 (7.157 billion euros on a historical basis). The improvement in relation to 2006 is generated primarily by the growth of 577 million euros in the GOM for continuing operations, by the increase of 298 million euros in the overall working capital requirements (see Section 5.6 "Financial glossary") and by the drop of 284 million euros in net interest expenses paid. These favorable elements are partially offset by the increase of 310 million euros income tax paid.

Net financial debt

Net financial debt (see Section 5.6 "Financial glossary") amounted to 37.980 billion euros at December 31, 2007 compared to 42.017 billion euros at December 31, 2006. Compared to December 31, 2006, net financial defeasance amounted to 4.037 billion euros at December 31, 2007. The ratio of net financial debt to GOM is 1.99 at December 31, 2007 compared to 2.27 at December 31, 2006. The stated objective of achieving a ratio less than two by the end of 2008 was already reached at December 31, 2007.

1.3 IMPACT OF REGULATORY RATE CHANGES

The environment in which the France Telecom group operates, both in France and elsewhere within the European Union, is subject to stringent sector regulations.

The impact of the reductions in call termination rates and the reductions in the roaming rates seen in several countries over 2007, and notably France, Poland, Spain, the United Kingdom,

Belgium and Switzerland was particularly marked in the mobile telephony sector. In 2007, the impact of these cuts on revenues came out at nearly 850 million euros on the Personal Communication (PCS) segment, while the GOM was reduced by over 400 million euros. The regulations governing the Group's operations are described in Section 6.9 "Regulations" in the Registration Document.

1.4 MAIN EVENTS THAT TOOK PLACE IN 2007

The main acquisitions and disposals and changes in the scope of consolidation are described in Note 4 to the consolidated financial statements.

Disposals

■ Following the sale of the interest held by the former co-shareholders of France Telecom in Tower Participations (company holding TDF), France Telecom received an additional consideration of 254 million euros in **January 2007** and recorded for this item a gain on disposal before tax of

307 million euros, including a previously-deferred capital gain of 53 million euros (see Note 8 to the consolidated financial statements).

■ Following the sale of the interests controlled by Eurazeo in Eutelsat Communications, France Telecom received 110 million euros in **February 2007** and sold all of its interests in Bluebirds Participations France in **May 2007**. The gain on disposal before tax is 104 million euros (see Notes 8 and 15 to the consolidated financial statements).

- In **October 2007**, France Telecom sold Orange's mobile and Internet operations in the Netherlands to Deutsche Telekom for 1.317 billion euros, net of disposal costs. The gain on disposal before tax related to this transaction amounted to 299 million euros. After taking into account the cash transferred, net cash proceeds amounted to 1.306 billion euros (see Note 8 to the consolidated financial statements).

Acquisitions and investments

- In **January 2007**, France Telecom acquired a controlling block of approximately 54% of the capital of Groupe Silicomp, for a cash consideration of 50 million euros. Within the framework of a standing market offer that took place in February 2007, France Telecom acquired an additional interest of 36.5% for 43 million euros. At December 31, 2007 France Telecom held 96.1% of the shares. After taking into account the cash acquired, net cash paid out amounts to 96 million euros.
- In **March 2007**, France Telecom announced the extension of its presence in Africa through two operations completed by Sonatel: the acquisition of a 3rd mobile telecommunication license in Guinea Bissau and the purchase of a mobile license in Guinea.
- In **April 2007**, France Telecom announced the acquisition of a mobile and Internet license in the Central African Republic.
- In **July 2007**, France Telecom indirectly acquired an additional interest in Orange Moldolva (former Voxtel) for a cash consideration of 103 million euros, raising its interest to 94.3%.
- In **July 2007**, the company Mobistar, held 50.2% by France Telecom, acquired 90% of the capital of Luxembourg mobile operator VOXmobile for a cash consideration of 80 million euros. An analysis of the agreements between the parties concerning the remaining 10% led France Telecom to acquire 100% interest in the company.
- In **July 2007**, France Telecom acquired all of the capital of T-Online Telecommunications Spain, now FT España ISP, for a cash consideration of 150 million euros from Deutsche Telekom. FT España ISP is the third ADSL operator in Spain, operating under the Ya.com brand. After taking into consideration the buyout of the operator's intercompany loans from its former shareholder as well as the cash acquired, the net cash paid out amounts to 319 million euros.
- In **October 2007**, the Mid Europa Partners investment fund and France Telecom acquired all of the capital of the company One GmbH for a business value of 1.4 billion euros. The amount received by France Telecom for selling its interest of 17.5% in One GmbH and the repayment of its shareholder's loan was partially reinvested in order to indirectly hold 35% of One GmbH. This transaction has resulted in a gain of 36 million euros, net of costs. The net impact on cash is a gain of 82 million euros (see Notes 8 and 15 to the consolidated financial statements).
- In **October 2007**, the company Mobinil, held 71.3% by France Telecom, acquired a 15-year 3rd generation mobile license for 3.34 billion Egyptian pounds (about 422 million euros). The price of the license will be paid in installments over four years.
- In **November 2007**, Orange Business Services announced that it had obtained approval allowing it to implement a long-distance telephone license in Russia. Today, it is the world's only communication services provider to hold the status of a long-distance operator in this country.
- In **November 2007**, France Telecom announced the acquisition of a global fixed-line-mobile-Internet license in Niger for 48 million euros. France Telecom will provide its new subsidiary in Niger with the strength of its Orange brand and the quality of its products and services as well as its capacity for innovation.
- In **December 2007**, the consortium formed by France Telecom and Alcazar Capital Limited, for 78.5% and 21.5% respectively, acquired 51% of the capital of Telkom Kenya, Kenya's incumbent operator, for 270 million euros. Telkom Kenya, which covers 280,000 fixed-line customers, will benefit from a new mobile license (see Note 16 to the consolidated financial statements).

Adoption and implementation of regulatory measures

- In **May 2007**, Orange implemented the new conditions for the portability of mobile numbers in France. Portability, which allows customers to switch mobile operators and keep the same telephone number, is now carried out via an approach that is simpler ("one-stop process") and faster (10-day limit). In addition, cancellation notice times are also reduced to 10 days.
- In **June 2007**, the European Union adopted a regulation that sets ceilings on the retail rates for "voice" international roaming in Europe. 49 euros cents excluding VAT per minute in 2007 for outgoing calls, and 24 cents excluding VAT for incoming calls. This new regulation has been in effect since September 30, 2007.

Acquisition of treasury shares

- In **March 2007**, France Telecom acquired 9,113,884 treasury shares via its 2006 share buyback program, for which the description was published on March 19, 2007, for a cost of 180 million euros (see Note 30 to the consolidated financial statements).
- In **May 2007**, France Telecom set up a liquidity contract with a financial institution in respect of its common stock, in order to increase liquidity and reduce excess volatility. The means allocated to implement this contract amount to 100 million euros. At December 31, 2007, France Telecom held 1,415,000 treasury shares acquired within the framework of the contract (see Note 30 to the consolidated financial statements).

At December 31, 2007, France Telecom held 10,528,884 treasury shares (excluding shares purchased within the framework of the French State offer of December 2007, but delivered only on January 29, 2008).

Free share award and stock-option plans

- In order to contribute to the full involvement of the personnel pertaining to the objectives of the "NEXT" (New Experience in Telecommunications) plan, France Telecom set up a free share award plan in 2007 in France involving 10.8 million shares, representing 0.4% of the capital of France Telecom S.A. This plan concerns about 113,000 employees of France Telecom S.A. and its French subsidiaries. The final granting of shares will not take place until April 25, 2009, since the rights to shares are subordinated to performance conditions in particular. Furthermore, France Telecom in 2007 also set up a free share award plan internationally involving 1.8 million shares, representing less than 0.1% of the capital of France Telecom S.A. This plan concerns about 45,000 employees of international subsidiaries. The conditions for granting rights in France and internationally are identical (see Note 27 to the consolidated financial statements).
- In 2007, France Telecom implemented a stock-option plan for some of the executive directors and employees in the Group, involving 10,093,300 shares. The exercise price of the options, over a period of 10 years, was set at 21.61 euros per share (see Note 27 to the consolidated financial statements).

State's sale of existing shares and offer reserved for employees

Following the **June 2007** sale by the French State of 130 million of its France Telecom shares, representing 5% of the capital, the State launched a share offer in **December 2007** reserved for employees of France Telecom group. This offer involved 14.4 million shares, representing 0.56% (undiluted base) of the total number of shares in the capital of France Telecom S.A. at June 30, 2007. The French State sold the shares at a unit

price of 20.39 euros (see Note 30 to the consolidated financial statements).

As of December 31, 2007, the French State held directly or indirectly through the ERAP, 27.3% of the capital and 27.5% of the voting rights of France Telecom S.A. (see Note 30 to the consolidated financial statements).

Bond issues

- In **February 2007**, France Telecom completed a 2.5 billion euros bond issuance in two tranches: a 1 billion euros tranche maturing in 2012 bearing interest at 4.375% and a 1.5 billion euros tranche maturing in 2017 bearing interest at 4.75%.
- In **March 2007**, France Telecom completed a 250 million pound sterling bond issuance maturing in 2012 bearing interest at 6%.
- In **November 2007**, France Telecom completed a 400 million Swiss franc bond issuance maturing in 2014 bearing interest at 3.5%.

Other

- In **October 2007**, France Telecom announced its proposal to open up its cable ducts to competition (civil engineering infrastructures allowing for the passage of optical fiber cables). The Group requested the same possibility from owners of similar infrastructures. This proposal was officially sent to ARCEP (the French Telecommunications and Posts Regulator) within the framework of the public consultation in progress. A wholesale commercial offer for the use of France Telecom's cable ducts was published at the end of 2007.

1.5 OUTLOOK

France Telecom's strategy is designed to respond to the changing telecommunications service sector which is being profoundly transformed, resulting in significant changes in the offer, usages and the competitive context.

France Telecom believes that the primary components of this transformation are, i) evolving technologies (general use of the IP protocol, broadband, mobility; development of multi-access handsets and network interoperability), ii) evolving usages (growth in the consumption of audiovisual content, abundance, the customization of usages contexts and services), and iii) the evolution of industry structures and strategies, and more intense competitive pressures.

As a result, in the broadband fixed-line network segment, we are seeing a consolidation in the market for Internet service providers (ISP) around a few major players that provide grouped offers (Internet, Voice over IP, TV), as the competitors of France Telecom take advantage of the unbundling of local loops. In the

mobile market, the MVNO (Mobile Virtual Network Operators) are now strong players. In the most mature markets, convergence has gained further ground with the forming, through buyouts, of integrated operators able to provide grouped Internet/fixed-line/mobile and TV offerings. Finally, the players in the Internet services market intend to expand significantly in the communication and content services market on a non-regulated basis. The strategy of the France Telecom group is described in Section 6.1 "Strategy" in the Registration Document.

France Telecom group's objective is to generate an organic cash flow of more than 7.8 billion euros in 2008. In a global context of growth in Group revenues in line with that of its markets, achieving this objective rests on stability of the ratio of GOM to revenues, resulting from the continuation of the cost reduction and optimization programme, and maintenance of the ratio of capital expenditures on tangible and intangible investments excluding licenses to revenues at around 13% of revenues.

The resulting organic cash flow will be deployed according to the following principles:

- the ratio of net debt to GOM will be maintained in the medium term at a level of less than two in current market conditions. In this context, and given the organic cash flow generation expected for 2008, the Board of Directors indicates that the dividend to be proposed to the Shareholders Meeting for 2008, will be greater than 1.30 euro per share. The Board of Directors reserves the option of raising the distribution rate above 45% of organic cash flow, if appropriate. In addition, each year the Board of Directors will examine the possibility

of additional shareholder remuneration taking into account the Group's cash flow projections and investment projects;

- the acquisition policy remains selective, aimed primarily at targets in markets with high growth potential.

By their very nature, these objectives are subject to numerous risks and uncertainties, which may lead to significant differences between the announced objectives and actual results. The most significant risks are described in Section 4 "Risk factors" in the Registration Document.

2. analysis of the group's income statement and capital expenditures

2.1 FROM GROUP REVENUES TO GROSS OPERATING MARGIN

		Years ended December 31			
		2006 comparable basis ⁽¹⁾	2006 historical basis	Change (%) comparable basis ⁽¹⁾	Change (%) historical basis
(in millions of euros)	2007				
Revenues	52,959	51,541	51,702	2.8%	2.4%
OPEX⁽²⁾	(33,843)	(33,055)	(33,163)	2.4%	2.0%
In % of revenues	63.9%	64.1%	64.1%		
OPEX excluding labour expenses (wages and employee benefit expenses) ⁽²⁾	(25,076)	(24,388)	(24,571)	2.8%	2.1%
In % of revenues	47.4%	47.3%	47.5%		
External purchases ⁽²⁾	(23,156)	(22,681)	(22,809)	2.1%	1.5%
Other operating incomes and expenses ⁽³⁾	(1,920)	(1,707)	(1,762)	12.5%	8.9%
Labour expenses (wages and employee benefit expenses) ⁽²⁾	(8,767)	(8,667)	(8,592)	1.2%	2.0%
In % of revenues	16.6%	16.8%	16.6%		
GOM	19,116	18,486	18,539	3.4%	3.1%
In % of revenues	36.1%	35.9%	35.9%		

(1) Unaudited data. See Section 5.1 "Transition from data on a historical basis to data on a comparable basis".

(2) See Section 5.6 "Financial glossary" and Note 6 to the consolidated financial statements.

(3) See Note 6 to the consolidated financial statements.

2.1.1 Revenues

(in millions of euros)

		Years ended December 31			
	2007	2006 comparable basis ⁽¹⁾	2006 historical basis	Change (%) comparable basis ⁽¹⁾	Change (%) historical basis
REVENUES					
Personal Communication Services (PCS)	29,119	27,538	27,745	5.7%	5.0%
PCS France	9,998	9,885	9,882	1.1%	1.2%
PCS United Kingdom	6,217	5,863	5,874	6.0%	5.8%
PCS Spain	3,404	3,315	3,353	2.7%	1.5%
PCS Poland	2,133	1,992	1,934	7.1%	10.3%
PCS Rest of the world	7,550	6,701	6,920	12.7%	9.1%
Eliminations	(183)	(218)	(218)	-	-
Home Communication Services (HCS)	22,671	22,725	22,487	(0.2)%	0.8%
HCS France	17,957	17,709	17,657	1.4%	1.7%
HCS Poland	2,886	3,139	3,048	(8.1)%	(5.3)%
HCS Rest of the world	2,100	2,100	2,005	-	4.7%
Eliminations	(272)	(223)	(223)	-	-
Enterprise Communication Services (ECS)	7,721	7,689	7,652	0.4%	0.9%
Eliminations	(6,552)	(6,411)	(6,182)	-	-
Group total	52,959	51,541	51,702	2.8%	2.4%

(1) Unaudited data. See Section 5.1 "Transition from data on a historical basis to data on a comparable basis".

■ Change in revenues

France Telecom group recorded 52.959 billion euros in revenues in 2007, up 2.4% on a historical basis and 2.8% on a comparable basis in relation to 2006.

On a **historical basis**, the increase of 2.4% in the Group's revenues, which is an increase of 1.257 billion euros between 2006 and 2007, includes the negative impact of the foreign exchange rate fluctuations, i.e. 182 million euros between the two years, partially offset by the favorable impact of the changes in the scope of consolidation and other changes, amounting to 21 million euros between 2006 and 2007. Changes in the scope of consolidation and other changes are for the most part offset, with primarily, on one hand, i) the impact of the full consolidation of Jordan Telecommunications Company (JTC) as well as its subsidiaries on July 5, 2006 for 115 million euros, ii) the impact of the acquisition of the Groupe Silicomp on January 4, 2007 for 106 million euros, and iii) the impact of the acquisition of T-Online Telecommunications Spain (now FT España ISP), operating under the Ya.com brand, on July 31, 2007 for 71 million euros, and on the other hand, iv) the impact of selling Orange's mobile and Internet operations in the Netherlands on October 1, 2007 for 172 million euros, and v) the impact of selling France Telecom Mobile Satellite Communications (FTMSC) on October 31, 2006 for 120 million euros.

On a **comparable basis**, France Telecom group's revenues increased 2.8% between 2006 and 2007, which represents an increase of 1.418 billion euros driven by growth in mobile operations and ADSL broadband services.

PCS revenues (mobile services) are up 5.7% in 2007 compared to 2006, amounting to 29.119 billion euros. This increase reflected the growth achieved on mobile telephony activities, supported by dynamic growth in the customer base. Between the two years, PCS revenues posted increases across all sub-segments, with substantial growth in the Rest of the world (up 12.7%), in Poland (up 7.1%) and in the United Kingdom (up 6.0%).

HCS revenues (fixed-line and Internet services) amounted to 22.671 billion euros in 2007, down slightly by 0.2% compared to 2006. The strong growth achieved on ADSL broadband services, particularly in France, has to a great extent offset the downturn in traditional telephone services (traditional telephone subscriptions and communications) in France and Poland.

ECS revenues (business services) amounted to 7.721 billion euros in 2007, up 0.4% compared to 2006. Business network legacy had experienced a drop in revenues, linked to the migration of companies over to more recent technologies, the reduction in the volume of telephone communications and the drop in prices. Between 2006 and 2007, this drop was offset by the increase in revenues from extended business services, advanced business network services and other business services.

On a **comparable basis**, the increase in France Telecom group's revenues between 2006 and 2007 is primarily the result of the increase in revenues from growing markets (see Section 5.6 "Financial glossary"), up 15.3%. Revenues from mature markets (see Section 5.6 "Financial glossary") are up 1.0% between the two years.

■ Changes in the number of customers

On a **historical basis**, the number of France Telecom group customers through its controlled companies totaled 170.1 million customers at December 31, 2007, representing an increase of 7.3% in relation to December 31, 2006. The number of additional customers between December 31, 2006 and December 31, 2007 was 11.6 million for the Group. With 109.7 million customers at December 31, 2007, the number of mobile telephony customers is up 12.3% on December 31, 2006, with an additional 12.0 million customers. The number of customers subscribing for mobile broadband offers (Edge and UMTS technologies) more than doubled, with 13.0 million customers at December 31, 2007, up from 5.8 million at December 31, 2006. Similarly, the number of Consumer ADSL broadband customers was growing rapidly, with 11.7 million at December 31, 2007, up from 9.7 million at December 31, 2006, an increase of 20.7%. The total number of Internet customers (broadband and low-speed) was 13.1 million at December 31,

2007, up 6.7% compared with December 31, 2006 (0.8 million additional customers).

On a **comparable basis**, the number of France Telecom group customers through controlled companies rose 9.2% between December 31, 2006 and December 31, 2007, while the number of mobile telephony and Internet customers was up 15.3% and 8.7% respectively in relation to December 31, 2006.

2.1.2 Operating expenses

Operating expenses included in the GOM (referred to hereinafter as OPEX, see Section 5.6 "Financial glossary") amount to 33.843 billion euros in 2007. Compared to revenues, operating expenses included in the GOM are down 0.2 points, passing from 64.1% of revenues in 2006, on a historical basis as well as on a comparable basis, to 63.9% of revenues in 2007.

2.1.2.1 OPEX excluding labour expenses (wages and employee benefit expenses)

		Years ended December 31			
(in millions of euros)	2007	2006 comparable basis ⁽¹⁾	2006 historical basis	Change (%) comparable basis ⁽¹⁾	Change (%) historical basis
External purchases⁽²⁾	(23,156)	(22,681)	(22,809)	2.1%	1.5%
<i>In % of revenues</i>	43.7%	44.0%	44.1%		
Commercial expenses ⁽²⁾	(8,082)	(7,769)	(7,780)	4.0%	3.9%
Services fees and inter-operator costs	(7,895)	(7,938)	(8,053)	(0.5)%	(2.0)%
Other external purchases ⁽²⁾	(7,179)	(6,974)	(6,976)	3.0%	2.9%
Other operating incomes and expenses	(1,920)	(1,707)	(1,762)	12.5%	8.9%
<i>In % of revenues</i>	3.6%	3.3%	3.4%		
OPEX excluding labour expenses (wages and employee benefit expenses)⁽²⁾	(25,076)	(24,388)	(24,571)	2.8%	2.1%
<i>In % of revenues</i>	47.4%	47.3%	47.5%		

(1) Unaudited data. See Section 5.1 "Transition from data on a historical basis to data on a comparable basis".

(2) See Section 5.6 "Financial glossary".

Operating expenses excluding labour expenses (wages and employee benefit expenses) included in the GOM (see Section 5.6 "Financial glossary") amount to 25.076 billion euros in 2007. Compared to revenues, operating expenses excluding labour expenses (wages and employee benefit expenses) are globally stable, at 47.4% of revenues in 2007, compared to 47.5% in 2006 on a historical basis and 47.3% on a comparable basis.

On a **historical basis**, operating expenses excluding labour expenses (wages and employee benefit expenses) rose 2.1%, i.e. an additional cost of 505 million euros between 2006 and 2007. This increase notably factored in the positive impact of foreign exchange rate fluctuations (102 million euros) and the

favorable impact of the changes in scope of consolidation and other changes (81 million euros).

On a **comparable basis**, operating expenses excluding labour expenses (wages and employee benefit expenses) rose 2.8% between 2006 and 2007, which represents an additional cost of 688 million euros. External purchases (see Section 5.6 "Financial glossary"), which represent 92% of operating expenses excluding labour expenses (wages and employee benefit expenses) in 2007, experienced limited growth of 2.1% between the two years, with other operating expenses (net of other operating incomes) increasing 12.5%.

■ External purchases

External purchases amount to 23.156 billion euros in 2007, i.e. 43.7% of revenues. Between 2006 and 2007, external purchases compared to revenues are down 0.4 points on a historical basis (0.3 points on a comparable basis).

On a **historical basis**, a degradation of 1.5%, i.e. 347 million euros, in external purchases between 2006 and 2007 includes the favorable impact in foreign exchange rate fluctuations (102 million euros) as well as the positive impact of changes in the scope of consolidation and other changes (27 million euros).

On a **comparable basis**, external purchases rose 2.1% between 2006 and 2007, with this growth driven primarily by the 4.0% increase in commercial expenses (see Section 5.6 "Financial glossary"). In accordance with the objective announced for 2007, this increase remains controlled, with a ratio of commercial expenses to revenues of 15.3% in 2007, up slightly compared to 2006 (15.1%). Moreover, service fees and inter-operator costs have decreased 0.5% in particular due to the impact of the reductions in call termination rates and better control of abundance offers. In relation to revenues, the share of service fees and inter-operator costs has thus dropped 15.4% in 2006 to 14.9% in 2007. Finally, the 3.0% increase in other external purchases (see Section 5.6 "Financial glossary") is primarily linked to the increase in call center outsourcing fees. Compared to revenues, other external purchases are globally stable between the two years, at 13.6% in 2007 compared to 13.5% in 2006. In the end, the increase in external purchases between 2006 and 2007 (an increase of 2.1%) was kept under control with regards to the growth in revenues (up 2.8%).

■ Other operating incomes and expenses

In 2007, other operating expenses (net of other operating incomes) amount to 1.92 billion euros, representing 3.6% of

revenues. Between 2006 and 2007, other operating expenses (net of other operating incomes) are up 8.9% on a historical basis and up 12.5% on a comparable basis.

On a **historical basis**, the 158 million euros additional expense in other operating expenses (net of other operating incomes) between 2006 and 2007 includes the positive impact of changes in the scope of consolidation and other changes (55 million euros), with foreign exchange rate fluctuations amounting to zero between the two years.

On a **comparable basis**, the 213 million euros additional expense in other operating expenses (net of other operating incomes) is explained primarily by, i) the recognition in 2006 of a provision reversal for 129 million euros relating to post-employments benefits for France Telecom group employees following the transfer of the Group's social welfare benefits to the Works Council (see Notes 3, 6 and 26 to the consolidated financial statements), and ii) an income corresponding to a settlement indemnity relating to the Group's activities in Lebanon for 22 million euros in 2007 compared to 74 million euros in 2006.

2.1.2.2 Labour expenses (wages and employee benefit expenses)

Labour expenses (wages and employee benefit expenses) included in the GOM (see Section 5.6 "Financial glossary") do not include employee profit-sharing and share-based compensation (see Section 2.2 "From Group gross operating margin to operating income").

Between 2006 and 2007, labour expenses (wages and employee benefit expenses) compared to revenues are stable on a historical basis. On a comparable basis, labour expenses (wages and employee benefit expenses) have dropped 0.2 points, from 16.8% of revenues in 2006 to 16.6% of revenues in 2007.

		Years ended December 31			
LABOUR EXPENSES (WAGES AND EMPLOYEE BENEFIT EXPENSES) AND NUMBER OF EMPLOYEES		2006 comparable basis ⁽¹⁾	2006 historical basis	Change (%) comparable basis ⁽¹⁾	Change (%) historical basis
	2007				
Labour expenses (wages and employee benefit expenses) ^{(2) (3)}					
France Telecom S.A.	(5,329)	(5,442)	(5,379)	(2,1) %	(0,9) %
Subsidiaries in France	(640)	(554)	(514)	15,6 %	24,4 %
France total	(5,969)	(5,996)	(5,893)	(0,5) %	1,3 %
Internationales subsidiaries	(2,798)	(2,671)	(2,699)	4,8 %	3,7 %
GROUP TOTAL	(8,767)	(8,667)	(8,592)	1,2 %	2,0 %
<i>In % of revenues</i>	16,6 %	16,8 %	16,6 %		
Average number of employees (full-time equivalent) ⁽²⁾					
France Telecom S.A.	95,858	101,664	100,601	(5,7) %	(4,7) %
Subsidiaries in France	8,677	9,213	8,867	(5,8) %	(2,1) %
France total	104,535	110,877	109,468	(5,7) %	(4,5) %
Internationales subsidiaries	79,264	80,466	79,560	(1,5) %	(0,4) %
GROUP TOTAL	183,799	191,343	189,028	(3,9) %	(2,8) %
Number of employees (active employees at end of period) ⁽²⁾					
France Telecom S.A.	97,355	100,986	99,902	(3,6) %	(2,5) %
Subsidiaries in France	8,817	9,191	8,986	(4,1) %	(1,9) %
France total	106,172	110,177	108,888	(3,6) %	(2,5) %
Internationales subsidiaries	81,159	81,847	82,148	(0,8) %	(1,2) %
GROUP TOTAL	187,331	192,024	191,036	(2,4) %	(1,9) %

(1) Unaudited data. See Section 5.1 «Transition from data on a historical basis to data on a comparable basis».

(2) See Section 5.6 «Financial glossary».

(3) In millions of euros.

On a **historical basis**, labour expenses (wages and employee benefit expenses) for the Group increased 2,0%, i.e. a degradation of 175 million euros, between 2006 and 2007, amounting to 8.767 billion euros in 2007, compared to 8.592 billion euros in 2006. This increase can be explained primarily by the negative impact of changes in the scope of consolidation and other changes (92 million euros, corresponding primarily to the impact of the acquisition of the Groupe Silicomp in France), partially offset by the favorable impact of foreign exchange rate fluctuations (17 million euros).

On a **comparable basis**, labour expenses (wages and employee benefit expenses) are up 1.2%, or an additional cost of 100 million euros, between the two years, changing from 8.667 billion euros in 2006 to 8.767 billion euros in 2007. This 1.2% increase in labour expenses (wages and employee benefit expenses) between 2006 and 2007 is the result of i) a 5.2% increase for the change in the average unit cost, partially offset by ii) a 3.9% reduction for the volume effect, linked to the reduction in the Group's average number of employees, representing a decrease of 7,544 employees (full-time equivalents), and by iii) a 0.1% reduction for the structural effect, reflecting the difference between the average cost and the actual cost recorded for Group arrivals and departures.

2.1.3 Gross operating margin

On a **historical basis**, the France Telecom group's GOM is up 3.1% compared to 2006, representing 577 million euros, amounting to 19.116 billion euros in 2007. Between the two years, the increase in the Group's GOM includes the negative impact of the foreign exchange rate fluctuations amounting to 63 million euros, partially offset by the favorable impact of changes in the scope of consolidation and other changes, representing 10 million euros.

On a **comparable basis**, the Group's GOM is up 3.4%, i.e. 630 million euros, changing from 18.486 billion euros in 2006 to 19.116 billion euros in 2007. This increase can be explained:

- by the 5.8% increase in PCS GOM, driven primarily by the 11.4% increase in PCS Rest of the world GOM (314 million euros) and by the 17.1% increase in PCS Poland GOM (122 million euros). This increase reflects the strong growth in mobile telephony activities, supported by dynamic growth in the customer base, as well as controlling operating expenses included in the GOM, in particular external purchases and labour expenses (wages and employee benefit expenses), which is not increasing as fast as revenues are;
- and by the 2.1% increase in HCS GOM linked to the 8.9% increase in the HCS France GOM. This improvement in France is the result of the combined effect of the drop in operating expenses included in the GOM and the increase in revenues.

I - group management report

ANALYSIS OF THE GROUP'S INCOME STATEMENT AND CAPITAL EXPENDITURES

From Group gross operating margin to operating income

The drop in operating expenses included in the GOM can be explained primarily by the sharp drop in service fees and inter-operator costs (primary effect of the drop in call termination rates). On the other hand, the change in HCS GOM between the two years is impacted primarily by the 18.2% drop in HCS Poland GOM, primarily due to the downturn in traditional telephone services (traditional telephone subscriptions and communications).

These changes however are partially offset by the drop, on a comparable basis, of 5.1% in ECS GOM between 2006 and

2007, i.e. 72 million euros. This drop reflects the transformation of the ECS economic model with, i) downward pressure on network activity margin linked with stiffened competitive pressure internationally and the transformation over to IP solutions, and ii) the growing share in service activities.

In the end, the ratio of GOM to revenues came out at 36.1% for 2007, which is an increase of 0.2 points compared to 2006 on a historical basis as well as on a comparable basis, thus exceeding the announced target of near stabilization for this ratio in 2007 compared to 2006.

2.2 FROM GROUP GROSS OPERATING MARGIN TO OPERATING INCOME

		Years ended December 31			
(in millions of euros)	2007	2006 comparable basis ⁽¹⁾	2006 historical basis	Change (%) comparable basis ⁽¹⁾	Change (%) historical basis
GOM	19,116	18,486	18,539	3.4%	3.1%
Employee profit-sharing	(359)	-	(346)	-	3.9%
Share-based compensation	(279)	-	(30)	-	ns
Depreciation and amortization	(8,111)	(7,827)	(7,824)	3.6%	3.7%
Impairment of goodwill	(26)	-	(2,800)	-	(99.1)%
Impairment of non-current assets	(107)	-	(105)	-	2.3%
Gains (losses) on disposal of assets	769	-	97	-	ns
Restructuring costs	(208)	-	(567)	-	(63.3)%
Share of profits (losses) of associates	4	-	24	-	(82.8)%
Operating income	10,799	-	6,988	-	54.5%

(1) Unaudited data. See Section 5.1 "Transition from data on a historical basis to data on a comparable basis".

■ Share-based compensation

(in millions of euros)	Years ended December 31	
	2007	2006 historical basis
SHARE-BASED COMPENSATION⁽¹⁾		
Free share award plan ⁽²⁾	(149)	-
Employee shareholding plan ⁽²⁾	(107)	-
Stock-option plans	(23)	(30)
GROUP TOTAL	(279)	(30)

(1) See Notes 6 and 27 to the consolidated financial statements.

(2) See Section 1. "Overview".

■ Depreciation and amortization

(in millions of euros)

		Years ended December 31			
		2006 comparable basis ⁽¹⁾	2006 historical basis	Change (%) comparable basis ⁽¹⁾	Change (%) historical basis
DEPRECIATION AND AMORTIZATION	2007				
Personal Communication Services (PCS)	(4,456)	(4,082)	(4,183)	9.1%	6.5%
Home Communication Services (HCS)	(3,238)	(3,351)	(3,241)	(3.4)%	(0.1)%
Enterprise Communication Services (ECS)	(420)	(397)	(402)	5.6%	4.3%
Eliminations	3	3	2	-	-
GROUP TOTAL	(8,111)	(7,827)	(7,824)	3.6%	3.7%

(1) Unaudited data. See Section 5.1 "Transition from data on a historical basis to data on a comparable basis".

Compared to revenues, depreciation and amortization are up slightly, changing from 15.1% in 2006 on a historical basis (15.2% on a comparable basis) to 15.3% in 2007.

On a **historical basis**, depreciation and amortization increased 3.7% between 2006 and 2007, representing an additional expense of 287 million euros.

On a **comparable basis**, depreciation and amortization increased 3.6% (an additional cost of 284 million euros) between

2006 and 2007, and amounted to 8.111 billion euros in 2007. This increase resulted primarily from the impact of accelerated depreciation for certain fixed assets, especially for PCS France, and from the increase in depreciation and amortization of customer bases, primarily in Spain. Beyond these impacts, the end of amortization for certain assets between 2006 and 2007 completely offset the increase in capital expenditures on tangible and intangible assets excluding licenses since 2004.

■ Impairment of goodwill

(in millions of euros)

		Years ended December 31	
		2007	2006 historical basis
IMPAIRMENT OF GOODWILL⁽¹⁾			
PCS in the United Kingdom	-	(2,350)	
TP Group ⁽²⁾	-	(275)	
PCS in Netherlands	-	(175)	
Other	(26)	-	
GROUP TOTAL	(26)	(2,800)	

(1) See Note 7 to the consolidated financial statements.

(2) PCS Poland and HCS Poland sub-segments.

In **2007**, the impairment loss of goodwill is 26 million euros.

In **2006**, the impairment loss recognized on the Personal Communication Services cash generating unit in the United Kingdom (2.35 billion euros) primarily stemmed from the change in the level at which return on investment was monitored. The allocation of goodwill on the former Orange sub-group has significantly increased the net book value of the assets comprising this CGU. The impairment loss of 175 million euros recognized in 2006 taken against on the Personal

Communication Services in the Netherlands stems from the same source. For Poland, the impairment loss of 275 million euros booked in 2006 is based on the business plan prepared by the company's management and stems from an increase in the discount rate to 11.3% (against 9.5% for fixed-line and 10.5% for mobile in the past), to take account of the uncertainty generated by the local regulatory environment, with long-term growth rates remaining unchanged: 0% for fixed-line activities and 3% for mobile activities (see Note 7 to the consolidated financial statements).

I - group management report

ANALYSIS OF THE GROUP'S INCOME STATEMENT AND CAPITAL EXPENDITURES

From Group gross operating margin to operating income

■ Gains (losses) on disposal of assets

(in millions of euros)

	Years ended December 31	
	2007	2006 historical basis
GAINS (LOSSES) ON DISPOSAL OF ASSETS⁽¹⁾		
Sale of Tower Participations (company holding TDF) ⁽²⁾	307	-
Sale of 100% of Orange's mobile and Internet businesses in the Netherlands (2)	299	-
Sale of 20% of Bluebirds Participations France (company holding Eutelsat Communications) ⁽²⁾	104	-
Sale of 17.5% of One GmbH (share restructuring) ⁽²⁾	36	-
Sale of 20% of Ypso Holding (cable network activities)	-	84
Sale of 100% of France Telecom Mobile Satellite Communications (FTMSC)	-	10
Dilution impacts	-	25
Sales of property, plant and equipment and intangible assets	20	(24)
Other	3	2
GROUP TOTAL	769	97

(1) See Notes 4 and 8 to the consolidated financial statements.

(2) See Section 1. "Overview".

On October 11, 2006, France Telecom sold its entire 54% interest in PagesJaunes Groupe to Médiannuaire, a subsidiary of Kohlberg Kraus Roberts & Co Ltd (KKR), for 3.287 billion euros (net of disposal costs). In 2006, the gain on the disposal, which amounted to 2.983 billion euros, was reported under

consolidated net income after tax of discontinued operations (see Section 2.3.4 "Consolidated net income after tax of discontinued operations" and Note 4 to the consolidated financial statements).

■ Restructuring costs

(in millions of euros)

	Years ended December 31	
	2007	2006 historical basis
RESTRUCTURING COSTS⁽¹⁾		
Public service secondment costs ⁽²⁾	(66)	(47)
Early retirement plan ⁽³⁾	19	(280)
Contributions to the Works' Committee in respect of early retirement plans	-	(13)
Other restructuring costs ⁽⁴⁾	(161)	(227)
GROUP TOTAL	(208)	(567)

(1) See Notes 9 and 28 to the consolidated financial statements.

(2) Also see Note 32 to the consolidated financial statements.

(3) Impact of the change in the discount rate in 2007. Also see Notes 2, 11 and 32 to the consolidated financial statements.

(4) Including, i) in 2007, France Telecom S.A. for 97 million euros, and ii) in 2006, TP S.A. for 74 million euros and Orange in the United Kingdom for 39 million euros.

■ Operating income

The France Telecom group's operating income came to 10.799 billion euros in 2007, compared with 6.988 billion euros in 2006 on a historical basis, up 54.5%. This 3.811 billion euros

increase between the two years primarily reflected the scale of the impairment of goodwill in 2006 (2.8 billion euros, compared with 26 million euros in 2007), the upturn in gains on disposal of assets (672 million euros) as well as the increase in GOM (577 million euros).

2.3 FROM GROUP OPERATING INCOME TO NET INCOME

(in millions of euros)	Years ended December 31	
	2007	2006 historical basis
Operating income	10,799	6,988
Interest expenses, net	(2,521)	(3,155)
Foreign exchange gains (losses)	(4)	26
Discounting expense	(125)	(122)
Finance costs, net	(2,650)	(3,251)
Income tax	(1,330)	(2,180)
Consolidated net income after tax of continuing operations	6,819	1,557
Consolidated net income after tax of discontinued operations	-	3,211
Consolidated net income after tax	6,819	4,768
Net income attributable to equity holders of France Telecom S.A.	6,300	4,139
Minority interests	519	629

2.3.1 Finance costs, net

The finance costs, net came to 2.650 billion euros in 2007, representing an improvement of 601 million euros compared to 2006 (3.251 billion euros). This improvement reflected the drop in interest expenses, net, representing a gain of 634 million euros between 2006 and 2007, partially offset by the unfavorable change in foreign exchange differences (30 million euros) between the two fiscal years.

France Telecom's policy is not to engage in speculative transactions when using financial derivative instruments (see Section 4.3.3 "Exposure to market risks and financial instruments" and Note 24 to the consolidated financial statements). Likewise, in terms of investments, France Telecom has a prudent management policy. The return on France Telecom S.A.'s investments stand at capitalized EONIA +11 basis points in 2007 (compared to capitalized EONIA +4 basis points in 2006).

■ Indicators for interest expenses, net

(in millions of euros)	Years ended December 31		
	2007	2006 historical basis	Change historical basis
Interest expenses, net	(2,521)	(3,155)	634
Net financial debt at end of period ⁽¹⁾	37,980	42,017	(4,037)
Average outstandings of net financial debt over the period	37,884	44,402	(6,518)
Weighted average cost of net financial debt	6.46%	5.91%	-

(1) See Section 5.6 "Financial glossary" and Note 20 to the consolidated financial statements.

The weighted average cost of net financial debt is calculated as the ratio of interest expenses, net, less exceptional and non-recurring items, to the average outstanding amount, calculated based on net financial debt adjusted for the amounts that do not give rise to interest, such as accrued interest payable

and liabilities related to commitments to purchase minority interests.

The change in net financial debt for France Telecom is described in Section 4.3 "Financial debt and financing resources".

■ Change in interest expenses, net

(in millions of euros)	Years ended December 31
Interest expenses, net for 2006 (historical basis)	(3,155)
Decrease factors:	
Decrease in average outstandings of net financial debt over the period	385
Decrease in change in fair value of the price guarantee given to FT España minority shareholders (zero in 2007 versus -258 million euros in 2006) ⁽¹⁾	258
Adjustment in fair value of a bond issue (an item specific to 2006) ⁽²⁾	189
Increase factors:	
Increase in weighted average cost of net financial debt	(208)
Other items	10
Interest expenses, net for 2007	(2,521)

(1) See Notes 10, 20 and 32 to the consolidated financial statements.

(2) See Note 10 to the consolidated financial statements.

2.3.2 Income tax

(in millions of euros)	Years ended December 31	
INCOME TAX ⁽¹⁾	2007	2006 historical basis
Current taxes	(609)	(591)
Deferred taxes	(721)	(1,589)
GROUP TOTAL	(1,330)	(2,180)

(1) See Note 11 to the consolidated financial statements.

Income tax represents an expense of 1.330 billion euros in 2007, compared to an expense of 2.180 billion euros in 2006, due primarily to the 868 million euros drop in the Group's deferred tax charge. This drop primarily stems from the 756 million euros decrease in the deferred tax charge for the France tax group between 2006 and 2007 (see Note 11 to the consolidated financial statements).

euros included the recognition of the sale of all of the stakes in PagesJaunes Groupe, which represents 2.983 billion euros, and the net income from PagesJaunes Groupe before it was sold, representing 228 million euros (see Note 4 to the consolidated financial statements).

2.3.3 Consolidated net income after tax of continuing operations

Consolidated net income after tax of continuing operations came to 6.819 billion euros in 2007, up from 1.557 billion euros in 2006. This 5.262 billion euros increase between the two periods was the result of the increase in operating income (3.811 billion euros), the reduction in income tax expenses (850 million euros) and the improvement in finance costs, net (601 million euros).

2.3.4 Consolidated net income after tax of discontinued operations

No consolidated net income after tax from discontinued operations was booked in 2007. In 2006, consolidated net income after tax from discontinued operations of 3.211 billion

2.3.5 Consolidated net income after tax

The France Telecom group's consolidated net income after tax totaled 6.819 billion euros in 2007, up 2.051 billion euros compared with the 4.768 billion euros recorded in 2006. The increase in consolidated net income after tax of continuing operations between the two years (5.262 billion euros) accounted for this growth, which was partially offset by the absence of consolidated net income after tax of discontinued operations in 2007 (compared to 3.211 billion euros, after income from the disposal of a 54% stake in PagesJaunes Groupe was recognized in 2006).

Minority interests represented 519 million euros in 2007, compared with 629 million euros in 2006.

After factoring in minority interests, net income attributable to France Telecom S.A. equity holders rose from 4.139 billion euros in 2006 to 6.300 billion euros in 2007, up 2.161 billion euros.

2.4 GROUP CAPITAL EXPENDITURES

2.4.1 Capital expenditures

(in millions of euros)

		Years ended December 31			
		2006 comparable basis ⁽¹⁾	2006 historical basis	Change (%) comparable basis ⁽¹⁾	Change (%) historical basis
	2007				
CAPEX ⁽²⁾⁽³⁾	6,979	6,721	6,732	3.8%	3.7%
CAPEX/Revenues	13.2%	13.0%	13.0%		
Telecommunication licenses ⁽³⁾	85	283	283	(70.0)%	(70.0)%
Financial investments ⁽²⁾	1,117	-	255	-	ns

(1) Unaudited data. See Section 5.1 "Transition from data on a historical basis to data on a comparable basis".

(2) See Section 5.6 "Financial glossary".

(3) See Note 3 to the consolidated financial statements.

2.4.1.1 Capital expenditures on tangible and intangible assets excluding telecommunication licenses

On a comparable basis, the 3.8% increase in capital expenditures on tangible and intangible assets excluding licenses (see

Section 5.6 "Financial glossary" between 2006 and 2007, can be explained by the increase in investment expense in growing markets, which increased by 285 million euros between 2006 and 2007.

(in millions of euros)

		Years ended December 31			
		2006 comparable basis ⁽¹⁾	2006 historical basis	Change (%) comparable basis ⁽¹⁾	Change (%) historical basis
	2007				
CAPEX					
Personal Communication Services (PCS)	3,493	3,413	3,581	2.4%	(2.5)%
Home Communication Services (HCS)	3,080	2,879	2,721	7.0%	13.2%
Enterprise Communication Services (ECS)	406	429	430	(5.3)%	(5.5)%
GROUP TOTAL	6,979	6,721	6,732	3.8%	3.7%

(1) Unaudited data. See Section 5.1 "Transition from data on a historical basis to data on a comparable basis"

In 2007, the ratio of capital expenditures on tangible and intangible assets excluding licenses to revenues were 13.2% (compared to 13.0% in 2006, on a historical basis as well as on a comparable basis), in line with the objective announced to maintain this ratio in 2007 at the level for 2006.

On a **historical basis**, the 3.7% increase in capital expenditures on tangible and intangible assets excluding licenses between 2006 and 2007, representing 247 million euros, includes the negative impact of foreign exchange rate fluctuations, amounting to 17 million euros, partially offset by the favorable impact of changes in the scope of consolidation and other changes, amounting to 6 million euros between the two years.

On a **comparable basis**, the increase in capital expenditures on tangible and intangible assets excluding licenses reached

3.8% between 2006 and 2007, representing an increase of 258 million euros. This increase is due primarily to:

- the increase in investments in the mobile subsidiaries of PCS Rest of the world, primarily in mobile networks (up 160 million euros), in line with the strong growth of these subsidiaries;
- the 140 million euros increase in the Group's IT investments, concerning the customer and billing area for the most part;
- and the 64 million euros increase in HCS France's investments in the fixed-line networks (equipment pertaining to transmission in order to handle the increase in speeds and also to develop the ADSL digital television offer).

On the other hand, investments in the mobile networks are down 180 million euros in France, the United Kingdom and Spain, since the networks in these countries have been completed.

2.4.1.2 Telecommunication licenses

(in millions of euros)

		Years ended December 31			
		2006 comparable basis ⁽¹⁾	2006 historical basis	Change (%) comparable basis ⁽¹⁾	Change (%) historical basis
TELECOMMUNICATION LICENSES	2007				
Orange Niger ⁽²⁾	48	-	-	-	-
Orange Guinea ⁽²⁾	20	-	-	-	-
Orange Central African ⁽²⁾	9	-	-	-	-
Orange Bissau ⁽²⁾	5	-	-	-	-
Orange France ⁽³⁾	-	281	281	-	-
Other	3	2	2	50.0%	50.0%
GROUP TOTAL	85	283	283	(70.0)%	(70.0)%

(1) Unaudited data. See Section 5.1 "Transition from data on a historical basis to data on a comparable basis".

(2) See Section 1. "Overview".

(3) Updated amount of the fixed portion of the renewal of the Orange France GSM license for 15 years.

2.4.1.3 Financial investments

Financial investments (see Section 5.6 "Financial glossary" and Note 4 to the consolidated financial statements) are described in Section 4.1 "Liquidity and cash flows".

2.4.2 Investment commitments

Investment commitments are described in Note 32 to the consolidated financial statements.

2.4.3 Investment projects

■ FTTH

After completing the pilot phase, France Telecom undertook the pre-deployment phase in 2007 for its Very High Speed network in France. The decision for the wide-scale deployment of Very High Speed services from 2009 onwards is expected to be taken in 2008, in light of regulatory and market conditions, with the Group's strategy in terms of optical fiber being to invest where customer use justifies it.

The FTTH (Fiber To The Home) pilot phase conducted in 2006 has confirmed France Telecom's technological choices. This phase has in particular enabled the Group to better pinpoint the practical conditions for optimum deployment of optical fiber, putting its technological choices to the test and identifying the needs of its customers.

The pre-deployment phase will run from 2007 to 2008 and aims to connect between 150,000 and 200,000 customers up to fiber out of a total base of over one million connectable customers by the end of 2008. Investments over 2007 - 2008 are expected to represent some 270 million euros, which is in line with the "NEXT" plan (New Experience in Telecommunications).

The Consumer deployment phase of this project is planned to start in 2009. Indeed, the development of a mass Very High Speed market means that the equipment segment as well as

operators and service and content providers are going to have to adapt. The Group believes that it will take at least two years for this change to take place, enabling Very High Speed to become a mass consumer market. In a regulatory environment that is well on the way to being clarified, Orange will be able to develop a range of Very High Speed services for its customers, creating value for the Group.

■ HSDPA

HSDPA (High Speed Downlink Packet Access), often called 3G+, is an UMTS development (also called 3G), that allows downlink speeds to be increased. Deployment was launched in France in September 2006, and at the end of 2007 covered 66% of the population, corresponding to UMTS coverage. HSDPA technology improves customer usage in terms of speed and reduces the cost/Mbit in high-demand areas. Deployment is also underway in Slovakia, Belgium, Spain, Poland and the United Kingdom.

■ IMS

After the NGN infrastructure (NEXT Generation Network, infrastructure operating on a separation of transport and network and services control functions) deployed in France since 2004 to support the "Voice over IP" offering, France Telecom now intends to deploy a network and services control architecture based on IMS (IP Multimedia Subsystem). This IMS architecture, which takes advantage of major efforts in standardization, allows for the progressive convergence of fixed-line and mobile networks and allows services to be deployed faster. Implementing an IMS-equipped NGN will start in the second half of 2008 in Spain.

IMS deployment will require new investments. Sharing a common IMS core between the fixed-line and mobile networks, for all residential customer and business services, should create the conditions for savings in costs and investment for service development.

These various investment projects are in line with the Group's overall strategy, and are also compatible with the objective of a ratio of capital expenditures in tangible and intangible assets excluding licenses to revenues of about 13%.

3. analysis by business segment

■ Presentation of the business segments

The organization for France Telecom's operational management is now built around i) business lines (personal, home, enterprise), and ii) integrated management teams at country level. Within this context, and in accordance with IAS 14 "Segment Reporting", the Group has defined the following three business segments as the first level of segment reporting:

- the **"Personal Communication Services"** (referred to hereinafter as "PCS") segment covers mobile telecommunications services activities in France, the United Kingdom, Spain, Poland, and in the Rest of the world. It includes the entire Orange subsidiaries, as well as the mobile telephony business of FT España in Spain, TP Group in Poland (with its subsidiary PTK Centertel), and that of the Group's other international companies;
- the **"Home Communication Services"** (referred to hereinafter as "HCS") segment covers the fixed-line telecommunications services activities (fixed-line telephony, Internet services, and services to operators) in France, Poland and in the Rest of the world, as well as the distribution activities and support

functions provided to other business segments of the France Telecom group;

- the **"Enterprise Communication Services"** (referred to hereinafter as "ECS") segment covers business communication solutions and services in France and around the world.

Each of the business segments defined by the Group has its own resources, although they may also share certain resources in the areas of networks and information systems, research and development, distribution networks and other shared competencies (see Note 3 to the consolidated financial statements).

■ Sale of PagesJaunes Groupe

Following the France Telecom group's disposal of PagesJaunes announced on July 26, 2006 and finalized on October 11, 2006, PagesJaunes Groupe has been presented as a discontinued operation as required by IFRS 5 for 2006. Consequently, the main impacts of the disposal of PagesJaunes, a condensed income statement and net cash flows relating to PagesJaunes are described in Note 4 to the consolidated financial statements.

I - group management report

ANALYSIS BY BUSINESS SEGMENT

(in millions of euros)

Years ended December 31

2007	PCS	HCS	ECS	Eliminations & unallocated items	Group total
Revenues	29,119	22,671	7,721	(6,552)	52,959
external	28,144	17,548	7,267	-	52,959
inter-segment	975	5,123	454	(6,552)	-
GOM	9,977	7,799	1,343	(3)	19,116
Employee profit-sharing	(65)	(268)	(26)	-	(359)
Share-based compensation	(18)	(232)	(29)	-	(279)
Depreciation and amortization	(4,456)	(3,238)	(420)	3	(8,111)
Impairment of goodwill	-	(26)	-	-	(26)
Impairment of non-current assets	(8)	(6)	(93)	-	(107)
Gains (losses) on disposal of assets	-	-	-	769	769
Restructuring costs	(27)	(153)	(28)	-	(208)
Share of profits (losses) of associates	4	-	-	-	4
Operating income					10,799
allocated by business segment	5,407	3,876	747	-	10,030
not allocable	-	-	-	769	769
CAPEX	3,493	3,080	406	-	6,979
Telecommunication licenses	85	-	-	-	85
Average number of employees	35,427	129,168	19,204	-	183,799
2006 (COMPARABLE BASIS)⁽¹⁾					
Revenues	27,538	22,725	7,689	(6,411)	51,541
external	26,553	17,733	7,255	-	51,541
inter-segment	985	4,992	434	(6,411)	-
GOM	9,434	7,641	1,414	(3)	18,486
Employee profit-sharing	-	-	-	-	-
Share-based compensation	-	-	-	-	-
Depreciation and amortization	(4,082)	(3,351)	(397)	3	(7,827)
Impairment of goodwill	-	-	-	-	-
Impairment of non-current assets	-	-	-	-	-
Gains (losses) on disposal of assets	-	-	-	-	-
Restructuring costs	-	-	-	-	-
Share of profits (losses) of associates	-	-	-	-	-
Operating income					-
allocated by business segment	-	-	-	-	-
not allocable	-	-	-	-	-
CAPEX	3,413	2,879	429	-	6,721
Telecommunication licenses	283	-	-	-	283
Average number of employees	35,608	137,004	18,731	-	191,343
2006 (HISTORICAL BASIS)					
Revenues	27,745	22,487	7,652	(6,182)	51,702
external	26,770	17,701	7,231	-	51,702
inter-segment	975	4,786	421	(6,182)	-
GOM	9,686	7,265	1,590	(2)	18,539
Employee profit-sharing	(71)	(252)	(23)	-	(346)
Share-based compensation	(13)	(14)	(3)	-	(30)
Depreciation and amortization	(4,183)	(3,241)	(402)	2	(7,824)
Impairment of goodwill	(2,525)	(275)	-	-	(2,800)
Impairment of non-current assets	(31)	(72)	(2)	-	(105)
Gains (losses) on disposal of assets	-	-	-	97	97
Restructuring costs	(68)	(474)	(25)	-	(567)
Share of profits (losses) of associates	-	24	-	-	24
Operating income					6,988
allocated by business segment	2,795	2,961	1,135	-	6,891
not allocable	-	-	-	97	97
CAPEX	3,581	2,721	430	-	6,732
Telecommunication licenses	283	-	-	-	283
Average number of employees	37,214	134,447	17,367	-	189,028

(1) Unaudited data. See Section 5.1 "Transition from data on a historical basis to data on a comparable basis".

3.1 PERSONAL COMMUNICATION SERVICES (PCS)

(in millions of euros)

Years ended December 31

PERSONAL COMMUNICATION SERVICES (PCS)	2007	2006 comparable basis ⁽¹⁾	2006 historical basis	Change (%) comparable basis ⁽¹⁾	Change (%) historical basis
PCS					
Revenues	29,119	27,538	27,745	5.7%	5.0%
GOM	9,977	9,434	9,686	5.8%	3.0%
GOM/Revenues	34.3%	34.3%	34.9%		
CAPEX	3,493	3,413	3,581	2.4%	(2.5)%
CAPEX/Revenues	12.0%	12.4%	12.9%		
Telecommunication licenses	85	283	283	(70.1)%	(70.1)%
Average number of employees	35,427	35,608	37,214	(0.5)%	(4.8)%
PCS France					
Revenues	9,998	9,885	9,882	1.1%	1.2%
GOM	3,861	3,742	3,831	3.2%	0.8%
GOM/Revenues	38.6%	37.9%	38.8%		
CAPEX	805	900	1,011	(10.6)%	(20.4)%
CAPEX/Revenues	8.0%	9.1%	10.2%		
Telecommunication licenses	-	281	281	-	-
Average number of employees	5,372	5,689	7,006	(5.6)%	(23.3)%
PCS United Kingdom					
Revenues	6,217	5,863	5,874	6.0%	5.8%
GOM	1,408	1,378	1,374	2.2%	2.4%
GOM/Revenues	22.6%	23.5%	23.4%		
CAPEX	501	476	481	5.3%	4.0%
CAPEX/Revenues	8.1%	8.1%	8.2%		
Telecommunication licenses	-	-	-	-	-
Average number of employees	11,035	11,542	11,583	(4.4)%	(4.7)%
PCS Spain					
Revenues	3,404	3,315	3,353	2.7%	1.5%
GOM	805	846	932	(4.9)%	(13.6)%
GOM/Revenues	23.6%	25.5%	27.8%		
CAPEX	464	554	554	(16.1)%	(16.1)%
CAPEX/Revenues	13.6%	16.7%	16.5%		
Telecommunication licenses	-	-	-	-	-
Average number of employees	1,888	2,080	2,080	(9.2)%	(9.2)%
PCS Poland					
Revenues	2,133	1,992	1,934	7.1%	10.3%
GOM	834	712	691	17.1%	20.6%
GOM/Revenues	39.1%	35.7%	35.7%		
CAPEX	335	289	281	15.6%	19.0%
CAPEX/Revenues	15.7%	14.5%	14.5%		
Telecommunication licenses	-	-	-	-	-
Average number of employees	3,206	3,161	3,161	1.4%	1.4%
PCS Rest of the world					
Revenues	7,550	6,701	6,920	12.7%	9.1%
GOM	3,071	2,756	2,857	11.4%	7.5%
GOM/Revenues	40.7%	41.1%	41.3%		
CAPEX	1,389	1,194	1,254	16.3%	10.7%
CAPEX/Revenues	18.4%	17.8%	18.1%		
Telecommunication licenses	85	2	2	na	na
Average number of employees	13,926	13,137	13,384	6.0%	4.0%

(1) Unaudited data. See Section 5.1 "Transition from data on a historical basis to data on a comparable basis".

The PCS segment covers mobile telecommunications services in France, the United Kingdom, Spain, Poland, and in the Rest of the world. It consists of five business sub-segments: i) the PCS France sub-segment, ii) the PCS United Kingdom sub-segment, iii) the PCS Spain sub-segment, with the FT España mobile business, iv) the PCS Poland sub-segment, with the subsidiary PTK Centertel, and v) the PCS Rest of the world sub-segment, covering international subsidiaries outside of France, the United Kingdom, Spain and Poland, i.e., primarily Belgium,

Moldavia, Romania, Slovakia and Switzerland, as well as outside Europe, in Egypt, Jordan, Botswana, Cameroon, Ivory Coast, Guinea, Guinea-Bissau, Equatorial Guinea, Mauritius, Madagascar, Mali, Senegal, Central African Republic and the Dominican Republic.

In October 2007, France Telecom sold Orange's mobile and Internet operations in the Netherlands (see Section 1. "Overview" and Note 4 to the consolidated financial statements).

3.1.1 Revenues - PCS

■ Revenues - PCS France

		Years ended December 31			
		2006 comparable basis ⁽¹⁾	2006 historical basis	Change (%) comparable basis ⁽¹⁾	Change (%) historical basis
PCS FRANCE	2007				
Revenues ⁽²⁾	9,998	9,885	9,882	1.1%	1.2%
Total number of customers ⁽³⁾	24,226	23,270	23,268	4.1%	4.1%
o/w Number of contract customers ⁽³⁾	15,699	14,716	14,714	6.7%	6.7%
o/w Number of prepaid customers ⁽³⁾	8,527	8,554	8,554	(0.3)%	(0.3)%
o/w Number of broadband customers ⁽³⁾	7,407	3,595	3,595	106.0%	106.0%
ARPU ⁽⁴⁾ (in euros)	398	410	410	(2.9)%	(2.9)%
AUPU ⁽⁴⁾ (in minutes)	198	189	189	4.6%	4.6%

(1) Unaudited data. See Section 5.1 "Transition from data on a historical basis to data on a comparable basis".

(2) In millions of euros.

(3) In thousands. At end of period.

(4) See Section 5.6 "Financial glossary".

On a **historical basis** as well as on a **comparable basis**, PCS France revenues have shown growth (up 1.1% on a comparable basis and 1.2% on a historical basis) between 2006 and 2007, linked to the 0.9% growth in the network revenues (see Section 5.6 "Financial glossary"). The development of revenues generated with MVNOs (mobile virtual network operators) also contributed significantly to this growth.

Excluding the impact of the reduction in call termination rates and the reductions in the roaming rates, revenues are up 4.9% in 2007 compared to 2006. This growth is due to:

- primarily the significant jump in the number of customers, which rose 4.1% to nearly 24.2 million at December 31, 2007, and the increase in the proportion of contract customers in

the total customer base, coming in at 64.8% at December 31, 2007, compared to 63.2% one year before;

- and the 14% increase in revenues generated by "non-voice" services (see Section 5.6 "Financial glossary"). In 2007, "non-voice" services revenues accounted for 17.3% of network revenues, compared with 15.3% in 2006.

The average use per customer (AUPU) (see Section 5.6 "Financial Glossary") was up 4.6% at December 31, 2007.

The average revenue per customer (ARPU) (see Section 5.6 "Financial Glossary") was down 2.9% at December 31, 2007, primarily due, on one hand, to the unfavorable impact of the decrease in "voice" and Short Messaging Service (SMS) call termination rates and on the other hand, to the drop in roaming rates. Excluding this impact, ARPU grew 0.9%.

■ Revenues - PCS United Kingdom

		Years ended December 31			
		2006 comparable basis ⁽¹⁾	2006 historical basis	Change (%) comparable basis ⁽¹⁾	Change (%) historical basis
PCS UNITED KINGDOM	2007				
Revenues ⁽²⁾	6,217	5,863	5,874	6.0%	5.8%
Total number of customers ⁽³⁾	15,642	15,333	15,333	2.0%	2.0%
o/w Number of contract customers ⁽³⁾	5,610	4,968	4,968	12.9%	12.9%
o/w Number of prepaid customers ⁽³⁾	10,032	10,365	10,365	(3.2)%	(3.2)%
o/w Number of broadband customers ⁽³⁾	1,798	931	931	93.1%	93.1%
ARPU ⁽⁴⁾ (in pounds sterling)	265	257	257	3.1%	3.1%
AUPU ⁽⁴⁾ (in minutes)	160	147	147	8.8%	8.8%

(1) Unaudited data. See Section 5.1 "Transition from data on a historical basis to data on a comparable basis".

(2) In millions of euros.

(3) In thousands. At end of period.

(4) See Section 5.6 "Financial glossary".

On a **historical basis**, revenues for the PCS UK are up 5.8% compared to 2006, amounting to 6.217 billion euros in 2007. This change is primarily the result of intrinsic growth in the PCS United Kingdom segment.

On a **comparable basis**, the PCS UK recorded revenues growth of 6.0% between the two years. Revenues excluding equipment revenues (see Section 5.6 "Financial glossary") are up 6.5%, due to:

- the 2.0% increase in the total number of customers between December 31, 2006 and December 31, 2007 (representing around 0.31 million additional customers between the two periods), with 15.64 million customers at December 31, 2007, versus 15.33 million one year earlier. This growth was driven

by the 12.9% increase in the number of contract customers (0.64 million additional customers between December 31, 2006 and December 31, 2007), in which the share in the total number of customers increased, coming in at 35.9% at December 31, 2007 compared to 32.4% at December 31, 2006;

- the strong growth in revenues from "non-voice" services, generated by greater use of Multimedia Messaging Service (MMS) and data services. In 2007, "non-voice" services revenues accounted for 21.7% of network revenues, compared with 20.2% in 2006;
- and "voice" traffic growth, with the AUPU up 8.8% at December 31, 2007 compared with December 31, 2006.

■ Revenues - PCS Spain

		Years ended December 31			
		2006 comparable basis ⁽¹⁾	2006 historical basis	Change (%) comparable basis ⁽¹⁾	Change (%) historical basis
PCS SPAIN	2007				
Revenues ⁽²⁾	3,404	3,315	3,353	2.7%	1.5%
Total number of customers ⁽³⁾	11,091	10,614	11,114	4.5%	(0.2)%
o/w Number of contract customers ⁽³⁾	5,956	5,420	5,420	9.9%	9.9%
o/w Number of prepaid customers ⁽³⁾	5,135	5,195	5,695	(1.2)%	(9.8)%
o/w Number of broadband customers ⁽³⁾	1,605	422	422	na	na
ARPU ⁽⁴⁾ (in euros)	303	308	301	(1.6)%	0.7%
AUPU ⁽⁴⁾ (in minutes)	145	132	128	9.8%	13.3%

(1) Unaudited data. See Section 5.1 "Transition from data on a historical basis to data on a comparable basis".

(2) In millions of euros.

(3) In thousands. At end of period.

(4) See Section 5.6 "Financial glossary".

On a **comparable basis**, the 2.7% revenues growth for the PCS Spain segment between 2006 and 2007 primarily resulted from the 4.5% increase on a comparable basis (excluding the impact of the 500,000 inactive customers removed from the prepaid offering in 2007) in the total number of customers which reached over 11 million at December 31, 2007, despite the impact of the end of the agreement with Euskaltel. The strategy carried out by PCS Spain is centered on customers with high added value, and has resulted in sharp growth of 9.9% in the number of contract customers while the number of prepaid customers was down slightly on a comparable basis between December 31, 2006 and December 31, 2007.

At the same time, the number of broadband customers was multiplied by four compared to December 31, 2006, coming in at 1.605 million customers on December 31, 2007.

The lower level of revenues growth compared with that in the number of contract customers over 2007 was due to the downturn in ARPU, due to rate reductions and the negative impact of the reduction in call termination rates and the drop in roaming rates, which were partially offset by the increase in AUPU. The latter was up 13.3% at December 31, 2007, favored by the value strategy carried out by PCS Spain and by the reduction in the average price for outgoing calls.

■ Revenues - PCS Poland

		Years ended December 31			
		2006 comparable basis ⁽¹⁾	2006 historical basis	Change (%) comparable basis ⁽¹⁾	Change (%) historical basis
PCS POLAND	2007				
Revenues ⁽²⁾	2,133	1,992	1,934	7.1%	10.3%
Total number of customers ⁽³⁾	14,158	12,521	12,521	13.1%	13.1%
o/w Number of contract customers ⁽³⁾	5,556	4,803	4,803	15.7%	15.7%
o/w Number of prepaid customers ⁽³⁾	8,603	7,719	7,719	11.5%	11.5%
o/w Number of broadband customers ⁽³⁾	223	81	81	175.3%	175.3%
ARPU ⁽⁴⁾ (en polish zlotys)	592	657	657	(9.9)%	(9.9)%
AUPU ⁽⁴⁾ (in minutes)	101	95	95	6.3%	6.3%

(1) Unaudited data. See Section 5.1 "Transition from data on a historical basis to data on a comparable basis".

(2) In millions of euros.

(3) In thousands. At end of period.

(4) See Section 5.6 "Financial glossary".

On a **historical basis**, the PCS Poland segment's revenues are up 10.3% between 2006 and 2007 to reach 2.133 billion euros in 2007. This growth notably reflected the favorable impact of foreign exchange rate fluctuations (58 million euros).

On a **comparable basis**, the 7.1% sustained on revenues growth was generated by the 13.1% sharp increase in the number of PTK Centertel customers compared to December 31, 2006 (with nearly 14.2 million customers at December 31,

2007) and by the 6.3% increase in the AUPU, driven by the new abundance offers. Conversely, the 9.9% reduction in ARPU between December 31, 2006 and December 31, 2007 primarily reflected the reduction in the rate for outgoing call prices, linked to the new abundance offers.

PTK Centertel, adopting the Orange brand in September 2005, has strengthened its competitive position, with over 1.6 million additional customers at December 31, 2007.

■ Revenues - PCS Rest of the world

		Years ended December 31			
		2006 comparable basis ⁽¹⁾	2006 historical basis	Change (%) comparable basis ⁽¹⁾	Change (%) historical basis
PCS REST OF THE WORLD	2007				
Belgium					
Revenues ⁽²⁾	1,494	1,549	1,549	(3.6)%	(3.6)%
Total number of customers ⁽³⁾	3,284	3,139	3,139	4.6%	4.6%
ARPU ⁽⁴⁾ (in euros)	414	-	464	-	(10.8)%
Romania					
Revenues ⁽²⁾	1,234	992	1,082	24.3%	14.0%
Total number of customers ⁽³⁾	9,813	8,043	8,043	22.0%	22.0%
ARPU ⁽⁴⁾ (in euros)	130	-	138	-	(5.8)%
Switzerland					
Revenues ⁽²⁾	816	833	867	(2.0)%	(5.9)%
Total number of customers ⁽³⁾	1,510	1,395	1,395	8.2%	8.2%
ARPU ⁽⁴⁾ (in euros)	504	-	606	-	(16.8)%
Egypt					
Revenues ⁽²⁾	757	587	630	28.9%	20.2%
Total number of customers (at 71,25%) ⁽³⁾	10,771	6,603	6,603	63.1%	63.1%
ARPU ⁽⁴⁾ (in euros)	84	-	112	-	(25.0)%
Slovakia					
Revenues ⁽²⁾	744	708	643	5.0%	15.6%
Total number of customers ⁽³⁾	2,864	2,691	2,691	6.4%	6.4%
ARPU ⁽⁴⁾ (in euros)	252	-	234	-	7.7%
Other subsidiaries⁽⁵⁾					
Revenues ⁽⁶⁾	2,506	2,032	2,148	23.3%	16.7%
Total number of customers ⁽³⁾	16,303	11,479	13,526	42.0%	20.5%
TOTAL					
REVENUES⁽²⁾⁽⁷⁾	7,550	6,701	6,920	12.7%	9.1%
TOTAL NUMBER OF CUSTOMERS⁽³⁾⁽⁷⁾	44,545	33,350	35,397	33.6%	25.8%
O/W NUMBER OF BROADBAND CUSTOMERS⁽³⁾	1,939	742	742	161.3%	161.3%

(1) Unaudited data. See Section 5.1 "Transition from data on a historical basis to data on a comparable basis".

(2) In millions of euros.

(3) In thousands. At end of period.

(4) See Section 5.6 "Financial glossary".

(5) Other subsidiaries include subsidiaries in Botswana, Cameroon, Ivory Coast, Guinea, Equatorial Guinea, Guinea-Bissau, Mauritius, Jordan, Madagascar, Mali, Moldavia, the Dominican Republic, Central African Republic and Senegal.

(6) In millions of euros. Includes the revenues from other subsidiaries and eliminations.

(7) Selling of Orange's mobile operations in the Netherlands on October 1, 2007.

On a **historical basis**, the 9.1% growth in PCS Rest of world revenues between 2006 and 2007 in particular includes the negative impact, i) of foreign exchange rate fluctuations, primarily linked to the US dollar, and ii) changes in the scope of consolidation concerning the selling of Orange's mobile operation in the Netherlands on October 1, 2007, effective October 1, 2006 in the comparable basis data, partially offset by the positive impact of the full consolidation of Mobilecom in Jordan on July 5, 2006, effective January 1, 2006 in the comparable basis data.

On a **comparable basis**, the 12.7% increase in revenues between the two years was primarily due to the overall increase in the number of customers, combined with strong business

growth in emerging countries, particularly in Romania, Egypt, Senegal, Mali and the Dominican Republic. This change was partially offset by the negative impact of the reduction in call termination rates and the reduction in roaming rates on revenues growth and the ARPU in Europe, notably in the Belgium and Switzerland.

3.1.2 Gross operating margin - PCS

On a **historical basis**, PCS GOM showed 3.0% growth in 2007 compared to 2006 and came in at 9.977 billion euros. This increase primarily includes the impact of changes in the

scope of consolidation and other changes, in relation to, i) internal reorganization between business segments without any impact on the Group level, and ii) the selling of Orange's mobile operation in the Netherlands on October 1, 2007, effective October 1, 2006 in the comparable basis data, and iii) the full consolidation of Mobilecom in Jordan on July 5, 2006, effective January 1, 2006 in the comparable basis data.

On a **comparable basis**, PCS GOM is up 5.8% between the two years. This 544 million euros increase can be explained primarily:

- by the 11.4% growth in PCS Rest of the world GOM in 2007 compared to 2006, representing 314 million euros. This increase is primarily linked to growth in revenues, primarily in the emerging countries, which partially offsets the increase in operating expenses included in the GOM, driven by, i) the increase in service fees and inter-operator costs due to increased traffic, ii) by the increase in commercial expenses, caused by overall growth in the number of customers, and iii) by the launching of operations in Guinea-Bissau, Guinea and the Central African Republic;
- by the 17.1% growth in PCS Poland GOM between 2006 and 2007, representing an improvement of 122 million euros. This increase was primarily generated by the growth in revenues, partially offset by the 1.5% increase in operating expenses included in the GOM linked primarily to the increase in commercial expenses in order to support growth;
- by the 3.2% increase in PCS France GOM when comparing the two years. This 119 million euros increase primarily reflects the growth in revenues, and to a lesser extent the 0.1% drop in operating expenses included in the GOM. This slight decrease reflected the effective control over management costs on the one hand, and the favorable impact of call termination rate cuts on domestic terminations on the other hand, offsetting the increase in commercial expenses within a highly competitive environment, and the rising costs related to the development of the broadband network. The increase in commercial expenses reflected the efforts made to retain customers in a fiercely competitive context, efforts that paid off with a 4.1% increase in the total number of customers between December 31, 2006 and December 31, 2007. At the same time, the number of wireless broadband customers rose sharply, reaching more than 7.4 million customers at December 31, 2007;
- and by the 2.2% increase in PCS United Kingdom GOM between the two years, representing an increase of 30 million euros. This increase is primarily generated by the growth in revenues, partially offset by the increase in operating expenses included in the GOM due in particular to the increase in service fees and inter-operator costs, linked to the abundance offers, generating an increase in inter-operator traffic and growth in the use of Short Messaging Service (SMS).

These increases are partially offset by the 4.9% drop (41 million euros) in PCS Spain GOM, stemming in particular from, i) the negative impact of the reduction in call termination rates and

the reduction in roaming rates on revenues growth, and ii) the increase in service fees and inter-operator costs linked to the increase in traffic.

3.1.3 Capital expenditures on tangible and intangible assets excluding licenses - PCS

On a **historical basis**, PCS capital expenditures on tangible and intangible assets excluding licenses have recorded a 2.5% drop coming in at 3.493 billion euros in 2007, compared to 3.581 billion euros in 2006. This decrease primarily includes the impact of changes in the scope of consolidation and other changes, in relation to, i) internal reorganization between business segments without any impact on the Group level, ii) the selling of Orange's mobile operation in the Netherlands on October 1, 2007, effective October 1, 2006 in the comparable basis data, and iii) the full consolidation of Mobilecom in Jordan on July 5, 2006, effective January 1, 2006 in the comparable basis data.

On a **comparable basis**, the 2.4% increase in capital expenditures on tangible and intangible assets excluding licenses, representing an increase of 80 million euros, can be explained primarily:

- by the 16.3% growth (195 million euros increase) in investment expenses for PCS Rest of the world, which can be explained primarily by the increase in investment expense pertaining to, i) the extension of the network coverage and the development in the network linked to the growth in the number of customers in high-growth countries of PCS Rest of the world, and ii) to a lesser extent, the customer service platforms;
- by the 15.6% increase, representing 45 million euros, in capital expenditures on tangible and intangible assets excluding licenses for PCS Poland, stemming for a large part from the increase in investment expense concerning broadband access and network capacities;
- and by the 5.3% increase in capital expenditures on tangible and intangible assets excluding licenses for PCS United Kingdom. This 25 million euros increase is due in particular to the increase in investment expenses pertaining to IT equipment, partially offset by the drop in expenses pertaining to the networks due to a review of the investment expense program.

These increases are partially offset:

- by a 10.6% drop, (95 million euros) in capital expenditures on tangible and intangible assets excluding licenses for PCS France, primarily linked to the discounts obtained from equipment manufacturers on the renewal of network equipment started in July 2007 and the end of 2G capacity investments in areas covered by 3G;

■ and by the 16.1% drop (89 million euros) in investment expenses for PCS Spain stemming in particular from the drop in investments pertaining to access networks, due to the network sharing agreement with Vodafone.

in Guinea, Central African Republic, Guinea-Bissau and Niger. In 2006, telecommunication licenses, representing 283 million euros on a historical basis as well as on a comparable basis, correspond almost exclusively to the fixed portion of the renewal for 15 years of Orange's GSM license in France (see Section 2.4.1.2 "Telecommunication licenses").

3.1.4 Telecommunication licenses - PCS

In 2007, telecommunication licenses represented an expense of 85 million euros and primarily concern the acquisition of licenses

3.2 HOME COMMUNICATION SERVICES (HCS)

(in millions of euros)

		Years ended December 31			
		2006 comparable basis ⁽¹⁾	2006 historical basis	Change (%) comparable basis ⁽¹⁾	Change (%) historical basis
HOME COMMUNICATION SERVICES (HCS)					
HCS					
Revenues	22,671	22,725	22,487	(0.2)%	0.8%
GOM	7,799	7,641	7,265	2.1%	7.3%
GOM/Revenues	34.4%	33.6%	32.3%		
CAPEX	3,080	2,879	2,721	7.0%	13.2%
CAPEX/Revenues	13.6%	12.7%	12.1%		
Average number of employees	129,168	137,004	134,447	(5.7)%	(3.9)%
HCS France					
Revenues	17,957	17,709	17,657	1.4%	1.7%
GOM	6,482	5,953	5,650	8.9%	14.7%
GOM/Revenues	36.1%	33.6%	32.0%		
CAPEX	2,169	2,046	1,928	6.0%	12.5%
CAPEX/Revenues	12.1%	11.6%	10.9%		
Average number of employees	91,776	98,161	96,560	(6.5)%	(5.0)%
HCS Poland					
Revenues	2,886	3,139	3,048	(8.1)%	(5.3)%
GOM	1,205	1,473	1,430	(18.2)%	(15.7)%
GOM/Revenues	41.8%	46.9%	46.9%		
CAPEX	627	504	489	24.4%	28.2%
CAPEX/Revenues	21.7%	16.1%	16.1%		
Average number of employees	28,583	29,748	29,748	(3.9)%	(3.9)%
HCS Rest of the world					
Revenues	2,100	2,100	2,005	0.0%	4.7%
GOM	112	216	185	(48.3)%	(39.7)%
GOM/Revenues	5.3%	10.3%	9.2%		
CAPEX	284	330	304	(13.9)%	(6.6)%
CAPEX/Revenues	13.5%	15.7%	15.2%		
Average number of employees	8,810	9,094	8,138	(3.1)%	8.3%

(1) Unaudited data. See Section 5.1 "Transition from data on a historical basis to data on a comparable basis".

I - group management report

ANALYSIS BY BUSINESS SEGMENT

Home Communication Services (HCS)

The HCS segment covers fixed-line telecommunication service activities (fixed-line telephony, Internet services, and services for operators) in France, Poland and the Rest of the world, as well as distribution activities and support functions provided to other segments within the France Telecom group. It includes three business sub-segments: i) the HCS France sub-segment, ii) the HCS Poland sub-segment, which includes TP S.A. and its subsidiaries (excluding mobile subsidiaries), and iii) the

HCS Rest of the world sub-segment, covering the fixed-line and Internet operations of international subsidiaries, excluding France and Poland, i.e. Spain and the United Kingdom, Ivory Coast, Mauritius, Jordan and Senegal.

In October 2007, France Telecom sold Orange's mobile and Internet operations in the Netherlands (see Section 1. "Overview" and Note 4 to the consolidated financial statements).

3.2.1 Revenues - HCS

■ Revenues - HCS France

		Years ended December 31			
		2006 comparable basis ⁽¹⁾	2006 historical basis	Change (%) comparable basis ⁽¹⁾	Change (%) historical basis
HCS FRANCE	2007				
Revenues⁽²⁾	17,957	17,709	17,657	1.4%	1.7%
Consumer Services	9,499	9,572	9,552	(0.8)%	(0.6)%
Carrier Services	6,143	5,906	5,776	4.0%	6.4%
Other HCS in France	2,315	2,231	2,329	3.8%	(0.6)%
Consumer Services					
Number of Consumer telephone lines ⁽³⁾ (in millions)	23.0	-	25.5	-	(9.8)%
ARPU of Consumer fixed-line services ⁽⁴⁾ (in euros)	30.6	-	28.0	-	9.3%
"Voice" telephone traffic of Consumer customers ⁽⁵⁾ (in billions of minutes)	33.5	-	40.5	-	(17.2)%
Number of Consumer customers for ADSL broadband usages ⁽⁶⁾	7,296	-	5,916	-	23.3%
Number of subscribers to multi-service offers:					
Number of leased Livebox ⁽⁶⁾	5,209	-	3,437	-	51.6%
Number of subscribers to "Voice over IP" services ⁽⁶⁾	4,102	-	2,081	-	97.1%
Number of subscribers to ADSL TV offers ⁽⁶⁾	1,149	-	577	-	99.1%
Carrier Services					
Traffic (in billions of minutes):					
Domestic interconnection "voice" traffic	53.5	-	56.0	-	(4.5)%
Incoming international traffic	5.1	-	4.4	-	16.1%
Number of wholesale lines rental ⁽⁶⁾	716	-	15	-	na
Total number of unbundled telephone lines ⁽⁶⁾	5,187	-	3,919	-	32.4%
Number of partially unbundled telephone lines ⁽⁶⁾	1,563	-	1,810	-	(13.6)%
Number of fully unbundled telephone lines ⁽⁶⁾	3,624	-	2,109	-	71.8%
Number of wholesale sales of ADSL access to third party IAPs ⁽⁶⁾	2,232	-	2,079	-	7.4%
o/w Number of wholesale sales of naked ADSL to third party IAPs ⁽⁶⁾	942	-	188	-	na

(1) Unaudited data. See Section 5.1 "Transition from data on a historical basis to data on a comparable basis".

(2) In millions of euros.

(3) At end of period. This figure included: i) the standard analog lines (excluding full unbundled lines) and Numéris channels (ISDN), with each Numéris channel counted as one line, and ii) since October 2006, lines without low-speed telephone subscriptions (naked ADSL) sold directly by France Telecom to its Consumer customers.

(4) See Section 5.6 "Financial glossary".

(5) Outgoing STN telephone traffic from France Telecom customers to all destinations (STN and IP).

(6) In thousands. At end of period.

On a **historical basis**, HCS France segment revenues were up 1.7% in 2007 compared with 2006. This change includes in particular the impact of internal reorganizations among business segments with no effect at the Group level and the selling of France Telecom Mobile Satellite Communications (FTMSC) in 2006.

On a **comparable basis**, HCS France revenues grew 1.4% between the two years, coming in at 17.957 billion euros in 2007.

Revenues from Consumer Services revenues

On a **comparable basis**, the slight drop of 0.8% in Consumer Services revenues, amounting to 9.499 billion euros in 2007, can be explained by the drop in switched telephone network (STN) sector and mature sectors (public telephones, leased terminals) which was partially offset by the fast development in ADSL broadband services. ARPU for Consumer fixed-line services (see Section 5.6 "Financial glossary") is up substantially, from 28.0 euros at December 31, 2006 to 30.6 euros at December 31, 2007 (calculated on a rolling 12-months basis). This change stems from:

- the 29.0% increase in revenues on **Consumer Online and Internet access services** linked to the rapid development of ADSL broadband services. Growth in the number of Consumer customers for ADSL broadband continued at a sustained rate with 7.296 million customers at December 31, 2007, representing 1.380 million new customers. The portion of ADSL customers with leased Livebox gateways changed from 58% at December 31, 2006 to 71% at December 31, 2007. The portion of ADSL customers having subscribed to "Voice over IP" services changed from 35% on December 31, 2006 to 56% at December 31, 2007. Most of the ADSL positioning since the beginning of 2007 has concerned the "Subscription" and "Net" plans which include the "Voice over IP" service in the basic offer. The new "Net" offer which includes broadband access, "Voice over IP" and TV is an "all-IP" offer, and the client no longer has any STN access at all. This includes 0.941 million customers at December 31, 2007. The number of ADSL customers that subscribe to the "ADSL TV" offers changed from 0.577 million at December 31, 2006 to 1.149 million at December 31, 2007. Orange's "ADSL TV" offer has been enhanced with a pay package in May 2007, as well as several subscription options to on-demand video theme catalogues. The number of low-speed Internet customers continues to drop quickly, with 0.655 million customers at December 31, 2007;
- the 17.3% reduction in revenues from **Consumer calling services**, primarily due to, i) the reduction in the total switched telephone traffic market (measured to the inter-connection), which has accelerated significantly since September 2005, in particular as a result of the development of "Voice over IP" services (17.2% drop in total STN traffic billed to customers of France Telecom), and ii) the impact of reductions in prices for calls to mobiles (to all mobile operators), which occurred on January 3, 2007 for professionals and January 18, 2007 for residential customers);
- the 2.1% drop in **Consumer Subscription fees** revenues, due to the development of full unbundled lines, the wholesale offer of telephone subscriptions since the beginning of the

year and the wholesale offer of naked ADSL to third party IAPs (Internet Access Providers) since October 2006 (for which the revenues are included in the "Carrier Services revenues" described hereinafter). In this way, the number of lines billed directly to customers through residential telephone subscription fees or Pros contracts fell by 9.9% between December 31, 2006 and December 31, 2007. These unfavorable impacts are partially offset by the positive impact of the 7% increases in the main subscription amount (1 euro), which occurred on July 1, 2007 and on July 4, 2006;

- and the 12.8% drop in revenues from **Other Consumer services** between the two years, linked to the 23.1% drop in public telephone traffic and card services, as well as the downturn in the telephone terminal leasing business, with the number of leased terminals (excluding Livebox gateways) down 18.0% in one year. These negative effects were partially offset by the substantial growth in revenues generated through portals and content services (Orange portals online advertising).

Revenues from Carrier Services

On a **comparable basis**, the 4.0% increase in revenues from Carrier Services, coming in at 6.143 billion euros in 2007, can be explained:

- by the 12.4% increase in revenues from **Domestic Carrier services**, driven primarily by the rapid development of the ADSL broadband market, particularly with the unbundling of telephone lines. At the same time, revenues from the wholesale sale of ADSL access to third-party IAPs (Internet Access Providers) grew 18.1% because of the increase in the number of ADSL accesses sold wholesale to third-party Internet access providers. The wholesale offer of telephone subscriptions grew substantially during 2007 with 0.150 million accesses at December 31, 2006 and 0.716 million accesses at December 31, 2007. Domestic interconnection revenues fell by 3.9% due to the drop in the domestic interconnection "voice" traffic and the continued drop in the "low-speed Internet" interconnection traffic. Lastly, revenues from data services to operators (leased lines and Turbo DSL services) were up slightly (2.6%) despite drops in rates due to growth in installed capacity;
- partially offset by the 3.6% drop in revenues from **Other Carrier services** corresponding to a great extent to the decrease in revenues from services provided to other France Telecom group business segments (lower telephone traffic volume and lower prices linked in particular to call terminations to mobiles).

Revenues from Other Home Communication Services in France

On a **comparable basis**, the 3.8% growth in revenues from Other Home Communication Services in France, amounting to 2.315 billion euros in 2007, stems primarily from the 5.7% increase in income generated by the services provided to other business segments (distribution of products and services, sales administration, customer service, interconnection, maintenance and billing), which accounted for 83% of revenues from Other Home Communication Services in France. In addition, external revenues recorded a 5.0% drop concerning information services in particular.

■ Revenues - HCS Poland

		Years ended December 31			
		2006 comparable basis ⁽¹⁾	2006 historical basis	Change (%) comparable basis ⁽¹⁾	Change (%) historical basis
HCS POLAND	2007				
Revenues⁽²⁾	2,886	3,139	3,048	(8.1)%	(5.3)%
Consumer and Business customers					
Number of fixed-line telephony customers ⁽³⁾	8,950	10,128	10,128	(11.6)%	(11.6)%
Number of broadband Internet customers ⁽³⁾⁽⁴⁾	2,022	1,712	1,712	18.1%	18.1%
Number of subscribers to multi-service offers:					
Number of leased Livebox ⁽³⁾	346	148	148	133.8%	133.8%
Number of subscribers to "Voice over IP" services ⁽³⁾	132	14	14	na	na
Number of subscribers to ADSL TV offers ⁽³⁾	40	3	3	na	na
Wholesale Services					
Number of wholesale lines rental ⁽³⁾	592	-	-	-	-
Number of Bitstream access ⁽³⁾	132	-	-	-	-

(1) Unaudited data. See Section 5.1 "Transition from data on a historical basis to data on a comparable basis".

(2) In millions of euros.

(3) In thousands. At end of period.

(4) ADSL and SDI technology (rapid Internet access technology).

On a **historical basis**, revenues of HCS Poland, amounting to 2.886 billion euros in 2007 recorded a drop of 5.3% compared to 2006. This decrease includes the positive impact of foreign exchange rate fluctuations.

On a **comparable basis**, revenues of HCS Poland record a drop of 8.1% due primarily:

- to the drop in "voice" revenues. The drop in revenues from communication services reflected in particular from the growing effect of the fixed-line-to-mobile substitution, the reduction in the telephone traffic and the fierce competitive environment. Continued migration of customers from traditional initial offers over to the New Tariff Plans (launched in 2004, with a higher subscription rate) was helping to curb the slowdown in telephone traffic, while increasing subscription fees revenues, which rose from 57% of "voice" revenues in 2006 to 61% in 2007;

- partially offset by the increase in revenues from growing services such as broadband Internet access and managed network businesses. On a comparable basis, broadband Internet access revenues rose 5% in 2007 compared to 2006, driven by the 18% increase in the number of broadband Internet customers (0.310 million new customers over the year). The broadband offers have been enhanced with the launch of the Livebox in 2006 (346,000 customers at December 31, 2007). This favorable change has enabled TP S.A. to maintain a leading position in the Polish broadband market, and to more than offset the drop in low-speed Internet revenues, which accounted for 5% of total revenues from Internet access services. Data transmission services (including low and high-speed Internet, data transmission and leased lines), up 3.7% in 2007, represented 21% of total HCS Poland segment revenues, compared with 19% in 2006.

■ Revenues - HCS Rest of the world

		Years ended December 31			
		2006 comparable basis ⁽¹⁾	2006 historical basis	Change (%) comparable basis ⁽¹⁾	Change (%) historical basis
HCS REST OF THE WORLD	2007				
Spain⁽²⁾					
Revenues ⁽³⁾	604	629	558	(4.0)%	8.2%
Number of broadband Internet customers (ADSL) ⁽⁴⁾	1,177	918	640	28.2%	83.9%
United Kingdom					
Revenues ⁽³⁾	403	425	426	(5.1)%	(5.4)%
Number of broadband Internet customers (ADSL) ⁽⁴⁾	1,138	1,063	1,063	7.1%	7.1%
Senegal					
Revenues ⁽³⁾	390	378	378	3.1%	3.1%
Number of fixed-line telephony customers ⁽⁴⁾	269	283	283	(4.9)%	(4.9)%
Jordan⁽⁵⁾					
Revenues ⁽³⁾	258	261	203	(0.9)%	27.5%
Number of fixed-line telephony customers ⁽⁴⁾	559	614	614	(9.0)%	(9.0)%
Ivory Coast					
Revenues ⁽³⁾	182	169	169	8.1%	8.1%
Number of fixed-line telephony customers ⁽⁴⁾	250	271	271	(7.7)%	(7.7)%
Other subsidiaries⁽⁶⁾					
Revenues ⁽⁷⁾	262	238	271	10.0%	(3.5)%
REVENUES⁽³⁾	2,100	2,100	2,005	0.0%	4.7%

(1) Unaudited data. See Section 5.1 "Transition from data on a historical basis to data on a comparable basis".

(2) Acquisition of T-Online Telecommunications Spain (now FT España ISP), operating under the Ya.com brand, on July 31, 2007.

(3) In millions of euros.

(4) In thousands. At end of period.

(5) Full consolidation of Jordan Telecommunications Company (JTC) and its subsidiaries on July 5, 2006, previously proportionately consolidated at 40.0%.

(6) Other subsidiaries include in particular subsidiaries in Mauritius.

(7) In millions of euros. Includes the revenues from other subsidiaries and eliminations.

On a **historical basis**, the 4.7% growth in HCS Rest of the world revenues in 2007 coming in at 2.100 billion euros, was in particular due to the favorable impact of the changes in the scope of consolidation concerning in particular, i) the full consolidation of Jordan Telecommunications Company and its subsidiaries on July 5, 2006, effective January 1, 2006 in the comparable basis data, and ii) the acquisition of Ya.com in Spain on July 31, 2007, effective August 1, 2006 in the comparable basis data, partially offset by the negative impact of foreign exchange rate fluctuations and the selling of Orange's mobile operation in the Netherlands on October 1, 2007, effective October 1, 2006 in the comparable basis data.

On a **comparable basis**, the stability in the revenues recorded by the HCS Rest of the world segment primarily reflected the growth in revenues in the Ivory Coast and in Senegal, which fully offsets the drop in revenues in Spain and in the United Kingdom (the drop in low-speed Internet revenues being only partially offset by the increase in broadband revenues).

3.2.2 Gross operating margin - HCS

On a **historical basis**, HCS GOM grew 7.3% between 2006 and 2007, coming in at 7.799 billion euros, including in particular the impact of the changes in the scope of consolidation and other changes concerning in particular, i) internal reorganizations among business segments with no effect at Group level, and ii) the full consolidation of Jordan Telecommunications Company and its subsidiaries on July 5, 2006, effective January 1, 2006 in the comparable basis data.

On a **comparable basis**, the 2.1% increase in HCS GOM, representing an increase of 158 million euros between 2006 and 2007, can be explained by the 8.9% increase in HCS France GOM between 2006 and 2007. This increase of 529 million euros is driven by the drop in operating expenses included in the GOM, stemming i) from the decrease in service fees and inter-operator costs, following the reduction in the price of fixed-line-to-mobile call termination rates, and ii) the decrease in labour expenses (wages and employee benefit expenses), related primarily to the reduction in the workforce (6.5% drop in the average number of full-time equivalent employees, see Section 5.6 "Financial glossary") on the one hand, and from the growth in revenues, driven by the development of ADSL broadband services and the wholesale offering for broadband access, on the other hand.

Between 2006 and 2007, the increase in HCS France GOM is partially offset:

- by the 18.2% drop in HCS Poland GOM, which decreased 268 million euros between 2006 and 2007, primarily due to the drop in revenues and to a lesser extent to the increase in operating expenses included in the GOM. The increase in operating expenses included in the GOM concerns, i) other operating expenses (net of other operating incomes), for which the increase primarily results from the increase in provisions, and ii) outsourcing fees relating to technical operation and maintenance as well as IT expenses subsequent to the new outsourcing contracts for network installation and maintenance. These increases were partially offset by the reduction in service fees and inter-operator costs, following the sharp reduction in the price of mobile call termination rates. Labour expenses (wages and employee benefit expenses) are up slightly compared to 2006, with the volume impact induced by the drop in the average number of employees (full-time equivalents) being offset by a price impact, reflecting in particular the increase in the skills and qualifications for some employee profiles;
- and by the 48.3% reduction in HCS Rest of the world GOM. This 104 million euros decrease stems primarily from the drop in United Kingdom and Spain GOM due in particular to the drop in revenues, which was partially offset by the increase in Ivory Coast GOM, driven primarily by growth in revenues.

3.2.3 Capital expenditures on tangible and intangible assets excluding licenses - HCS

On a **historical basis**, capital expenditures on tangible and intangible assets excluding licenses have recorded a 13.2% increase coming in at 3.080 billion euros in 2007. This increase primarily includes the impact of changes in the scope of consolidation and other changes in relation to, i) internal reorganization between business segments without any impact on the Group level, and ii) the acquisition of Ya.com in Spain on July 31, 2007, effective August 1, 2006 in the comparable basis data.

On a **comparable basis**, the 7.0% increase (201 million euros in 2007) in HCS capital expenditures on tangible and intangible assets excluding licenses primarily concerns:

- the investment expenses of HCS France, showing growth of 6.0% over the year (representing an increase of 123 million euros). This increase primarily concerns, i) equipment pertaining to transmission (in order to handle the increase in speeds) and also to develop the ADSL digital television offer, and ii) the modernization of the network of Orange boutiques, aiming to optimize the location and size of the boutiques in order to increase the quality of customer relations and the volume of sales transactions;
- and the investment expenses of HCS Poland, with a 24.4% increase (123 million euros during the year). This increase stems from the transformation of segments with the development of converging offers and products (especially Livebox) and the optimization of the support functions.

3.3 ENTERPRISE COMMUNICATION SERVICES (ECS)

The ECS segment covers communication solutions and services provided to businesses in France and around the world.

(in millions of euros)

		Years ended December 31			
ENTERPRISE COMMUNICATION SERVICES (ECS)	2007	2006 comparable basis ⁽¹⁾	2006 historical basis	Change (%) comparable basis ⁽¹⁾	Change (%) historical basis
Revenues	7,721	7,689	7,652	0.4%	0.9%
GOM	1,343	1,414	1,590	(5.1)%	(15.6)%
GOM/Revenues	17.4%	18.4%	20.8%		
CAPEX	406	429	430	(5.3)%	(5.5)%
CAPEX/Revenues	5.3%	5.6%	5.6%		
Average number of employees	19,204	18,731	17,367	2.5%	10.6%

(1) Unaudited data. See Section 5.1 "Transition from data on a historical basis to data on a comparable basis".

3.3.1 Revenues – ECS

		Years ended December 31			
ENTERPRISE COMMUNICATION SERVICES (ECS)	2007	2006 comparable basis ⁽¹⁾	2006 historical basis	Change (%) comparable basis ⁽¹⁾	Change (%) historical basis
Revenues⁽²⁾	7,721	7,689	7,652	0.4%	0.9%
Business network legacy	3,648	4,023	4,063	(9.3)%	(10.2)%
Advanced business network	1,964	1,834	1,879	7.1%	4.6%
Extended business services	1,139	996	836	14.4%	36.3%
Other business services	970	837	874	15.9%	10.9%
Operating indicators					
Number of Business telephone lines in France ⁽³⁾ (in millions)	5.6	-	5.8	-	(2.7)%
Total number of permanent accesses to data networks in France ⁽⁴⁾⁽⁵⁾	322.0	-	300.3	-	7.2%
o/w Number of IP-VPN accesses in France ⁽⁴⁾⁽⁵⁾	242.0	-	209.2	-	15.7%
Number of IP-VPN accesses worldwide ⁽⁵⁾	295.7	-	256.1	-	15.5%
Number of Business Everywhere mobile services users in France ⁽⁵⁾	571.4	-	485.8	-	17.6%

(1) Unaudited data. See Section 5.1 "Transition from data on a historical basis to data on a comparable basis".

(2) In millions of euros.

(3) At end of period. This figure included standard analog lines (excluding full unbundled lines) and Numéris (ISDN) channels, with each Numéris channel accounted for as one line.

(4) Access by customers outside the France Telecom group, excluding carrier market.

(5) In thousands. At end of period.

On a **historical basis**, ECS revenues are up 0.9% between 2006 and 2007. This change in particular includes the positive impact of changes in the scope of consolidation and other changes primarily following the acquisition of Groupe Diwan on July 27, 2006 and the Groupe Silicomp on January 4, 2007, effective January 1, 2006 in the comparable basis data.

■ Revenues from Business network legacy

On a **comparable basis**, the 9.3% drop in Business network legacy revenues in 2007 compared to 2006 is primarily due:

- to the 16.8% drop in data legacy revenues. The net slowdown in the downward trend in data infrastructure legacy revenues, occurring mainly in France stems from the progressive lessening of the impact of migration of our major customers over to more recent technologies which were mostly complete

at the end of 2005. Likewise, the lower revenues recorded on managed network legacy is not as high as the previous year and reflects the continued disconnections of customers opting for IP solutions;

- and, to a lesser extent, to the 5.7% drop in voice legacy revenues (representing 70% of business network legacy revenues). This drop can be explained, i) by the 8.4% drop in the volume of Business calling services (reduction in the market measured at the interconnection), ii) by the impact of the drop in prices, primarily linked to discounts given to businesses on their communications and to rate cuts on fixed-line-to-mobile calls, and iii) by the drop in the traffic and in the average price per minute of customer relations services (Audiotel, Welcome no.), due to free-of-charge hold time and progressive shift over to Internet and SMS supports for business concerning the highest rate brackets.

The number of Business telephone lines in France fell only slightly, with the reduction in the number of Numéris (ISDN) channels, gradually being replaced by IP access over xDSL, offset in part by the increase in the number of analog lines supporting the migration media over to IP solutions, and the fact that businesses have not yet substantially migrated over to "Voice over IP".

■ Revenues from the Advanced business network

On a **comparable basis**, the significant increase of 7.1% between 2006 and 2007 in Advanced business network revenues can be explained:

- primarily by the 6.2% growth in revenues from IP network services, representing 91% of Advanced business network revenues. This growth reflects the trend to consolidating the migration of enterprises over to IP networks. This consolidation is also substantial at the level of growth in the number of IP-VPN accesses in France, which is continuing with however a slight show of inflexion (up 15.7% in 2007 compared to 2006);
- and by growth in data infrastructure advanced revenues, which is entirely generated in France and includes xDSL support and very high speed services, reflecting the development of very high speed services such as MAN Ethernet and Ethernet LINK.

■ Revenues from Extended business services

On a **historical basis**, revenues from Extended business services increased 36.3% between 2006 and 2007, partially linked to the acquisition of Groupe Diwan, Neocles Corporate and Groupe Silicomp, effective on January 1, 2006 in the comparable basis data.

On a **comparable basis**, the 14.4% increase between 2006 and 2007 in revenues from Extended business services first stems from sustained growth of 25.5% in revenues from platform services, especially in France. Likewise, revenues from project consulting and management have recorded considerable growth of 19.1% in 2007 compared to 2006. Finally, after a constant phase of growth in 2006, revenues from integration services, which includes revenues linked to on-site services and customer assistance, tends to stabilize in 2007.

■ Revenues from Other business services

On a **comparable basis**, revenues from Other business services, which includes the broadcasting segment, a market in which France Telecom operates through its subsidiary GlobeCast, and the business sector of selling network equipment (PBX, IPBX, routers), grew 15.9% between 2006 and 2007. This growth is primarily linked to substantial growth in revenues stemming from the sale of network equipment with major contracts sealed in France as well as internationally (especially in the emerging countries), although at the same time, the broadcasting sector continued to grow.

3.3.2 Gross operating margin - ECS

On a **historical basis**, ECS GOM amounts to 1.343 billion euros in 2007, down 15.6% compared to 2006 and primarily includes the impact of changes in the scope of consolidation and other changes in relation to, i) internal reorganization between business segments without any impact on the Group level, and ii) the acquisition of Groupe Silicomp on January 4, 2007, effective January 1, 2006 in the comparable basis data.

On a **comparable basis**, ECS GOM was down 5.1%. As such, the GOM to revenues ratio is down 1.0 points, amounting to 17.4% in 2007. This drop in GOM reflects the transformation of the economic model with, i) downward pressure on network activity margin linked with stiffened competitive pressure internationally and the transformation over to IP solutions, and ii) the growing share in service activities.

3.3.3 Capital expenditures on tangible and intangible assets excluding licenses - ECS

On a **comparable basis**, Capital expenditures on tangible and intangible assets excluding licenses amount to 406 million euros in 2007, down 5.3% compared to 2006. These expenditures were in line with those for 2006 and mainly concern connectivity and continued development of the services segment.

4. cash flows, shareholders' equity and financial debt

4.1 LIQUIDITY AND CASH FLOWS

■ Simplified consolidated statement of cash flows⁽¹⁾

(in millions of euros)	Years ended December 31	
	2007	2006 historical basis
Net cash provided by operating activities	14,644	13,863
Net cash used in investing activities	(6,881)	(4,691)
Net cash used in financing activities	(7,654)	(9,271)
Net change in cash and cash equivalents	109	(99)
Effect of exchange rates changes on cash and cash equivalents and other non-monetary effects	(54)	(28)
Cash and cash equivalents at beginning of year	3,970	4,097
Cash and cash equivalents at end of year	4,025	3,970

(1) For more details, see "Consolidated statement of cash flows" in the consolidated financial statements and Note 31 to the consolidated financial statements.

■ Organic cash flow

France Telecom uses organic cash flow (see Section 5.6 "Financial glossary") as an operating performance indicator in order to measure the cash flow generated by operations,

excluding cash paid for investment securities (net of cash acquired) and excluding proceeds from the sale of investment securities (net of cash transferred).

From GOM to net cash provided by operating activities

(in millions of euros)	Years ended December 31		
	2007	2006 excluding PagesJaunes Groupe ⁽¹⁾	2006 historical basis
GOM	19,116	18,539	18,539
GOM of discontinued operations⁽¹⁾	-	-	361
Interest paid and interest rates effects on derivatives, net (net of dividends and interest income received)	(2,411)	(2,695)	(2,684)
Payments made for early retirement plan ⁽²⁾	(893)	(953)	(953)
Income tax paid	(791)	(481)	(606)
Employee profit-sharing paid	(346)	(349)	(382)
Restructuring costs paid ⁽³⁾	(272)	(237)	(237)
Change in total working capital requirement ⁽⁴⁾⁽⁵⁾	281	(17)	43
Change in operating working capital requirement ⁽⁴⁾	61	(336)	(235)
Change in other items of working capital requirement ⁽⁵⁾	220	319	278
Neutralization of the non-monetary items and other items paid	(40)	(219)	(218)
Net cash provided by operating activities	14,644	13,588	13,863

(1) PagesJaunes Groupe was disposed of on October 11, 2006 (see Note 4 to the consolidated financial statements).

(2) See Notes 2, 9, 11, 28 and 32 to the consolidated financial statements.

(3) Excluding payments made for early retirement plan (see table above).

(4) See Section 5.6 "Financial glossary".

(5) Excluding disbursed employee profit sharing (cf. above in table).

I - group management report

CASH FLOWS, SHAREHOLDERS' EQUITY AND FINANCIAL DEBT

Liquidity and cash flows

From net cash provided by operating activities to organic cash flow

	Years ended December 31		
		2006 excluding PagesJaunes Groupe ⁽¹⁾	2006 historical basis
(in millions of euros)	2007		
Net cash provided by operating activities	14,644	13,588	13,863
Acquisitions of property, plant and equipment and intangible assets (net of the change in amounts due to fixed asset suppliers)	(6,939)	(6,787)	(6,811)
CAPEX of continuing operations ⁽²⁾	(6,979)	(6,732)	(6,732)
CAPEX of discontinued operations ⁽¹⁾	-	-	(24)
Telecommunication licenses ⁽²⁾	(85)	(283)	(283)
Increase (decrease) in amounts due to fixed asset suppliers	125	228	228
Proceeds from sales of property, plant and equipment and intangible assets	113	105	105
Organic cash flow	7,818	6,906	7,157

(1) PagesJaunes Groupe was disposed of on October 11, 2006 (see Note 4 to the consolidated financial statements).

(2) See Section 2.4 "Group capital expenditure" and Note 3 to the consolidated financial statements.

Organic cash flow amounted to 7.818 billion euros in 2007, compared with 7.157 billion euros in 2006, showing an increase of 661 million euros. This increase can be explained mainly by the increase in net cash provided by operating activities, in conjunction specifically with the increase in GOM. Organic cash flow for the 2006 financial year includes PagesJaunes Groupe, a business disposed of on October 11, 2006 (see Note 4 to the consolidated financial statements). Excluding the PagesJaunes Groupe in 2006, organic cash flow increased 912 million euros, changing from 6.906 billion euros in 2006 to 7.818 billion euros in 2007.

The share of organic cash flow which may be allocated to minority shareholders stands at 746 million euros in 2007 compared with 1.045 billion euros in 2006 (930 million euros excluding PagesJaunes Groupe).

■ Net cash provided by operating activities

Net cash provided by operating activities stands at 14.644 billion euros in 2007, an increase of 781 million euros compared to 2006 (13.863 billion euros).

	Years ended December 31
(in millions of euros)	
Net cash provided by operating activities for 2006 (historical basis)	13,863
Increase factors:	
Increase in the GOM of continuing operations	577
Increase in the change in total working capital requirement ⁽¹⁾	279
Increase in the change in operating working capital requirement ⁽¹⁾	296
Decrease in the change in other items of working capital requirement	(17)
Decrease in interest paid and interest rates effects on derivatives, net (net of dividends and interest income received)	273
Decrease factors:	
GOM of discontinued operations (an item specific to 2006) ⁽²⁾	(361)
Increase in income tax paid	(185)
Other items	198
Net cash provided by operating activities for 2007	14,644

(1) See Section 5.6 "Financial glossary".

(2) GOM for PagesJaunes Groupe, disposed of on October 11, 2006 (see Note 4 to the consolidated financial statements).

In 2007, the 294 million euros improvement in the overall working capital requirements (see Section 5.6 "Financial glossary") was mainly the result of the combined effect of the increase in

supplier debts and the reduction in payment time for customer receivables due. In 2006, the improvement in overall working capital requirements was 15 million euros.

■ Net cash used in investing activities

Net cash used in investing activities stand at 6.881 billion euros in 2007, compared with 4.691 billion euros in 2006.

Acquisitions and sales of property, plant and equipment and intangible assets

(in millions of euros)

Years ended December 31

ACQUISITIONS AND SALES OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (NET OF THE CHANGE IN AMOUNTS DUE TO FIXED ASSET SUPPLIERS)	2007	2006 historical basis
Acquisitions of property, plant and equipment and intangible assets	(7,064)	(7,039)
CAPEX of continuing operations ⁽¹⁾	(6,979)	(6,732)
CAPEX of discontinued operations ⁽²⁾	-	(24)
Telecommunication licenses ⁽¹⁾	(85)	(283)
Increase (decrease) in amounts due to fixed asset suppliers	125	228
Proceeds from sales of property, plant and equipment and intangible assets	113	105
GROUP TOTAL	(6,826)	(6,706)

(1) See Section 2.4 "Group capital expenditure" and Note 3 to the consolidated financial statements.

(2) Capital expenditures on tangible and intangible assets of PagesJaunes Groupe, disposed of on October 11, 2006 (see Note 4 to the consolidated financial statements).

Cash paid for investment securities

(in millions of euros)

Years ended December 31

CASH PAID FOR INVESTMENT SECURITIES (NET OF CASH ACQUIRED) ⁽¹⁾	2007	2006 historical basis
Acquisition of 100% of T-Online Telecommunications Spain which became FT España ISP (operating under the Ya.com brand) ⁽²⁾	(319)	-
Acquisition of 51% of Telkom Kenya ⁽²⁾	(270)	-
Purchase of 2% of treasury shares by TP S.A.	(185)	-
Acquisition of 33.5% of Orange Moldova (former Voxtel) ⁽²⁾	(103)	-
Acquisition of 96.1% of Groupe Silicomp ⁽²⁾	(96)	-
Acquisition of 90% of VOXmobile by Mobistar ⁽²⁾	(80)	-
Acquisition of 1.7% of Amena ⁽³⁾	-	(113)
Acquisition of 15.8% of Jordan Telecommunications Company (JTC) ⁽⁴⁾	-	(68)
Acquisition of 99.5% of Groupe Diwan	-	(39)
Other acquisitions	(64)	(35)
GROUP TOTAL	(1,117)	(255)

(1) See Note 4 to the consolidated financial statements.

(2) See Section 1. "Overview".

(3) Acquisition in March 2006 by France Telecom of an additional 0.6% stake in Auna, which became France Telecom Operadores de Telecomunicaciones S.A. (FTOT), and acquisition by FTOT of an additional 1.4% stake in Retevision Movil S.A. (Amena). Since the merger of the FT España, FTOT and Amena companies to create FT España in July 2006, France Telecom now holds a 79.3% stake in FT España.

(4) Acquisition in April 2006 by France Telecom of an additional 12% stake in Jitco, the holding company of Jordan Telecommunications Company (JTC), and acquisition by France Telecom, successively in July and November 2006, of 10% and 1% less one share in JTC. At the end of those transactions, France Telecom held directly or indirectly 51% minus one share of JTC.

Cash paid for investment securities, net of cash acquired, stands at 1.117 billion euros in 2007, compared with 255 million euros in 2006. The main acquisitions of investment securities for the

2007 financial year are described in Section 1.4 "Main events that took place in 2007" and in Note 4 to the consolidated financial statements.

Proceeds from sales of investment securities

(in millions of euros)

Years ended December 31

	2007	2006 historical basis
PROCEEDS FROM SALES OF INVESTMENT SECURITIES (NET OF CASH TRANSFERRED)⁽¹⁾		
Proceeds from sale of 100% of Orange's Internet and mobile businesses in the Netherlands ⁽²⁾	1,306	-
Price supplement tied to the sale of Tower Participations (company holding TDF) ⁽²⁾	254	-
Proceeds from sale of 20% of Bluebirds Participations France (company holding Eutelsat Communications) ⁽²⁾	110	-
Effect of the share restructuring in One GmbH ⁽²⁾	82	-
Proceeds from sale of 54% of PagesJaunes Groupe ⁽⁴⁾	-	2,697
Proceeds from sale of 100% of France Telecom Mobile Satellite Communications (FTMSC)	-	46
Proceeds from sale of 20% of Ypso Holding (cable network activities)	-	44
Other proceeds from sales	56	22
GROUP TOTAL	1,808	2,809

(1) See Notes 4 and 8 to the consolidated financial statements.

(2) See Section 1. "Overview".

(3) On October 11, 2006, France Telecom sold its entire 54% interest in PagesJaunes Groupe to Médiannuaire, a subsidiary of Kohlberg Kraus Roberts & Co Ltd (KKR), for 3.287 billion euros, net of disposal costs. In 2006, the proceeds from the disposal, which stood at 2.983 billion euros, were recorded under consolidated net income after tax of discontinued operations (see Section 2.3.4 "Consolidated net income after tax of discontinued operations" and Note 4 to the consolidated financial statements). After acknowledgement of repayment current accounts and the cash transferred disposed of, the net proceeds of this disposal stand at 2.697 billion euros.

The proceeds from sales of investment securities, net of cash transferred, stand at 1.808 billion euros in 2007, compared with 2.809 billion euros in 2006. The main disposal proceeds for investment securities for the 2007 financial year are described in Section 1.4 "Main events that took place in 2007" and in Notes 4 and 8 to the consolidated financial statements.

Change in marketable securities and other assets

In 2007, marketable securities and other assets have increased by 746 million euros (following an increase of 539 million euros

in 2006). In 2007, this figure includes in the main the deposit of 757 million euros in an escrow account. This deposit concerns the dispute relating to France Telecom's specific business tax regime between 1991 and 2002 (see Notes 18 and 33 to the consolidated financial statements). The escrow lodging of this deposit increased net financial debt at December 31, 2007, but had no impact on the Group's organic cash flow in 2007.

■ Net cash used in financing activities

Net cash used in financing activities represents overall a requirement of 7.654 billion euros in 2007, compared with a requirement of 9.271 billion euros in 2006.

(in millions of euros)	Years ended December 31	
	2007	2006 historical basis
Issuances ⁽¹⁾	3,946	1,513
Bonds (convertible, exchangeable or redeemable into shares) issues by France Telecom S.A.	3,122	928
EMTN ⁽²⁾ bank borrowings issues by France Telecom S.A.	600	456
Other issuances	224	129
Redemptions and repayments ⁽¹⁾	(6,546)	(6,658)
Bonds (convertible, exchangeable or redeemable into shares) redemptions by France Telecom S.A.	(3,123)	(2,787)
Redemptions of EMTN ⁽²⁾ bank borrowings by France Telecom S.A.	(1,629)	(1,200)
Bonds redemptions by TP S.A. Eurofinance	(475)	(500)
Redemptions of syndicated credit lines by FT España	(400)	(250)
Redemptions of perpetual bonds redeemable for shares (TDIRAs) ⁽³⁾	(383)	(645)
Other redemptions and repayments	(437)	(552)
Exchange rates effects on derivatives, net	(99)	(724)
Increase (decrease) in bank overdrafts and short-term borrowings ⁽¹⁾	(906)	(1,117)
Decrease (increase) in deposits and other debt-linked financial assets ⁽¹⁾	(330)	192
Purchase of treasury shares ⁽⁴⁾	(214)	(10)
Capital increase ⁽⁴⁾	140	54
Dividends paid and contributions ⁽⁴⁾	(3,744)	(3,245)
Dividends paid by France Telecom S.A.	(3,117)	(2,602)
Dividends paid by the subsidiaries to minority shareholders	(677)	(593)
Minority shareholders' contributions	50	(50)
Net cash used in financing activities	(7,654)	(9,271)

(1) See Notes 20, 21 and 22 to the consolidated financial statements.

(2) Euro Medium Term Notes.

(3) Of which 16 million euros in 2007 and 42 million euros in 2006 posted under the entry "Shareholders' equity portion of hybrid debts" (see Note 21 to the consolidated financial statements).

(4) See Note 30 to the consolidated financial statements.

Management of covenants is described in Note 24 to the consolidated financial statements.

4.2 SHAREHOLDERS' EQUITY

At December 31, 2007, the state holds, directly or indirectly via ERAP, a state-owned industrial and commercial establishment, 27.3% of the capital in France Telecom S.A., compared with

32.4% at December 31, 2006 (see Note 30 to the consolidated financial statements).

(in millions of euros)	Years ended December 31
Shareholders' equity at December 31, 2006 (historical basis)	31,638
Shareholders' equity attributable to equity holders of France Telecom S.A.	26,794
Minority interests	4,844
Change in shareholders' equity attributable to equity holders of France Telecom S.A.⁽¹⁾	3,061
Net income for 2007	6,300
Distribution of dividends by France Telecom S.A.	(3,117)
Unrealized foreign exchange gains (losses)	(467)
Other changes	345
Change in minority interests⁽¹⁾	(374)
Shareholders' equity at December 31, 2007	34,325
Shareholders' equity attributable to equity holders of France Telecom S.A.	29,855
Minority interests	4,470

(1) For more details, see "Consolidated statement of changes in shareholders' equity" to the consolidated financial statements and Note 30 to the consolidated financial statements.

4.3 FINANCIAL DEBT AND FINANCING RESOURCES

4.3.1 Net financial debt

France Telecom's net financial debt (see Section 5.6 "Financial glossary" and Note 20 to the consolidated financial statements)

stands at 37.98 billion euros at December 31, 2007 compared with 42.017 billion euros at December 31, 2006. In relation to December 31, 2006, net financial debt is thus reduced by 4.037 billion euros at December 31, 2007.

■ Net financial debt indicators

(in millions of euros)	Years ended December 31	
	2007	2006 historical basis
Net financial debt	37,980	42,017
Weighted average cost of net financial debt	6.46%	5.91%
Average maturity of net financial debt ⁽¹⁾	7.1 years	6.7 years
Ratio of Net financial debt/Shareholders' equity	1.11	1.33
Ratio of Net financial debt/GOM	1.99	2.27

(1) Excluding perpetual bonds redeemable for shares (TDIRAs).

The weighted average cost of net financial debt is calculated as the ratio of interest expenses, net, less exceptional and non-recurring items, to the average outstanding amount, calculated based on net financial debt adjusted for the amounts that

do not give rise to interest, such as accrued interest payable and liabilities related to commitments to purchase minority interests.

■ Change in net financial debt

(in millions of euros)	Years ended December 31
Net financial debt at December 31, 2006 (historical basis)	42,017
Decrease factors:	
Organic cash flow ⁽¹⁾	(7,818)
Proceeds from sales of investment securities (net of cash transferred) ⁽¹⁾	(1,808)
Increase factors:	
Dividends paid by France Telecom S.A. (1,20 euro per share)	3,117
Cash paid for investment securities (net of cash acquired) ⁽¹⁾	1,117
Escrow deposit ⁽²⁾	757
Dividends paid by the subsidiaries to minority shareholders and contributions from minority shareholders	627
Other items	(29)
Net financial debt at December 31, 2007	37,980

(1) See Section 4.1, "Liquidity and cash flows".

(2) Dispute relating to France Telecom's specific corporate taxation scheme between 1991 and 2002 (see Notes 18 and 33 to the consolidated financial statements). The lodging in escrow of this deposit had no impact on the Group's organic cash flow in 2007.

4.3.2 Financing resources

Financial assets at fair value through profit, bonds, bank loans and derivative instruments are described respectively in Notes 19, 21, 22 and 23 to the consolidated financial statements.

France Telecom's policy in 2007 was to pre-finance the bond repayment scheduled for March 2008 very early on, for 3.3 billion euros, then to give priority to niche markets (structured EMTN (Euro Medium Term Notes), issued in Swiss francs). Issues undertaken in 2007 were all kept at a fixed rate, enabling a

slight upturn in the fixed-rate part of the Group's net debt from 82.7% at December 31, 2006 to 85.5% at December 31, 2007. The average cost of refinancing undertaken in 2007 is 4.55% after currency swaps (see Note 24 to the consolidated financial statements).

The policy of the France Telecom group is to be in a position to meet its coming repayments on the basis of available cash flow and credit lines in place, for the coming twelve months and with no additional financing.

4.3.3 Exposure to market risks and financial instruments

In the context of its industrial and commercial activities, France Telecom is exposed to the market risks related to the cost of its

debt and the value of certain assets denominated in currencies (investment securities in foreign companies). On the basis of an analysis of its general exposure to risks, primarily related to fluctuations in interest rates and foreign exchange rates, France Telecom uses various financial instruments within limits set by Management in terms of potential impacts on results, with the goal of optimizing its financing costs.

Management of the interest rate risk, the currency risk, the liquidity risk, the covenants, the counterparty risk and the management of the stock market risk are described in Note 24 to the consolidated financial statements.

4.3.4 France Telecom's debt ratings

At December 31, 2007, France Telecom's debt ratings were as follows:

	Standard & Poor's	Moody's	Fitch IBCA
Long-term debt	A-	A3	A-
Outlook	Stable	Stable	Stable
Short-term debt	A2	P2	F1

A portion of the debt (8.1 billion euros outstanding at December 31, 2007) includes step-up clauses. This amount does not include perpetual bonds redeemable for shares (TDIRAs) whose step-up clauses are described in Note 21 to

the consolidated financial statements. Since no adjustment was made to France Telecom's rating in 2007, no step-up clauses were activated.

5. additional information

5.1 TRANSITION FROM DATA ON A HISTORICAL BASIS TO DATA ON A COMPARABLE BASIS

In order to allow investors to track the annual changes in the Group's operations, data on a comparable basis is provided for the previous period. The transition from data on a historical basis to data on a comparable basis consists of keeping the results for the Year ended and restating the previous year in order to present financial data with comparable methods, scope of consolidation and exchange rates over comparable periods. France Telecom provides the details of the impacts of changes in method, scope of consolidation and foreign exchange on its key operating indicators in order to isolate the intrinsic business impact. The method used is to apply to

the data of the corresponding period of the preceding year the scope of consolidation for the period ended as well as the average exchange rate used for the income statement for the period ended. Data on a comparable basis are not intended to replace the data on a historical basis for the Year ended or the previous periods.

Data on a comparable basis is calculated through GOM. For items between GOM and operating income, data on a comparable basis is established only for depreciation and amortization.

■ Group Summary

Principle operating indicators

Year ended December 31, 2006					
(in millions of euros)	Revenues	GOM	Depreciation and amortization	CAPEX	Average nb of employees
Data on a historical basis	51,702	18,539	(7,824)	6,732	189,028
Changes in scope of consolidation⁽¹⁾	65	(3)	(2)	6	2,315
Newly consolidated companies	360	37	(48)	52	2,903
Full consolidation of Jordan Telecommunications Company (JTC) and its subsidiaries	115	54	(18)	14	943
Acquisition of Groupe Silicomp	106	(10)	(2)	2	1,120
Acquisition of T-Online Telecommunications Spain which became FT España ISP (Ya.com)	71	(3)	(26)	30	198
Acquisition of Groupe Diwan	22	-	-	-	156
Acquisition of VOXmobile	17	(1)	(2)	5	48
Acquisition of Top Achat Clust	10	(1)	-	-	-
Other	19	(2)	-	1	438
Companies no longer consolidated	(295)	(40)	46	(46)	(588)
Sale of Orange's mobile and Internet businesses in the Netherlands	(172)	(30)	39	(42)	(359)
Sale of France Telecom Mobile Satellite Communications (FTMSC)	(120)	(9)	7	(4)	(205)
Other	(3)	(1)	-	-	(24)
Other changes⁽¹⁾	(44)	13	(4)	-	-
Foreign exchange rates fluctuations⁽¹⁾⁽²⁾	(182)	(63)	3	(17)	-
Data on a comparable basis⁽¹⁾	51,541	18,486	(7,827)	6,721	191,343

(1) Unaudited data.

(2) Foreign exchange rate fluctuations between the average exchange rates for 2006 and the average exchange rates for 2007.

Operating expenses included in the GOM

Year ended December 31, 2006

(in millions of euros)	Revenues	OPEX excluding labour expenses (wages and employee benefit expenses)	Labour expenses (wages and employee benefit expenses)	GOM
Data on a historical basis	51,702	(24,571)	(8,592)	18,539
Changes in scope of consolidation ⁽¹⁾	65	2	(70)	(3)
Other changes ⁽¹⁾	(44)	79	(22)	13
Foreign exchange rates fluctuations ⁽¹⁾⁽²⁾	(182)	102	17	(63)
Data on a comparable basis⁽¹⁾	51,541	(24,388)	(8,667)	18,486

(1) Unaudited data.

(2) Impact of the foreign exchange rate fluctuations between the average exchange rates for 2006 and the average exchange rates for 2007.

Details of the transition from data on a historical basis to data on a comparable basis

The variations included in the transition from data on a historical basis to data on a comparable basis for 2006 primarily include:

■ **changes in scope of consolidation** (see Note 4 to the consolidated financial statements) which primarily reflected the impact of:

- the full consolidation of Jordan Telecommunications Company (JTC, HCS Rest of the world sub-segment) and its subsidiaries Wanadoo Jordan, E-Dimension (HCS Rest of the world sub-segment) and Mobilecom (PCS Rest of the world sub-segment) on July 5, 2006, effective January 1, 2006 in the comparable basis data. Prior to July 5, 2006, France Telecom's investment in the Jordan Telecommunications Company (JTC) was consolidated proportionately,
- the acquisition of the Groupe Silicomp (ECS business segment) on January 4, 2007, effective January 1, 2006 in the comparable basis data (see Section 1: "Overview"),
- the acquisition of T-Online Telecommunications Spain (which became FT España ISP, HCS Rest of the world sub-segment), which operates under the Ya.com brand, on July 31, 2007, effective August 1, 2006 in the comparable basis data (see Section 1. "Overview"),

- the acquisition of the Groupe Diwan (ECS business segment) on July 27, 2007, effective January 1, 2006 in the comparable basis data,
- the acquisition of VOXmobile (PCS Rest of the world business sub-segment) on July 2, 2007, effective July 1, 2006 in the comparable basis data (see Section 1. "Overview"),
- the acquisition of Top Achat Clust (HCS France business sub-segment) on March 31, 2006, effective January 1, 2006 in the comparable basis data,
- the disposal of Orange Internet and mobile businesses in the Netherlands (HCS Rest of the world and PCS Rest of the world sub-segment) on October 1, 2007, effective October 1, 2006 in the comparable basis data (see Section 1. "Overview"),
- and the disposal of France Telecom Mobile Satellite Communications (FTMSC France HCS business sub-segment) on October 31, 2006, effective January 1, 2006 in the comparable basis data;
- and **foreign exchange rates fluctuations** between average exchange rates for 2006 and average exchange rates for 2007.

I - group management report

ADDITIONAL INFORMATION

Transition from data on a historical basis to data on a comparable basis

■ Personal Communication Services (PCS)

(in millions of euros)

Year ended December 31, 2006

PCS	Revenues	GOM	Depreciation and amortization	CAPEX	Average nb of employees
Data on a historical basis	27,745	9,686	(4,183)	3,581	37,214
Changes in scope of consolidation⁽¹⁾	(91)	(15)	23	(21)	(93)
Sale of Orange's mobile businesses in the Netherlands	(153)	(26)	33	(36)	(302)
Full consolidation of Jordan Telecommunications Company (JTC) subsidiaries	43	15	(7)	10	145
Acquisition of VOXmobile	17	(1)	(2)	5	48
Other	2	(3)	(1)	-	16
Other changes⁽¹⁾	1	(180)	62	(125)	(1,513)
Internal reorganizations ⁽²⁾	7	(167)	76	(126)	(1,513)
Other	(6)	(13)	(14)	1	-
Foreign exchange rates fluctuations⁽¹⁾⁽³⁾	(117)	(57)	16	(22)	-
Data on a comparable basis⁽¹⁾	27,538	9,434	(4,082)	3,413	35,608

(1) Unaudited data.

(2) Internal reorganization between business segments with no effect at the Group level.

(3) Foreign exchange rate fluctuations between the average exchange rates for 2006 and the average exchange rates for 2007.

■ Home Communication Services (HCS)

(in millions of euros)

Year ended December 31, 2006

HCS	Revenues	GOM	Depreciation and amortization	CAPEX	Average nb of employees
Data on a historical basis	22,487	7,265	(3,241)	2,721	134,447
Changes in scope of consolidation⁽¹⁾	15	22	(24)	25	738
Sale of France Telecom Mobile Satellite Communications (FTMSC)	(121)	(9)	7	(4)	(205)
Full consolidation of Jordan Telecommunications Company (JTC) and its subsidiaries	79	39	(11)	5	798
Acquisition of T-Online Telecommunications Spain which became FT España ISP (Ya.com)	71	(3)	(26)	30	198
Sale of Orange's Internet businesses in the Netherlands	(25)	(4)	6	(7)	(57)
Acquisition of Top Achat Clust	10	(1)	-	-	-
Other	1	-	-	1	4
Other changes⁽¹⁾	165	324	(65)	122	1,819
Internal reorganizations ⁽²⁾	201	296	(76)	126	1,819
Other	(36)	28	11	(4)	-
Foreign exchange rates fluctuations⁽¹⁾⁽³⁾	58	30	(21)	11	-
Data on a comparable basis⁽¹⁾	22,725	7,641	(3,351)	2,879	137,004

(1) Unaudited data.

(2) Internal reorganization between business segments with no effect at Group level.

(3) Foreign exchange rate fluctuations between the average exchange rates for 2006 and the average exchange rates for 2007.

■ Enterprise Communication Services (ECS)

(in millions of euros)

Year ended December 31, 2006

ECS	Revenues	GOM	Depreciation and amortization	CAPEX	Average nb of employees
Data on a historical basis	7,652	1,590	(402)	430	17,367
Changes in scope of consolidation⁽¹⁾	141	(10)	(2)	2	1,669
Acquisition of Groupe Silicomp	106	(10)	(2)	2	1,120
Acquisition of Groupe Diwan	22	-	-	-	156
Other	13	-	-	-	393
Other changes⁽¹⁾	19	(130)	(1)	3	(305)
Internal reorganizations ⁽²⁾	-	(140)	-	-	(305)
Other	19	10	(1)	3	-
Foreign exchange rates fluctuations⁽¹⁾⁽³⁾	(123)	(36)	8	(6)	-
Data on a comparable basis⁽¹⁾	7,689	1,414	(397)	429	18,731

(1) Unaudited data.

(2) Internal reorganization between business segments with no effect at the Group level.

(3) Foreign exchange rate fluctuations between the average exchange rates for 2006 and the average exchange rates for 2007.

5.2 RESEARCH AND DEVELOPMENT

Since 2004, France Telecom has given ever-increasing priority to innovation. In 2007, France Telecom thus allocated 1.7% of its revenues to innovation, i.e. 894 million euros, compared to 856 million euros in 2006 and 716 million euros in 2005. These amounts include labour expenses and other operating and investment expenses relating to research, development, and innovation on new products and services. Action is taken by the "Orange Labs" network which comprises R&D laboratories, the "Explocenter" which experiments with potential innovations alongside clients, the "Technocenter" which is responsible for industrializing the launch of new products and services while strengthening the Group's responsiveness on its markets, and the Strategic Marketing Group, which supplies all market knowledge elements.

■ Workforce

At December 31, 2007, France Telecom employed more than 4,800 people in its R&D, Marketing Stratégique-Technocenter and Technologies - Explocenter. 4,071 of them are in the R&D division, including 3,661 engineers, scientists and researchers.

■ Organization

The France Telecom group operates in an economic context that is undergoing major changes, where a competitive advantage requires a systematic method for innovation guided by both market developments and technologies. That is why the Group has decided to unite the functions of design and new offer launches around a single marketing strategy, the Group Strategic Marketing.

The R&D laboratories, Explocenter and Technocenter are managed within the Orange Labs network, launched in January 2007 under the supervision of strategic marketing. The Orange Labs network is the world-wide innovation network for the France Telecom group. The creation of this network, whose objective is to improve the selection of innovations developed by the Group and to reduce time-to-market, was awarded the "Best Innovator 2007" prize ("Organizational Innovation Marketing partnership/R&D/Networks/IS" category), given by strategic consultants A. T. Kearney in partnership with "Les Echos" French financial paper. The Group previously received the award in 2005.

■ Implementation of the "NEXT" strategy

The Orange Labs network plays a key role in the integrated operator strategy, contributing through its development to network integration, to the enrichment of communication, information and leisure services, to the offering of new practical services, as well as the optimization and increase in value-adding of business services.

The Orange Labs network continued its transformation in 2007, in particular regarding the professionalization of software development, so as to contribute to speeding up the time-to-market of differentiating offers while ensuring high levels of quality. Thus several technical innovations from its laboratories have been integrated into Group products and services. The improvement in service quality as witnessed by customers has also been a major priority. The professionalization of players and the management of key processes, subcontractor management,

certification and acknowledgement of customer feedback have thus allowed service quality to be markedly improved for the principle offers, such as the Livebox, Voice over IP or Orange TV. Furthermore, the Orange Labs network implemented continuous improvement processes so as to permanently increase its effectiveness and performance.

This transformation in the innovation process has enabled speeding up the launch of new products and services, such as the new Livebox in France, "Orange Messenger by Windows Live", the fixed-line/mobile convergence portal, the enriched voice messaging, the Liveradio, the offer "Ma fibre", as well as the larger group of offers presented during the three collections of 2007.

For businesses, the Orange Labs network is notably developing services related to migration over IP for telephony and answering services: Company Intranet access from PDA's and Smartphones (Business Everywhere on PDA), audio or telephone call conferencing without reservations or subscriptions (Flash Meeting) and LiveBox Pro for very small businesses, etc.

Research work in the area of spoken word, sound, image and multimedia technologies mean that the IP communications (Voice over IP, IPTV) domain can be enriched. Work in the search engine domain should allow users to benefit fully from content. That is why emphasis is placed on "Video Search", faced with the observed extremely high growth in video traffic on television, Internet and mobile. France Telecom is thus strengthening its positioning on new markets, in particular content and audience.

In the area of network access, the main work is based around the home network, management of the multiple and complementary nature of access networks (mobility management in the network, multi-access terminal) and on the increased bandwidth of all access types (radio and cable-based).

In the area of core networks, main works concern fixed-line/mobile architectures, and particularly IMS (IP Multimedia Subsystem) architecture, the unification of network orders and management of quality of service aspects.

■ Multi-country Research & Development

The Orange Labs network groups together the collaborators in nine countries and four continents. Each Orange Lab is thus immersed in a specific geographical environment enabling it to seize and anticipate the technological gaps and development of usage worldwide, facilitating partnerships and thus accelerating the Group's capacity for innovation.

It is within this context that five additional Orange Labs were created in 2007, composed of:

- three Technocenter platforms in the United Kingdom, Poland and Jordan. Their objective is to design and market new products and services both in the countries where they are located and in the other countries where the Group is present;

- the new Orange Lab in Cairo, Egypt. The work done in this R&D centre will enable the Group's range of services to be enhanced, creating synergies with the local environment and the Orange Labs worldwide network;

- Orange Vallée, a special unit for rapid and light development services of the start-up type. This is aimed at new markets and will market services that are not close to France Telecom's core business.

These new structures have just been added to existing structures in France and to the seven research laboratories located in six other countries.

The San Francisco laboratory, located in a unique area in terms of its skill-set concentration in innovative technologies, is focused on key domains such as the Web 2.0 dynamic and associated communities, and their influences on company and home service offers, network resource optimizing and routing technologies, computation and storage, fixed-line or mobile search services, and content linked to advertising revenues. The Boston lab, located close to Massachusetts Institute of Technology (MIT) and Nokia and Motorola handset laboratories on the East coast of the United States, is working on the simplification of our residential or business services, using the multimedia opportunities afforded by new browsers and handset applications. The London laboratory concentrates its expertise on wireless network mobility, IMS services, handset-user interfaces and related market analyses. The laboratories in Tokyo and Seoul make it possible to monitor major developments in uses and technologies in Japan and Korea, notably on fixed-line and wireless broadband Internet and localization services. The Peking laboratory (China) is harnessing the dynamic Chinese telecommunications market and the pool of local talent to meet the needs of the Group's various business units in various areas such as handsets, value-added services and open source software. The R&D center belonging to TP Group in Warsaw (Poland) has a dual mission: Overall, to meet the needs of this operator, as well as the needs of the whole France Telecom group, in particular in the areas of information systems, access (optics, DSL-CPEs inter-operability) network core (Siemens signaling and SHD transmission), information processing and handsets. It thus participates in the development of the Babybox (simplified Livebox).

■ Partnerships, relations with universities, collaborative research

The Group has an active policy in strategic partnerships with leading industrial players which allows its portfolio of products and services to be quickly enriched. In this way, Unik is the result of a partnership with Ericsson, "Business Together" of a partnership with Nortel and "Orange Messenger by Windows Live" a partnership with Microsoft. France Telecom has also concluded medium-term bilateral partnerships with American, European and Asian groups which enable the forthcoming technological developments to be foreseen.

Partnerships with universities and academic institutes are covered by framework agreements (CNRS, INRIA, Supélec,

Ecole Normale Supérieure, Massachusetts Institute of Technology, etc.) or bilateral research contracts. In 2007, the R&D division employed nearly 300 PhD. students and postdoctoral researchers. A particular effort is made to support doctoral students so that they may integrate more easily into professional life once they have obtained their doctorate.

France Telecom is a key player in R&D programs through various partnerships, at both national level (RNRT, RNTL, RNTS) and European level (6th European Commission framework program, EUREKA, EURESCOM). France Telecom is one of the most active operators in the Framework Program, and also takes part in initiatives created by the Industrial Innovation Agency, specifically in the Quaero European search engine project, and the Maxsim project (final development of new SIM cards).

Lastly, in France, France Telecom is involved in the various centers of competitiveness aimed at fostering synergies around innovative projects: in this way, the Group is participating in seven such centers of excellence, including five with a global focus.

■ Patents and licensing

France Telecom possesses a portfolio of 8,487 patents in France and abroad (issued or filed) and permanently strengthens this pool via the registering of new patents, with the objective of protecting its innovations and its freedom to develop. In order to capitalize on the results of R&D, some of these patents

are licensed through programs such as for Turbocodes, a technology notably covering 3G mobile networks, or through patent pools for patents corresponding to standards (MP3, MPEG, DAB, DVB, W-CDMA, G729, IEEE802.11x, NFC, ISDB-T in Japan etc.). This value creation also concerns the Group's software, including the "e-conf" PC videoconferencing software or the mobile network engineering tools. In 2007, the number of new patents registered stood at 403 (512 in 2006 and 530 in 2005). These patents come primarily from the R&D division of France Telecom S.A..

■ Management of technological interests

Within the R&D division, management of technological interests covers risk capital companies (FTTI, Innovacom3), the Innovacom Gestion management company and the FTCD holding (France Telecom Capital Développement). This holding company, which represents a wholly-owned subsidiary of France Telecom, holds three types of funds:

- corporate funds, such as FTTI, set up to create value through France Telecom's intellectual property in exchange for stakes in tech start-ups;
- funds under management open to third parties (Innovacom 3, 4 and 5);
- external funds (US, Canada, Japan), managed by third parties, in which FTCD has various equity interests.

5.3 SOCIAL AND ENVIRONMENTAL INFORMATION

Pursuant to the provisions of Article L. 225-102-1 of the French Commercial Code resulting from the Law of May 15, 2001 defining the new economic regulations (the "NRE Law"), France Telecom provides information on the way in which it takes into consideration the social and environmental impacts of its businesses. Data relating to these obligations is presented in Section 4, "Social and environmental information" of the Report of the Board of Directors of France Telecom S.A.

Beyond these legal obligations, France Telecom draws up a Corporate Responsibility and Sustainable Development Report, which covers all Group businesses, their social and environmental impacts, which presents Group performance and objectives in these areas.

5.4 CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET COMMITMENTS

The contractual obligations and off-balance sheet commitments are described in Note 32 to the consolidated financial statements.

5.5 SUBSEQUENT EVENTS

The main events that occurred between the closing date and the date on which the 2007 financial statements were approved

by the Board of Directors, are described in the Notes to the consolidated financial statements.

5.6 FINANCIAL GLOSSARY

ARPU (PCS segment): the average annual revenue per user (ARPU) is calculated by dividing the network revenues (see this definition) generated over the last twelve months (excluding revenues from mobile virtual network operators - MVNO) by the weighted average number of customers over the same period. The weighted average number of customers is the average of the monthly averages during the period in question. The monthly average is the arithmetic mean of the number of customers at the start and end of the month. The ARPU is expressed as annual revenues per customer.

ARPU for Consumer fixed-line services (HCS segment): the average monthly revenues per line for Consumer fixed-line services (ARPU) is calculated by dividing the average monthly revenues, on the basis of the last twelve months, by the weighted average number of lines for Consumer fixed-line services over the same period. The weighted average number of lines for Consumer fixed-line services is the average of the monthly averages during the period in question. The monthly average is the arithmetic mean of the number of lines for Consumer fixed-line services at the beginning and the end of the month. The ARPU for Consumer fixed-line services is expressed as monthly revenues per line.

AUPU (PCS segment): the average monthly usage per user (AUPU) is calculated by dividing the average monthly minutes used over the preceding twelve months (outgoing calls, incoming calls and roaming, excluding traffic for mobile virtual network operators (MVNO)) by the weighted average number of customers over the same period. The AUPU is expressed in minutes as monthly usage per customer.

Average number of employees (full-time equivalents): average number of active employees over the period, prorated by their work time, including permanent and fixed-term contracts.

CAPEX: capital expenditures on tangible and intangible assets excluding telecommunication licenses and excluding investments financed through finance leases (see Note 3 to the consolidated financial statements).

Capital expenditures on tangible and intangible assets excluding licenses: see CAPEX.

Change in operating working capital requirement: change in net inventories, plus change in trade receivables, plus change in trade payables (excluding fixed asset suppliers).

Change in total working capital requirement: change in operating working capital requirement, plus change in other receivables, plus change in other liabilities.

Commercial expenses: see External purchases.

Data on a comparable basis: data with comparable methods, scope of consolidation and exchange rates are presented for the preceding period. This transition from data on a historical basis to data on comparable basis consists of keeping the results for the period ended and restating the results for the corresponding period of the preceding year for the purpose of presenting, over comparable periods, financial data with comparable methods, scope of consolidation and exchange rates. The method used is to apply the scope of consolidation for the period ended as well as the average exchange rate used for the income statement for the period ended to the data for the corresponding period from the preceding year. Data on a comparable basis are not intended to replace the data on a historical basis for the Year ended or the previous periods.

Equipment revenues (PCS segment): equipment revenues include the sale of mobile handsets and accessories.

External purchases: external purchases (see Note 6 to the consolidated financial statements) include:

- **Commercial expenses:** external purchases including the purchase of handsets and other products sold, retail fees and commissions, and advertising, sponsoring and brand costs;
- **Service fees and inter-operator costs;**
- **and Other external purchases:** external purchases including overheads, real estate fees, outsourcing fees relating to technical operation and maintenance, IT expenses, equipment purchases, and call center outsourcing fees, net of capitalized goods and services produced.

Financial investments: acquisitions of investment securities (net of cash acquired).

GOM: gross operating margin (see Note 3 to the consolidated financial statements). Revenues less external purchases, other operating expenses (net of other operating incomes) and labour expenses (wages and employee benefit expenses). The labour expenses (wages and employee benefit expenses) presented in the gross operating margin (GOM) do not include employee profit-sharing or share-based compensation. GOM is one of the key measures used by France Telecom internally to i) manage and assess the results of its business segments, ii) make decisions with respect to investments and allocation of resources, and iii) assess the performance of the Group executive management. France Telecom's management believes that GOM is meaningful for investors because it provides an analysis of its operating results and segment profitability using the same measure used by management.

Gross operating margin: see GOM.

Growing markets: Botswana, Cameroon, Ivory Coast, Egypt, Equatorial Guinea, Guinea, Guinea-Bissau, Mauritius, Jordan, Madagascar, Mali, Mexico, Moldova, Poland (mobile telephony subsidiaries), Central African Republic, Dominican Republic, Romania, Senegal, Slovakia, Vanuatu, Vietnam and other markets.

Labour expenses (wages and employee benefit expenses): see OPEX.

Mature markets: France, United Kingdom, Spain, Poland (fixed-line telephony subsidiaries), Belgium, Switzerland, the Netherlands (to September 30, 2007, see Section 1. "Overview") and Luxembourg.

Net financial debt: net financial debt corresponds to the total financial liabilities excluding trade payables (converted at the year-end closing rate), less i) derivative instruments carried in assets for trading, cash flow hedges and fair value hedges, ii) cash collateral paid on derivative instruments, iii) cash and cash equivalents and financial assets at fair value, and iv) deposits paid on certain specific transactions (if the related debt is included in the gross financial debt). The Group has set up derivatives that are eligible for cash flow hedge accounting. The future cash flows underlying the hedges are not included in the calculation of net financial debt. However, the market value of the derivatives used to hedge these cash flows is included in the calculation. The line "Effective portion of cash flow hedges" is added to net financial debt in order to offset this temporary difference (see Note 20 to the consolidated financial statements).

Network revenues (PCS segment): network revenues represent the revenues (voice, data and SMS) generated through use of the mobile network, including revenues generated by incoming and outgoing calls, network access fees, roaming revenues from customers of other networks, revenues from value-added services, and revenues from mobile virtual network operators (MVNO). It represents the most relevant recurring income for the wireless business and is directly correlated with business indicators.

"Non-voice" service revenues (PCS segment): "non-voice" services revenues correspond to network revenues (see this definition), excluding revenues generated by "voice" (excluding revenues from mobile virtual network operators - MVNO). For example, it includes revenues generated by sending text messages (SMS), multimedia messages (MMS), data (WAP, GPRS and 3G) and content revenues from customers (downloading of ring tones, sports results, etc.).

Number of employees (active employees at end of period): the number of people working on the last day of the period, including both permanent and fixed-term contracts.

Operating expenses excluding labour expenses (wages and employee benefit expenses): see OPEX.

Operating expenses included in the calculation of Gross Operating Margin (GOM): see OPEX.

OPEX: operating expenses (see Note 6 to the consolidated financial statements) included in the determination of the gross operating margin (GOM), including:

- **labour expenses (wages and employee benefit expenses):** the labour expenses (wages and employee benefit expenses) included in the determination of the gross operating margin (GOM) do not include employee profit sharing or share-based compensation costs. These are part of the costs included between the gross operating margin (GOM) and operating income. Labour expenses (wages and employee benefit expenses) are net of capitalized labour expenses;
- **OPEX excluding labour expenses (wages and employee benefit expenses):** operating expenses excluding labour expenses (wages and employee benefit expenses) included in the calculation of the gross operating margin (GOM) include external purchases (see External purchases) and other operating incomes and expenses. Operating expenses excluding labour expenses (wages and employee benefit expenses) are net of capitalized costs.

OPEX excluding labour expenses (wages and employee benefit expenses): see OPEX.

Organic cash flow: net cash provided by operating activities minus purchases of property, plant and equipment and intangible assets (net of the change in amounts due to fixed asset suppliers) plus proceeds from sales of property, plant and equipment and intangible assets. France Telecom uses organic cash flow as an operational performance indicator in order to measure the cash flow generated by operating activities, excluding cash paid for investment securities (net of cash acquired) and excluding proceeds from the sale of investment securities (net of cash transferred).

Other external purchases: see External purchases.

II - consolidated financial documents



1. report of the statutory auditors on the consolidated financial statements	57	2. consolidated financial statements	59
I. OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS	57	2.1 CONSOLIDATED STATEMENT OF INCOME	59
II. EXPLANATION OF OUR ASSESSMENTS	57	2.2 CONSOLIDATED BALANCE SHEET	60
III. OTHER PROCEDURES REQUIRED BY FRENCH LAW	58	2.3 CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	62
		2.4 CONSOLIDATED STATEMENT OF CASH FLOWS	64
		TABLE OF CONTENTS	66

1. report of the statutory auditors on the consolidated financial statements

(year ended December 31, 2007)

Dear Shareholders,

In our capacity as statutory auditors, appointed by ministerial order, we have audited the accompanying consolidated financial statements of France Telecom for the year ended December 31, 2007. The consolidated financial statements have been approved by the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

I. OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position and the assets and liabilities of the group as of December 31, 2007 and the results of its operations for the year then ended in accordance with IFRS as adopted by the European Union.

Without qualifying the above opinion, we draw your attention to Note 33, that discloses the European Commission's decision relative to the business tax system ("taxe professionnelle") and specifies that the request made by the European Commission enters into the category of contingent liabilities as per IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

II. JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of Article L.823-9 of the French Commercial Code (Code de Commerce) relating to the justification of our assessments, we draw your attention to the following matters:

As stipulated in Note 1.3 to the consolidated financial statements, the management of France Telecom makes assumptions and uses accounting estimates that may affect the amounts recorded in the financial statements as well as the accompanying notes. This note also states that the actual results may differ from these estimates, depending on various assumptions or situations. In the context of our audit of the consolidated financial statements at December 31, 2007, we considered that among the accounts that are subject to significant accounting estimates for which our assessments may be explained are those relating

to goodwill, intangible and tangible assets, deferred tax assets and provisions for contingencies.

We have notably:

- with respect to the abovementioned assets, assessed the data and the assumptions on which the estimates are based, and more specifically cash flow projections prepared by the company's operational management, reviewed the calculations made by the company and the sensitivity of the main values in use, assessed the accounting principles and methods used to determine fair values, compared accounting estimates made for prior periods with actual results, and reviewed the management approval procedures for these estimates.

■ with respect to provisions for risks, assessed the basis upon which such provisions have been set up, reviewed the disclosures relating to these risks in the notes to the consolidated financial statements, and reviewed the management approval procedure for such estimates.

These assessments were made in the context of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed, which is expressed in the first part of this report.

III. OTHER PROCEDURES REQUIRED BY FRENCH LAW

We have also reviewed the information given in the Group Management Report in accordance with professional standards applicable in France. We have no matters to report regarding to the fair presentation and the consistency with the consolidated financial statements of this information.

French original signed at Neuilly-sur-Seine and Paris la Défense, February 6, 2008

The statutory auditors

DELOITTE & ASSOCIES

Etienne Jacquemin

Jean-Paul Picard

ERNST & YOUNG Audit

Christian Chiarasini

2. consolidated financial statements

For the years ended December 31, 2007 and 2006

2.1 CONSOLIDATED STATEMENT OF INCOME

(Amounts in millions of euros, except share data)		Note	Year ended December 31, 2007	Year ended December 31, 2006
Revenues	5		52,959	51,702
External purchases	6		(23,156)	(22,809)
Other operating incomes	6		440	473
Other operating expenses	6		(2,360)	(2,235)
Labour expenses: - Wages and employee benefit expenses	6		(8,767)	(8,592)
- Employee profit-sharing	6		(359)	(346)
- Share-based compensation	6		(279)	(30)
Depreciation and amortization	13-14		(8,111)	(7,824)
Impairment of goodwill	7		(26)	(2,800)
Impairment of non-current assets	7		(107)	(105)
Gains (losses) on disposal of assets	8		769	97
Restructuring costs	9		(208)	(567)
Share of profits (losses) of associates	15		4	24
Operating income	3		10,799	6,988
Interest expenses, net	10		(2,521)	(3,155)
Foreign exchange gains (losses)	10		(4)	26
Discounting expense	10		(125)	(122)
Finance costs, net			(2,650)	(3,251)
Income tax	11		(1,330)	(2,180)
Consolidated net income after tax of continuing operations			6,819	1,557
Consolidated net income after tax of discontinued operations	4		-	3,211
Consolidated net income after tax			6,819	4,768
Net income attributable to equity holders of France Telecom S.A.			6,300	4,139
Minority interests	30		519	629
Earnings per share (in euros) (see note 30)				
Net income of continuing operations attributable to equity holders of France Telecom S.A.				
- Basic			2.42	0.40
- Diluted			2.36	0.39
Net income of discontinued operations attributable to equity holders of France Telecom S.A.				
- Basic			-	1.19
- Diluted			-	1.17
Net income attributable to equity holders of France Telecom S.A.				
- Basic			2.42	1.59
- Diluted			2.36	1.57

The accompanying notes are an integral part of the consolidated financial statements.

2.2 CONSOLIDATED BALANCE SHEET

(Amounts in millions of euros)			At December 31, 2007	At December 31, 2006
	Note			
ASSETS				
Goodwill	12		31,389	31,517
Other Intangible assets	13		16,658	18,713
Property, plant and equipment	14		27,849	28,222
Interests in associates	15		282	360
Assets available for sale	16		518	338
Non-current loans and receivables	18		1,960	867
Non-current financial assets at fair value through profit or loss	19		54	44
Non-current hedging derivatives assets	23		42	37
Other non-current assets	17		63	39
Deferred tax assets	11		7,273	8,250
Total non-current assets			86,088	88,387
Inventories			1,068	844
Trade receivables	18		6,556	6,756
Current loans and other receivables	18		81	53
Current financial assets at fair value through profit or loss, excluding cash equivalents	19		534	543
Current hedging derivatives assets	23		12	3
Other current assets	17		2,035	1,788
Current tax assets	11		111	247
Prepaid expenses	17		673	580
Cash and cash equivalents	20		4,025	3,970
Total current assets			15,095	14,784
TOTAL ASSETS			101,183	103,171

(Amounts in millions of euros)			
	Note	At December 31, 2007	At December 31, 2006
EQUITY AND LIABILITIES			
Share capital		10,457	10,427
Additional paid-in capital		15,317	15,179
Retained earnings (deficit)		(3,966)	(5,171)
Net income for the year		6,300	4,139
Cumulative translation adjustment		1,747	2,220
Equity attributable to equity holders of France Telecom S.A.		29,855	26,794
Minority interests		4,470	4,844
Total equity	30	34,325	31,638
Non-current trade payables	20	435	535
Non-current financial liabilities at amortized cost, excluding trade payables	20	32,532	36,199
Non-current financial liabilities at fair value through profit or loss	20	154	798
Non-current hedging derivatives liabilities	20	955	1,066
Non-current employee benefits	26	535	534
Non-current provisions	28	1,657	2,206
Other non-current liabilities	29	870	959
Deferred tax liabilities	11	1,440	1,749
Total non-current liabilities		38,578	44,046
Current trade payables	20	9,580	9,015
Current financial liabilities at amortized cost, excluding trade payables	20	8,694	9,264
Current financial liabilities at fair value through profit or loss	20	730	0
Current hedging derivatives liabilities	20	353	33
Current employee benefits	26	1,881	1,606
Current provisions	28	1,599	1,816
Other current liabilities	29	1,837	2,110
Current tax payables	11	331	466
Deferred income	29	3,275	3,177
Total current liabilities		28,280	27,487
TOTAL EQUITY AND LIABILITIES		101,183	103,171

Additional balance-sheet disclosures on IFRS 7 effects: see note 2.1.

The accompanying notes are an integral part of the consolidated financial statements.

2.3 CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Amounts in millions of euros)	Note	Number of shares in issues	Share capital	Additional paid-in capital
Balance at January 1, 2006		2,603,059,797	10,412	15,131
Unrealized foreign exchange gains (losses)				
Gains (losses) on financial assets available for sale				
Gains (losses) on cash flow hedges taken to equity				
Deferred tax on items recognized directly in equity				
Total income and expense recognized directly in equity (A)				
Net income for the year (B)				
Total recognized income and expense for the year (A+B)				
Allocation of 2005 net income				
Capital increase (stock-options exercised)	27/30	3,613,333	15	48
Equity share options issued: stock-options	27			
Impact of sale of PagesJaunes Groupe	4			
Impact of purchase of minority interest and merger of Spanish entities	4			
Impact of purchase of minority interest and change in consolidation method of Jordan entities	4			
Dividends	30			
Other movements				
Balance at December 31, 2006		2,606,673,130	10,427	15,179
Unrealized foreign exchange gains (losses)				
Gains (losses) on financial assets available for sale				
Gains (losses) on cash flow hedges taken to equity				
Deferred tax on items recognized directly in equity				
Total income and expense recognized directly in equity (A)				
Net income for the year (B)				
Total recognized income and expense for the year (A+B)				
Allocation of 2006 net income				
Capital increase (stock-options exercised)	27/30	7,675,781	30	138
Equity share options issued: Employee shareholding plan within the scope of the sale of shares owned by the French State	27			
Equity share options issued: Free share award plan	27			
Equity share options issued: stock-options	27			
Purchase of treasury shares	30			
Dividends	30			
Increase of the interest percentage in TP Group	4			
Other movements				
Balance at December 31, 2007		2,614,348,911	10,457	15,317

The accompanying notes are an integral part of the consolidated financial statements.

Attributable to equity holders of France Telecom S.A.

Retained earnings									
Income (expense) recognized directly in equity									
Assets available for sale	Hedging instruments	Deferred taxes	Other reserves	Net income	Translation adjustments	Total	Minority interests	Total Equity	
123	(200)	68	(8,316)	5,709	1,933	24,860	3,578	28,438	
					292	292	(18)	274	
(5)						(5)		(5)	
	102					102	2	104	
		(36)				(36)		(36)	
(5)	102	(36)			292	353	(16)	337	
				4,139		4,139	629	4,768	
(5)	102	(36)		4,139	292	4,492	613	5,105	
			5,709	(5,709)					
						63		63	
			31			31	3	34	
						0	(159)	(159)	
			31			31	1,136	1,167	
			59			59	221	280	
			(2,602)			(2,602)	(590)	(3,192)	
			(135)		(5)	(140)	42	(98)	
118	(98)	32	(5,223)	4,139	2,220	26,794	4,844	31,638	
					(467)	(467)	56	(411)	
(38)						(38)		(38)	
	309					309	10	319	
		(106)				(106)	(2)	(108)	
(38)	309	(106)			(467)	(302)	64	(238)	
				6,300		6,300	519	6,819	
(38)	309	(106)		6,300	(467)	5,998	583	6,581	
			4,139	(4,139)		0		0	
						168		168	
			67			67		67	
			147			147	2	149	
			23			23		23	
			(214)			(214)		(214)	
			(3,117)			(3,117)	(670)	(3,787)	
			0			0	(146)	(146)	
			(5)		(6)	(11)	(143)	(154)	
80	211	(74)	(4,183)	6,300	1,747	29,855	4,470	34,325	

2.4 CONSOLIDATED STATEMENT OF CASH FLOWS

(Amounts in millions of euros)	Note	Year ended December 31, 2007	Year ended December 31, 2006
OPERATING ACTIVITIES			
Net income attributable to equity holders of France Telecom S.A.		6,300	4,139
<i>Adjustments to reconcile net income/(loss) to funds generated from operations</i>			
Depreciation and amortization	13-14	8,111	7,833
Impairment of non-current assets	7-13-14	107	105
Impairment of goodwill	7-12	26	2,800
Gain on disposals of assets	8	(769)	(3,079)
Change in other provisions		(945)	(847)
Share of profits (losses) of associates	15	(4)	(24)
Income tax	11	1,330	2,302
Interest income and expense		2,627	3,004
Minority interests	30	519	629
Foreign exchange gains and losses, net		(740)	(796)
Derivatives		756	1,038
Share-based compensation		234	34
<i>Change in inventories, trade receivables and trade payables</i>			
Decrease/(increase) in inventories (net)		(250)	1
Decrease/(increase) in trade accounts receivable		121	82
Increase/(decrease) in trade accounts payable		190	(318)
<i>Other changes in working capital requirements</i>			
Decrease/(increase) in other receivables		(98)	15
Increase/(decrease) in other payables		331	235
Dividends and interest income received		315	164
Interest paid and interest rates effects on derivatives, net		(2,726)	(2,848)
Income tax paid		(791)	(606)
Net cash provided by operating activities		14,644	13,863
INVESTING ACTIVITIES			
<i>Purchases/sales of property, plant and equipment and intangible assets</i>			
Purchases of property, plant and equipment and intangible assets	13-14	(7,064)	(7,039)
Increase/(decrease) in amounts due to fixed asset suppliers		125	228
Proceeds from sales of property, plant and equipment and intangible assets	13-14	113	105
<i>Cash paid for investment securities, net of cash acquired</i>			
FT España ISP (Ya.com)	4	(319)	-
Telkom Kenya	4	(270)	-
Purchase of treasury shares by TP SA	4	(185)	-
Amena	4	-	(113)
Orange Moldova	4	(103)	-
Silicomp	4	(96)	-
Voxmobile	4	(80)	-
Other payments for investment securities		(64)	(142)
<i>Proceeds from sales of investment securities, net of cash transferred</i>			
PagesJaunes	4	-	2,697
Orange Nederland	4	1,306	-
Tower Participations	8	254	-
Bluebirds	4	110	-
One	15	82	-
Other proceeds from sales of investment securities		56	112
<i>Decrease/(increase) in marketable securities and other long-term assets</i>			
Escrow deposit	18-33	(757)	-
Other		11	(539)
Net cash used in investing activities		(6,881)	(4,691)

(Amounts in millions of euros)	Note	Year ended December 31, 2007	Year ended December 31, 2006
FINANCING ACTIVITIES			
<i>Issuances</i>			
Bonds convertible, exchangeable or redeemable into shares	20	3,122	928
Long-term debt	20	824	585
<i>Redemptions and repayments</i>			
Bonds convertible, exchangeable or redeemable into shares	20	(4,001)	(3,895)
Long-term debt	20	(2,430)	(1,997)
Equity portion of hybrid debt	20-30	(16)	(42)
Increase/(decrease) in bank overdrafts and short-term borrowings	20	(906)	(1,117)
Decrease/(increase) in deposits and other debt-linked financial assets (including cash collateral)	20	(330)	192
Exchange rates effects on derivatives, net		(99)	(724)
Purchase of treasury shares	30	(214)	(10)
Capital increase	30	140	54
Minority shareholders' contributions	30	50	(50)
Dividends paid to minority shareholders	30	(677)	(593)
Dividends paid by France Telecom S.A.	30	(3,117)	(2,602)
Net cash used in financing activities		(7,654)	(9,271)
Net change in cash and cash equivalents		109	(99)
Effect of exchange rates changes on cash and cash equivalents and other non-monetary effects		(54)	(28)
Cash and cash equivalents at beginning of year		3,970	4,097
CASH AND CASH EQUIVALENTS AT END OF YEAR		4,025	3,970

Additional cash flow disclosures: see note 31.

The accompanying notes are an integral part of the consolidated financial statements.

TABLE OF CONTENTS

Notes to the consolidated financial statements

NOTE 1	Description of business and basis of preparation of the financial statements	67	NOTE 19	Financial assets at fair value through profit or loss	108
NOTE 2	Accounting policies	69	NOTE 20	Financial liabilities and net financial debt	109
NOTE 3	Segment information	82	NOTE 21	Bonds	113
NOTE 4	Main acquisitions and disposals of companies and changes in scope of consolidation	88	NOTE 22	Bank borrowings	116
NOTE 5	Revenues	91	NOTE 23	Derivatives	118
NOTE 6	Operating income and expenses	91	NOTE 24	Exposure to market risks and financial instruments	120
NOTE 7	Impairment	93	NOTE 25	Fair value of financial assets and liabilities	125
NOTE 8	Gains and losses on disposals of assets	95	NOTE 26	Employee benefits	126
NOTE 9	Restructuring costs	96	NOTE 27	Share-based compensation	129
NOTE 10	Finance costs, net	96	NOTE 28	Provisions	133
NOTE 11	Income tax	97	NOTE 29	Other liabilities and deferred income	136
NOTE 12	Goodwill	100	NOTE 30	Equity	136
NOTE 13	Other intangible assets	101	NOTE 31	Additional cash flow disclosures	139
NOTE 14	Property, plant and equipment	102	NOTE 32	Off-balance sheet commitments and contractual obligations	139
NOTE 15	Interests in associates	104	NOTE 33	Litigation and claims	145
NOTE 16	Actifs disponibles à la vente	105	NOTE 34	Related party transactions	149
NOTE 17	Other assets and prepaid expenses	105	NOTE 35	Subsequent events	151
NOTE 18	Loans and receivables	106	NOTE 36	List of consolidated companies	151

NOTE 1

Description of business and basis of preparation of the financial statements

1.1 Description of business

The France Telecom Group provides consumers, businesses and other telecommunications operators with a wide range of services including fixed telephony and mobile telecommunications, data transmission, Internet and multimedia, and other value-added services.

In accordance with European regulation n° 1606/2002 dated July 19, 2002, the 2007 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use by the European Union. Comparative figures are presented for 2006 compiled using the same basis of preparation.

1.2 Basis of preparation of 2007 financial data

The consolidated financial statements and notes were approved by the Board of Directors at its meeting of February 5, 2008.

As at December 31, 2007, the accounting standards and interpretations endorsed by the European Union are similar to the compulsory standards and interpretations published by the IASB with the exception of the IAS 39 standard, only partially endorsed by the European Union, which has no effect on Group accounts. Consequently, Group accounts are prepared in accordance with the IFRS standards and interpretations, as published by the IASB.

The principles applied to prepare financial data relating to the financial year 2007 are based on:

- all standards and interpretations endorsed by the European Union and effective as of December 31, 2007 (see note 2.1);
- the earlier application of some IFRS standards and interpretations (see note 2.1);
- the recognition and measurement options proposed by the IFRS standards hereafter:

Standards		Option used
IAS 2	Inventories	Recognition of inventories at their original cost determined by the weighted average unit cost method
IAS 16	Property, Plant and Equipment	Measurement at amortized historical cost
IAS 19	Employee Benefits	Recognition of actuarial gains and losses on pensions and other post-employment benefit obligations as from January 1, 2004 according to the corridor method (recognition of a specified portion of the net cumulative actuarial gains and losses that exceed 10% of the greater of (i) the present value of the defined benefit obligation; and (ii) the fair value of plan assets, over the average expected remaining working lives of the employees participating in the plan)
IAS 23	Borrowing Costs	Recognition as interest expense incurred during the construction and acquisition period of property, plant and equipment and intangible assets
IAS 31	Interests in Joint Ventures	Accounting for using the proportionate consolidation method
IAS 38	Intangible Assets	Measurement at amortized historical cost

II - consolidated financial documents

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements

- the available exemptions regarding the retrospective application of IFRSs at the transition date (January 1, 2004 for the France Telecom Group) to prepare the opening balance sheet hereafter summarized:

Standards		First-time adoption
IFRS 2	Share-based Payment	Retrospective application of provisions of IFRS 2 to equity-settled and cash-settled plans, including those implemented prior to November 7, 2002. Valuation of plans issued prior to December 31, 2003 using a Black & Scholes model Valuation of new plans issued from January 1, 2004 using a binomial model
IFRS 3	Business Combinations	Non-application of the provisions of this standard for business combinations prior to the transition date Accounting for acquisition of minority interests under the French GAAP accounting treatment
IAS 16 and IAS 38	Property, Plant and Equipment and Intangible Assets	Measurement of property, plant and equipment and intangible assets at historical cost, except for certain real estate assets held by TP Group and certain items of property, plant and equipment owned by France Telecom S.A. which were revalued at fair value at the time of the change in the Company's status and deregulation of the telecommunications market in 1996
IAS 19	Employee Benefits	Recognition of all actuarial gains and losses existing as of January 1, 2004 in equity.
IAS 21	Effect of Changes in Foreign Exchange Rates	Transfer into retained earnings of all cumulative translation differences for all foreign operations at January 1, 2004
IAS 39	Financial Instruments	Reclassification of certain financial instruments recognized prior to January 1, 2004 as financial assets and liabilities at fair value through profit or loss or as assets available for sale Prospective application as of January 1, 2004 of the fair value option relating to initial recognition of certain financial assets and liabilities

- accounting positions adopted by the Group in accordance with paragraphs 10 to 12 of IAS 8 hereafter:

Topic	Note
Minority interests	2.3.2
Loyalty programs	2.3.5
Waste electrical and electronical equipment	2.3.15
Individual right to training for employees (Droit Individuel à la Formation (DIF))	2.3.16
Employee shareholding plan	2.3.17

Lastly, where a specific transaction is not dealt with in any standards or interpretations, management uses its judgment to define and apply an accounting policy that will result in relevant and reliable information, such that the financial statements:

- present fairly the Group's financial position, financial performance and cash flows;
- reflect the economic substance of transactions;

- are neutral;
- are prepared on a prudent basis; and
- are complete in all material respects.

1.3 Use of estimates

In preparing the Group's accounts, France Telecom's management is required to make estimates, insofar as many elements included in the financial statements cannot be measured with precision. These estimates may be revised if the underlying circumstances evolve or in the light of new

information or experience. Consequently, estimates made at December 31, 2007 may subsequently be changed. The underlying assumptions used for the main estimates are described in the following notes:

Estimate		Nature of information disclosed
Note 4	Main acquisitions and disposals of companies and changes in scope of consolidation	Where applicable, presentation of the key measurement methods and assumptions used to identify intangible assets in business combinations
Note 7	Impairment	Key assumptions used to determine recoverable amounts: models, discount rates, perpetual growth rates
Note 11	Income tax	Assumptions used for recognition of deferred tax assets and consequences of tax laws
Note 26	Employee benefits	Discount rates, inflation, return on plan assets, salary increases
Note 27	Share-based compensation	Model, assumptions underlying the measurement of fair values: share price of underlying on grant date, exercise price, volatility
Note 28	Provisions	Provisions for termination benefits and restructurings: discount rates, plan success rates, etc Provisions for claims and litigation: assumptions underlying risk assessment and measurement

NOTE 2 Accounting policies

This note describes the accounting principles applied to prepare the 2007 consolidated financial statements.

2.1 New standards and interpretations

■ Standards and interpretations applied by the Group in 2007

FIRST-TIME APPLICATION OF STANDARDS AND INTERPRETATIONS COMPULSORY SINCE JANUARY 1, 2007		
Standard / Interpretation		Effect
Amendment to IAS 1	Presentation of Financial Statements - Capital Disclosures	Related amendment to the notes to the financial statements
IFRS 7	Financial Instruments – Disclosures	Change in presentation of the balance sheet and related amendment to the notes to the financial statements
IFRIC 7	Applying the Restatement Approach under IAS 29 -Financial Reporting in Hyperinflationary Economies	Interpretation without effect on the reported financial statements
IFRIC 8	Scope of IFRS 2	Interpretation without effect on the reported financial statements
IFRIC 9	Reassessment of Embedded Derivatives	Interpretation without effect on the reported financial statements
IFRIC 10	Interim Financial Reporting and Impairment	Interpretation without effect on the reported financial statements

FIRST-TIME APPLICATION OF STANDARDS AND INTERPRETATIONS COMPULSORY AFTER DECEMBER 31, 2007 AND WITH EARLIER APPLICATION DATE CHOSEN BY THE GROUP		
IFRIC 11	Group and Treasury Share Transactions	Interpretation without effect on the reported financial statements
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Interpretation without effect on the reported financial statements

II - consolidated financial documents

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements

IFRS 7 first application led the Group to change the presentation of its financial statements in order to show financial assets and liabilities on the face of its balance sheet classified by IAS 39 category. Hence, the following categories have been reclassified as follows, including the reclassification of accrued interests on the line of corresponding underlying item:

Balance sheet presentation before IFRS 7 application	Balance sheet presentation after IFRS 7 application
Other non-current financial assets and derivatives	Non-current loans and receivables Non-current financial assets at fair value through profit or loss Non-current hedging derivatives assets
Other current financial assets and derivatives	Current loans and other receivables Current financial assets at fair value through profit or loss, excluding cash equivalents Current hedging derivatives assets
Exchangeable or convertible bonds (non-current) Other non-current financial debt and derivatives	Non-current financial liabilities at amortized cost, excluding trade payables Non-current financial liabilities at fair value through profit or loss Non-current hedging derivatives liabilities
Exchangeable or convertible bonds, and other current financial debt and derivatives Accrued interest payable	Current financial liabilities at amortized cost, excluding trade payables Current financial liabilities at fair value through profit or loss Current hedging derivatives liabilities

■ Standards and interpretations compulsory after December 31, 2007 with no early application decided by the Group

France Telecom has not opted for early application of the following standards, amendments and interpretations published as at December 31, 2007 (already adopted or in the process of being adopted by the European Union):

- **IFRS 8 “Operating Segments”**, applicable for financial years beginning after January 1, 2009. The provisions of this standard may affect the structure of segment reporting and the way in which Cash-Generating Units (CGUs) are grouped for the purpose of goodwill impairment testing.
- **IAS 1 (revised 2007) “Presentation of Financial Statements”**, applicable for financial years beginning after January 1, 2009. This revision changes the structure of the financial statements mostly because changes in shareholders' equity will be booked only as a consequence of transactions between shareholders (owner changes), other components currently booked in changes in shareholders' equity would be included in a comprehensive income statement, in connection or not with profit and loss statement.
- **Amendment to IAS 23 “Borrowing Costs”**, compulsory for financial years beginning after January 1, 2009. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalized as part of the cost of that asset, unlike what has been applied so far by the Group. The revised standard shall be applied to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after January 1, 2009.
- **IFRIC 12 “Service Concession Arrangements”**, compulsory for financial years beginning after January 1, 2008. This interpretation sets out general principles for recognizing and measuring the obligations and related rights in service concession arrangements. The Group has no material

arrangements likely to fall within the scope of application of IFRIC 12 for the reported periods.

- **IFRIC 13 “Customer Loyalty Programs”**, compulsory for financial years beginning after July 1, 2008, i.e. as of January 1, 2009 for France Telecom. The Group will apply this interpretation as of January 1, 2008. This interpretation changes the accounting treatment applied by the Group until December 31, 2007 (see note 2.3.5) and will decrease the amount of deferred income relating to loyalty programs awarded. This change in accounting policy will be accounted for under IAS 8 (restatement for each prior period presented).

2.2 Presentation of consolidated financial statements

■ Presentation of the income statement

Expenses are presented in the consolidated income statement according to their nature.

Operating income corresponds to net profit before:

- financial income;
- finance costs;
- income taxes (current and deferred taxes);
- net income of discontinued operations or operations held for sale.

The gain or loss of discontinued operations or non-current assets held for sale is reported on a separate line in the income statement. Assets and liabilities of controlled entities that are considered as being held for sale are reported on a separate line in the consolidated balance sheet. This does not affect the presentation of the cash flow statement.

■ Earnings per share

The Group discloses both basic earnings per share and diluted earnings per share for continuing operations and discontinued operations. Basic earnings per share are calculated by dividing net income for the year attributable to the equity holders of France Telecom S.A. by the average number of shares outstanding during the year. Diluted earnings per share are calculated based on earnings per share attributable to the equity holders of France Telecom S.A., adjusted for the finance cost of dilutive debt instruments and their impact on employee profit-sharing, net of the related tax effect. The number of shares used to calculate diluted earnings per share takes into account the conversion into ordinary shares of potentially dilutive instruments outstanding during the period. When earnings per share are negative, diluted earnings per share are identical to basic earnings per share. In the event of an issuance of shares at a price lower than the market price, and in order to ensure comparability of earnings per share information, the weighted average numbers of shares outstanding from current and previous periods are adjusted. Treasury shares deducted from consolidated equity are not taken into account in the calculation of basic or diluted earnings per share.

2.3 Methods used in the preparation of the consolidated financial statements

2.3.1 Consolidation rules

Subsidiaries that are controlled exclusively by France Telecom, directly or indirectly, are fully consolidated. Control is deemed to exist when the Group owns more than 50% of the voting rights of an entity or has power:

- over more than one half of the voting rights of the other entity by virtue of an agreement;
- to govern the financial and operating policies of the other entity under a statute or agreement;
- to appoint or remove the majority of the Members of the Board of Directors or equivalent governing body of the other entity;
- to cast the majority of votes at meetings of the Board of Directors or equivalent governing body of the other entity.

Companies that are controlled jointly by France Telecom and a limited number of other shareholders are proportionally consolidated; if these companies have any exclusively controlled, fully consolidated subsidiaries that are not wholly owned, indirect minority interests in these subsidiaries are recognized separately in the France Telecom consolidated financial statements.

Companies over which France Telecom exercises significant influence (generally corresponding to an ownership interest of 20% to 50%) are accounted for using the equity method.

When assessing the level of control or significant influence exercised over a subsidiary or associate, account is taken of the

existence and effect of any exercisable or convertible potential voting rights at the balance sheet date.

Material intercompany transactions and balances are eliminated in consolidation.

2.3.2 Minority interests

Accounting of acquisition of minority interests is not addressed by IFRSs. The Group has therefore applied French GAAP accounting treatment, which consists in recognizing goodwill as the difference between the acquisition cost of minority interests and the minority interest share in the net equity, without any purchase price allocation.

The main components of goodwill arising from the acquisition of minority interests are disclosed in note 4.

■ Transfer of consolidated shares within the Group resulting in changes in ownership interest

In the absence of specific guidance in IFRSs, the Group applied the following accounting policy to account for intercompany transfers of consolidated shares resulting in changes in ownership interest. The transferred shares are maintained at historical cost and the gain or loss on the transfer is fully eliminated in the accounts of the acquiring entities. The minority interests are adjusted to reflect the change in their share in the equity against Group retained earnings, with no impact on profit and loss and equity.

■ Acquisition of minority interests in exchange for shares in a consolidated entity

IFRSs do not address the accounting treatment for the transfer by minority shareholders of their interests in a consolidated entity of the Group in exchange for shares of another consolidated entity of the Group, nor do they address the accounting treatment of the resulting decrease in ownership interest. The Group has therefore considered the transfer by the minority shareholders as an acquisition of minority interests and the decrease in ownership interest as a disposal, for which the corresponding net gain or loss is recognized in income as incurred.

■ Commitments to purchase minority interests (put options)

Given the current status of IAS 27 "Consolidated and Separate Financial Statements" and IAS 32 "Financial Instruments: Disclosure and Presentation", firm or contingent commitments to purchase minority interest are recognized as a financial debt. In the absence of any guidance on this issue from the International Financial Reporting Interpretations Committee (IFRIC), the Group has opted to book the financial debt against a reduction in minority interests within equity.

Where the amount of the commitment exceeds the amount of the minority interest, the difference is recorded as a reduction in shareholders' equity attributable to the equity holders of France Telecom S.A. The fair value of commitments to purchase minority interests is revised at each balance sheet date and the

corresponding financial debt is adjusted with a contra-entry to financial income or expense.

The effects of commitments to purchase minority interests are disclosed in note 20.

2.3.3 Effect of changes in foreign exchange rates

■ Translation of financial statements of foreign subsidiaries

The financial statements of foreign subsidiaries whose functional currency is not the euro or the currency of a hyperinflationary economy are translated into euros (France Telecom's presentation currency) as follows:

- assets and liabilities are translated at the year-end rate;
- items in the statement of income are translated at the average rate for the year;
- the translation adjustment resulting from the use of these different rates is included as a separate component of shareholders' equity.

■ Transactions in foreign currencies

Transactions in foreign currencies are converted by the subsidiary into its functional currency at the exchange rate at the transaction date. Monetary assets and liabilities are remeasured at each balance sheet date at the year-end exchange rate and the resulting translation differences are recorded in the income statement:

- in operating income for commercial transactions;
- in financial income or finance costs for financial transactions.

Derivative instruments are measured and recognized in accordance with the general principles described in note 2.3.12. Currency derivatives are recognized in the balance sheet at fair value at each period-end. Gains and losses arising from remeasurement at fair value are recognized:

- in operating income for fair value hedges of commercial transactions;
- in financial income or finance costs for hedges of financial assets and liabilities and derivative instruments that do not qualify for hedge accounting.

The France Telecom Group may hedge the foreign exchange risk arising on the net operating cash flows less purchases of property, plant and equipment and intangible assets of some

entities. The impact of these hedges is recorded in the income statement under other operating expense and in the cash flow statement under operating activities.

2.3.4 Revenues

Revenues from France Telecom activities are recognized and presented as follows, in accordance with IAS 18 "Revenue":

■ Separable components of packaged and bundled offers

Numerous service offers on the Group's main markets include two components: an equipment (e.g. a mobile handset) and a service (e.g. a talk plan).

For the sale of multiple products or services, the Group evaluates all deliverables in the arrangement to determine whether they represent separate units of accounting. A delivered item is considered a separate unit of accounting if (i) it has value to the customer on a standalone basis and (ii) there is objective and reliable evidence of the fair value of the undelivered item(s). The total fixed or determinable amount of the arrangement is allocated to the separate units of accounting based on their relative fair value. However, when an amount allocated to a delivered item is contingent upon the delivery of additional items or meeting specified performance conditions, the amount allocated to that delivered item is limited to the non contingent amount. The case arises in the mobile business for sales of bundled offers including a handset and a telecommunications service contract. The handset is considered to have value on a standalone basis to the customer, and there is objective and reliable evidence of fair value for the telecommunications service to be delivered. As the amount allocable to the handset generally exceeds the amount received from the customer at the date the handset is delivered, revenue recognized for the handset sale is generally limited to the amount of the arrangement that is not contingent upon the rendering of telecommunication services, i.e. the amount paid by the customer for the handset.

For offers that cannot be separated in identifiable components, revenues are recognized in full over the life of the contract. The main example is connection to the service: this does not represent a separately identifiable transaction from the subscription and communications, and connection fees are therefore recognized over the average expected life of the contractual relationship.

■ Equipment sales

Revenues from equipment sales are recognized when the significant risks and rewards of ownership are transferred to the buyer.

When an equipment – associated to the subscription of telecommunication services – is sold by a third-party retailer who purchases it from the Group and receives a commission for signing up the customer, the related revenue is:

- recognized when the equipment is sold to the end-customer;
- assessed taking into account the Group's best estimate of the retail price, taking account of any subsidies granted to the retailer at the time of the sale and passed on to the end-customer in the form of a rebate on the equipment.

■ Equipment rentals

In accordance with IFRIC 4 "Determining Whether an Arrangement Contains a Lease", equipment for which a right of use is granted is analyzed in accordance with IAS 17 "Leases".

Equipment lease revenues are recognized on a straight-line basis over the life of the lease agreement, except in the case of finance leases which are accounted for as sales on credit.

■ Content sales

The accounting for revenue sharing arrangements and supply depends on the analysis of the facts and circumstances surrounding these transactions. To determine if the revenue must be recognized on a gross or a net basis, an analysis is performed using the following criteria:

- the Group is the primary obligor of the arrangement;
- the Group bears inventory risk;
- the Group has a reasonable latitude in establishing price with the customer for the service;
- the Group has discretion in supplier selection;
- the Group is involved in the determination of service specifications; and
- the Group bears the credit risk.

Therefore, revenue-sharing arrangements (Audiotel, premium rate number, special numbers, etc) are recognized:

- gross when the Group has a reasonable latitude in setting prices and determining the key features of the content (service or product) sold to the end-customer;
- net of amounts due to the service provider when the latter is responsible for the service and for setting the price to be paid by subscribers.

Similarly, revenues from the sale or supply of content (audio, video, games, etc) via the Group's various communications systems (mobile, PC, TV, fixed line, etc) are recognized:

- gross when the Group is deemed to be the primary obligor in the transaction with respect to the end-customer (i.e. when the customer has no specific recourse against the content provider), when the Group bears the inventory risk and has a reasonable latitude in the selection of content providers and in setting prices charged to the end-customer;
- net of amounts due to the content provider when the latter is responsible for supplying the content to the end-customer and for setting the price to subscribers.

Service revenues

Revenues from telephone service and Internet access subscription fees as well as those from the wholesale of access are recognized in revenue on a straight-line basis over the subscription period.

Revenues from charges for incoming and outgoing telephone calls as well as those from the wholesale of traffic are recognized in revenue when the service is rendered.

Revenues from the sale of transmission capacity on terrestrial and submarine cables as well as those from local loop unbundling are recognized on a straight-line basis over the life of the contract.

Revenues from Internet advertising are recognized over the period during which the advertisement appears.

■ Customized contracts

France Telecom offers customized solutions in particular to its business customers. The related contracts are analyzed as multiple-element transactions (including management of the telecommunication network, access, voice and data transmission and migration). The commercial discounts granted under these contracts if certain conditions are fulfilled are recorded as a deduction from revenue based on the specific terms of each contract.

Migration costs incurred by France Telecom under these contracts are recognized in expenses when they are incurred, except in the case of contracts that include an early termination penalty clause.

■ Promotional offers

Revenues are stated net of discounts. For certain commercial offers where customers are offered a free service over a certain period in exchange for signing up for a fixed period (time-based incentives), the total revenue generated under the contract is spread over the fixed, non-cancellable period.

■ Penalties

All the Group's commercial contracts contain service level commitments (delivery time, service reinstatement time). These service level agreements cover commitments given by France Telecom on the order process, the delivery process, and after sales services.

If the Group fails to comply with one of these commitments, it pays compensation to the end-customer, usually in the form of a price reduction which is deducted from revenues. Such penalties are recorded when it becomes probable that they will be due based on the non-achievement of contractual terms.

2.3.5 Subscriber acquisition and retention costs, loyalty programs and advertising and related cost

■ Subscriber acquisition and retention costs

Subscriber acquisition and retention costs, other than loyalty programs costs, are recognized as an expense for the period in which they are incurred.

■ Loyalty programs

Loyalty programs consist of granting future benefits to customers (such as call credit and product discounts) in exchange for present and past use of the service. Until December 31, 2007, the Group applied French GAAP in order to account for loyalty programs which are based on opinion 2004-E of CNC's *Comité d'Urgence* (Emerging Accounting Issues Committee).

Points awarded to customers are treated as a separable component to be delivered of the transaction that triggered the acquisition of the points. Part of the invoiced revenue is allocated to these points based on their fair value taking account of an estimated utilization rate, and deferred until the date on which the points are definitively converted into benefits. This principle is applied for both types of loyalty programs that exist within the Group, those with and those without a contract renewal obligation.

■ Advertising and related costs

Advertising, promotion, sponsoring, communication and brand marketing costs are expensed as incurred.

2.3.6 Borrowing costs

The Group does not capitalize interest expense for the period of construction and acquisition of property, plant and equipment and intangible assets.

2.3.7 Share issuance costs

External costs directly related to share issues are deducted from the related premium, net of any tax savings. Other costs are expensed as incurred.

2.3.8 Goodwill

Goodwill represents the excess of the purchase price of shares in consolidated companies, including transaction expenses, over the Group's corresponding equity in the fair value of the underlying net assets at the date of acquisition. When full control is acquired, goodwill is deemed equal to fair value as established by reference to the market value of the underlying shares, or in the absence of an active market, by using generally accepted valuation methods such as those based on revenues or costs. Assets and liabilities acquired are not remeasured at fair value after an additional purchase when control has already been obtained.

■ Impairment test and Cash-Generating Units (CGUs)

A CGU is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill is not amortized but tested for impairment at least once a year or more frequently when there is an indication that it may be impaired. IAS 36 "Impairment of Assets" requires these tests to be performed at the level of each CGU or groups of CGUs likely to benefit from acquisition-related synergies, within a business or geographical segment. This allocation is reviewed if the Group changes the level at which it monitors return on investment for goodwill testing purposes. The allocation of goodwill is disclosed in note 7.

Impairment loss for goodwill is recorded in the income statement as a deduction from operating income and is never reversed subsequently.

■ Recoverable amount

To determine whether an impairment loss should be recognized, the carrying value of the assets and liabilities of the CGUs or groups of CGUs is compared to their recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use.

Fair value less costs to sell is the best estimate of the amount obtainable from the sale of a CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. This estimate is determined, on November 30, on the basis of available market information including: (i) the discounted present value of future cash flows over a five-year period, plus a terminal value, (ii) revenue and EBITDA multiples for comparable companies adjusted for a control premium, and (iii) revenue and EBITDA for comparable transactions.

Value in use is the present value of the future cash flows expected to be derived from the CGUs or groups of CGUs. Cash flow projections are based on economic and regulatory assumptions, license renewal assumptions and forecast trading conditions drawn up by France Telecom management, as follows:

- cash flow projections are based on three to five-year business plans;
- cash flow projections beyond that timeframe are extrapolated by applying a declining or flat growth rate over the next two years (for some CGUs), followed by a growth rate to perpetuity reflecting the expected long-term growth in the market;
- the cash flows obtained are discounted using appropriate rates for the type of business and the countries concerned.

■ Net book value of CGUs and group of CGUs

Net book values of CGUs and groups of CGUs tested include goodwill, intangible assets with indefinite useful life arising from business combinations (except for the Orange trademark which is tested separately) and assets with finite useful life (property, plant and equipment, intangible assets and net working capital). Net book values are disclosed at the level of the CGUs and groups of CGUs, i.e. including accounting items related to transactions with other CGUs and groups of CGUs.

2.3.9 Intangible assets

Intangible assets, consisting mainly of trademarks, subscriber bases, licenses, content rights, patents, development costs and software, are booked at acquisition or production cost.

When intangible assets are acquired in a business combination, their cost is generally determined in connection with the purchase price allocation based on their respective market value. When their market value is not readily determinable, cost is determined using generally accepted valuation methods based on revenues, costs or other appropriate criteria.

Internally developed trademarks and subscriber bases are not recognized in intangible assets.

■ Trademarks

Trademarks have an indefinite useful life and are not amortized but tested for impairment. Finite-lived trademarks are amortized over their expected useful lives.

■ Subscriber bases

Subscriber bases are amortized over the expected life of the commercial relationship, estimated at between three and seven years.

■ Licenses

Licenses to operate mobile telephone networks are amortized on a straight-line basis over the license period from the date when the network is technically ready and the service can be marketed. The right to operate a mobile network is recorded in an amount corresponding to the fixed portion of the royalties due when the license was granted. The variable user fee (in France corresponding to 1% of qualifying revenues generated by the second and third generation network) is expensed as incurred.

Content rights

Acquisitions of rights over content (sale, dissemination, broadcast) are recognized as intangible assets when the following two conditions are met:

- the content has been accepted technically;
- the rights have become valid.

Prior to meeting these conditions, firm purchase commitments are recorded as off-balance sheet items, less any prepayments made, which are recognized as prepaid expenses on non-current assets.

Content rights are amortized over the operating term defined contractually.

Film costs are accounted for as intangible assets at their acquisition cost and amortized using the film forecast method (i.e. based upon the proportion of the film's revenues recognized for the period to the film's total estimated revenues).

■ Patents

Patents are amortized on a straight-line basis over the expected period of use, not to exceed twenty years.

■ Software and research and development costs

Development costs are recognized as an intangible asset when the following conditions are met:

- the intention to complete the intangible asset and use or sell it and the availability of adequate technical and financial resources for this purpose;
- the probability for the intangible asset to generate probable future economic benefits for the Group; and
- the reliable measurement of the expenditure attributable to the intangible asset during its development.

Research costs, and development costs not fulfilling the above criteria, are expensed as incurred.

The Group's research and development projects mainly concern:

- upgrading the network architecture or functionality;
- developing service platforms aimed at offering new services to the Group's customers.

These projects generally give rise to the development of software that does not form an integral part of the network's tangible assets within the meaning of IAS 38. Development costs recognized as an intangible asset and software are recorded under "Other intangible assets".

Development costs recognized as an intangible asset are amortized on a straight-line basis over their estimated useful life, generally not exceeding three years. Software is amortized on a straight-line basis over its expected useful life, not to exceed five years.

■ Other development costs

Website development costs are capitalized when all of the following conditions are met:

- it is probable that the website will be successfully developed, the Group has adequate technical, financial and other resources to complete the development and has the intention of and ability to complete the site and use or sell it;
- the website will generate future economic benefits;
- the Group has the ability to reliably measure the expenditure attributable to the website during its development.

Website development costs are expensed as incurred or recognized as an intangible asset depending on the phase:

- initial design costs are expensed as incurred;
- qualifying development and graphic design costs are recognized as an intangible asset;
- expenditure incurred after the website has been completed is recorded as an expense, except where it enables the website to generate future additional economic benefits, and if it can be reliably estimated and attributed to the website.

2.3.10 Property, plant and equipment

■ Cost

The cost of tangible assets corresponds to their purchase or production cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and

removing the item and restoring the site on which it is located, representing the obligation incurred by the Group.

The cost of networks includes design and construction costs, as well as capacity improvement costs.

The total cost of an asset is allocated among its different components and each component accounted for separately, when the components have different useful lives or when the pattern in which their future economic benefits are expected to be consumed by the entity varies. Depreciation is then revised accordingly.

Maintenance and repair costs are expensed as incurred, except where they serve to increase the asset's productivity or prolong its useful life.

■ Finance leases

Assets acquired under leases that transfer the risks and rewards of ownership to France Telecom are recorded as assets and an obligation in the same amount is recorded in liabilities. The risks and rewards of ownership are considered as having been transferred to France Telecom when:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the Group has the option to purchase the asset at a price that is expected to be sufficiently lower than fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- the lease term is for the major part of the estimated economic life of the leased asset;
- at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

Assets leased by France Telecom as lessor under leases that transfer the risks and rewards of ownership to the lessee are treated as having been sold.

■ Indefeasible Rights of Use

Indefeasible Right of Use (IRU) correspond to the right to use a portion of the capacity of a terrestrial or submarine transmission cable granted for a fixed period. IRUs are recognized as an asset when France Telecom has the specific indefeasible right to use an identified portion of the underlying asset, generally optical fibers or dedicated wavelength bandwidth, and the duration of the right is for the major part of the underlying asset's economic life. They are depreciated over the shorter of the expected period of use and the life of the contract.

■ Satellite capacity

Contracts relating to satellite capacity have been reviewed in light of the criteria set out in IFRIC 4. As no specific assets have been identified, these contracts have been classified as services.

■ Government grants

France Telecom may receive non-repayable government grants in the form of direct or indirect funding of capital projects, mainly provided by local and regional authorities. These grants are deducted from the cost of the related assets and recognized in the income statement, based on the pattern in which the related asset's expected future economic benefits are consumed.

■ Depreciation

Property, plant and equipment are depreciated to write off their cost less any residual value on a basis that reflects the pattern in which their future economic benefits are expected to be consumed. Therefore, the straight-line basis is usually applied over the following estimated useful lives:

Buildings and leasehold improvements	10 to 30 years
Switching, transmission and other network equipment	5 to 10 years
Cables and civil works	15 to 30 years
Computer hardware	3 to 5 years
Other	3 to 14 years

These useful lives are reviewed annually and are adjusted if current estimated useful lives are different from previous estimates. These changes in accounting estimates are recognized prospectively.

2.3.11 Impairment of non-current assets other than goodwill and trademarks

In the case of a decline in the recoverable amount of an item of property, plant and equipment or an intangible asset to below its net book value, due to events or circumstances occurring during the period (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenues or other external indicators) an impairment loss is recognized.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use, assessed by the discounted cash flows method, based on management's best estimate of the set of economic conditions.

The impairment loss recognized is equal to the difference between net book value and recoverable amount.

Given the nature of its assets and activities, most of France Telecom's individual assets do not generate independent

cash flows that are independent of those from CGUs. The recoverable amount is then determined at the level of the CGU to which the asset belongs, except where:

- the fair value less costs to sell of the individual asset is higher than its book value; or
- the value in use of the asset can be estimated as being close to its fair value less costs to sell, where fair value can be reliably determined.

2.3.12 Financial assets and liabilities

Financial assets and liabilities are recognized initially at fair value. They are subsequently measured either at fair value or amortized cost using the effective interest method, in accordance with the IAS 39 category they belong to.

The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected contractual term, or the most probable expected term of the financial instrument, to the net carrying amount of the financial liability. This calculation includes all fees and points paid or received between parties to the contract.

■ Recognition and measurement of financial assets

Held-to-maturity assets

These assets are exclusively non-derivative financial assets with fixed or determinable payments and fixed maturity, other than loans and receivables. They are acquired with the intention and ability to hold to maturity. They are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method.

If there is any objective evidence of impairment for these assets (as for instance: counterparty in financial difficulties, downgrading of its rating, breach of a significant agreement,...), the value of the asset is reviewed at the balance sheet date. A financial asset is impaired when its carrying amount is higher than its recoverable amount assessed during impairment test. Recoverable amount is often determined using discounted cash flow method. The relating impairment loss is recognized in the income statement.

Available-for-sale assets

Available-for-sale assets consist mainly of shares in non-consolidated companies, marketable securities that do not fulfill the criteria for classification in any of the other categories of financial assets, and certain assets related to in-substance defeasance transactions and cross-border leases (QTE Leases). They are recognized and subsequently measured at fair value. Fair value corresponds to market price for listed securities or estimated fair value for unlisted securities, determined according to the most appropriate financial criteria in each case.

Temporary changes in value are booked as "Gains (losses) on financial assets available-for-sale" within equity.

When there is an objective evidence that available-for-sale assets are impaired, the cumulative impairment loss included in equity is taken in income.

Loans and receivables

This category mainly includes trade receivables, some cash collateral, as well as other loans and receivables. These instruments are recognized at fair value upon origination and are subsequently measured at amortized cost by the effective interest method. Short-term receivables with no stated interest rate are measured at original invoice amount unless any significant impact of the application of an implicit interest rate.

If there is any objective evidence of impairment for these assets, the value of the asset is reviewed at each balance sheet date. An impairment is recognized in the income statement when the financial asset carrying amount is higher than its recoverable amount.

Impairment of trade receivables is based on two methods:

- a statistic method: it depends on historical losses and leads to a separate impairment rate for each ageing balance category. This analysis is performed over an homogenous group of receivables, with similar credit characteristics because they belong to a customer category (mass-market, small offices and home offices). This method is used for Home and Personal Communication Services;
- a stand-alone method: the assessment of impairment probability and its amount are based on a set of relevant factors (ageing of late payment, other balance sheet positions with the counterpart, rating from independent agencies, geographical area). This method is used for carriers and operators (domestic and international, local, regional and national authorities) and for Enterprise Communication Services.

Impairment losses identified for a group of receivables represent the intermediate step preceding impairment identification for individual receivable. When information is available (clients under bankruptcy or equivalent judicial proceedings), these receivables are then excluded from the statistic database and individually impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are:

- assets held for trading that the Group acquired principally for the purpose of selling them in the near term;
- assets that form a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;

- derivative assets not qualifying for hedge accounting;

- assets voluntarily classified at inception in this category because:

- this classification allows to eliminate or significantly reduce a measurement or recognition inconsistency regarding recognition of assets or liabilities linked together, that would otherwise be assessed differently (for instance, a financial asset measured at fair value, linked to a financial liability measured at amortized cost),
- a group of financial assets, financial liabilities or both is managed and its performance is valued on a fair value basis, in accordance with a documented risk management or investment strategy, and information about this group of financial instruments is provided internally on that basis to the Group's key management personnel,
- the entity decides not to separate from the host contract a separable embedded derivative. It should then assess the entire hybrid instrument at its fair value.

France Telecom designates as at fair value at inception cash and cash equivalents with high liquidity and low volatility investments such as negotiable debt securities, deposits, mutual funds (OPCVM). These investments can be classified as cash equivalent on balance sheet if they meet the conditions required by the French Securities Regulator (AMF) (assets easily convertible into a determined cash amount and subject to a remote risk of change in value). Otherwise, these assets are classified as financial assets at fair value through profit and loss.

■ Recognition and measurement of financial liabilities

Financial liabilities at amortized cost

With the exception of financial liabilities at fair value, borrowings and other financial liabilities are recognized upon origination at fair value of the sums paid or received in exchange for the liability, and subsequently measured at amortized cost using the effective interest method.

Transaction costs that are directly attributable to the acquisition or issue of the financial liability are deducted from the liability's carrying value. The costs are subsequently amortized over the life of the debt, by the effective interest method.

Within France Telecom Group, some financial liabilities at amortized cost, including borrowings, are subject to hedge accounting. It relates mostly to fix rate borrowings hedged against changes in interest rate and currency value (fair value hedge) and to foreign currency borrowings in order to hedge to future cash flows against changes in currency value (cash flow hedge).

Compound instruments

Certain financial instruments comprise both a liability component and an equity component. For the France Telecom Group, they comprise perpetual bonds redeemable for shares (TDIRAs) and bonds convertible into or exchangeable for new or existing shares (OCEANES).

On initial recognition, the fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option.

The equity component is assigned to the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. The equity component determined at initial recognition is not subsequently remeasured.

Financial liabilities at fair value through profit or loss

The abovementioned comments relating to financial assets at fair value through profit or loss are applicable to the financial liabilities of identical nature.

■ Recognition and measurement of derivative instruments

Derivative instruments are recognized in the balance sheet and measured at fair value. Derivatives qualified for hedge accounting are classified as a separate line item on the face of the balance sheet. Other derivatives are classified as financial assets or liabilities at fair value through profit or loss. Except as explained below, gains and losses arising from remeasurement at fair value of derivative instruments are systematically recognized in the income statement.

Hedging instruments

Derivative instruments may be designated as fair value hedges or cash flow hedges:

- a fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an identified portion of the asset or liability, that is attributable to a particular risk – notably interest rate and currency risks – and could affect profit or loss;
- a cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (such as a future purchase or sale) and could affect profit or loss.

Hedge accounting is applicable when:

- at the inception of the hedge, there is a formal designation and documentation of the hedging relationship;

- at the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated (i.e. the actual results of the hedge are within a range of 80-125%).

The effects of applying hedge accounting are as follows:

- for fair value hedges of existing assets and liabilities, the hedged portion of asset or liability is recognized in the balance sheet at fair value. The gain or loss from remeasuring the hedged item at fair value is recognized in profit or loss and is offset by the effective portion of the gain or loss from remeasuring the hedging instrument at fair value;
- for cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in equity because the change in the fair value of the hedged portion of the underlying item is not recognized in the balance sheet. Amounts recognized directly in equity are subsequently recognized in profit or loss in the same period or periods during which the hedged item affects profit or loss.

The France Telecom Group presents derivative instruments in its financial statements according to their maturity date, whether or not they qualify for hedge accounting under IAS 39.

2.3.13 Inventories

Inventories are stated at the lower of cost and net realizable value, taking into account expected revenues from the sale of packages comprising a mobile handset and a subscription. Cost corresponds to purchase or production cost determined by the weighted average cost method.

2.3.14 Deferred taxes

Deferred taxes are recognized for all temporary differences between the book values of assets and liabilities and their tax basis, as well as for unused tax losses, using the liability method. Deferred tax assets are recognized only when their recovery is considered probable.

A deferred tax liability is recognized for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:

- the Group is able to control the timing of the reversal of the temporary difference (e.g. the payment of dividends); and
- it is probable that the temporary difference will not reverse in the foreseeable future.

Accordingly, for fully and proportionally consolidated companies, a deferred tax liability is only recognized in the amount of the taxes payable on planned dividend distributions by these companies.

Deferred tax assets and liabilities are not discounted.

2.3.15 Provisions

A provision is recognized when the Group has a present obligation towards a third party and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

The obligation may be legal, regulatory or contractual or it may represent a constructive obligation deriving from the Group's actions where, by an established pattern of past practice, published policies creating a valid expectation on the part of other parties that it will discharge certain responsibilities.

The estimate of the amount of the provision corresponds to the expenditure likely to be incurred by the Group to settle its obligation. If a reliable estimate cannot be made of the amount of the obligation, no provision is recorded and the obligation is deemed to be a "contingent liability".

Contingent liabilities correspond to: (i) probable obligations that are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Group's control, or (ii) present obligations arising from past events that are not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability. They are disclosed in the notes to the financial statements.

■ Restructuring

Provisions for restructuring costs are recognized only when the restructuring has been announced and the Group has drawn up or has started to implement a detailed formal plan, prior to the balance sheet date.

■ Provisions for dismantling and restoring sites

The Group is required to dismantle equipment and restore sites. The provision is based on the best estimate of the amount required to settle the obligation. It is discounted by applying a discount rate that reflects the passage of time, based on a risk-free rate of return. The amount of the provision is revised yearly and adjusted where appropriate, with a contra-entry to the asset to which it relates.

■ Provisions for the treatment of Waste Electrical and Electronic Equipment

European Directive 2002/96/EC as amended by Directive 2003/108/EC distinguishes the waste of electrical and electronic equipment between the users (private households or professional) and between the responsibility of the market participants before and after August 13, 2005. The Group believes that its obligations principally involve equipment used for its own needs (network equipment, information systems equipment, etc.). In accordance with this Directive, the France Telecom Group has adopted the following principles:

- obligations relating to collection, treatment and recovery of waste electrical and electronic equipment attached to the professional use and produced before August 13, 2005 are accrued for. The related liability is booked against the recognition of a tangible asset and is valued using an estimated volume to be recycled and an average cost per ton, and discounted as it will be settled at a future date;
- obligations relating to waste of electrical and electronic equipment attached to the private households use before August 13, 2005, as well as those related to waste of electrical and electronic equipment attached to private households and professional use after August 13, 2005 have been considered as immaterial by the Group and have not therefore been accrued for.

2.3.16 Pensions and similar benefits

These benefits are offered under defined contribution and defined benefit plans. The Group's obligation under defined contribution plans is limited to the payment of contributions, which are expensed as incurred.

■ Post-employment benefits

Obligations under defined benefit plans are measured by the projected unit credit method. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation which is then discounted.

The calculation is based on demographic assumptions concerning retirement age, rates of future salary increases, staff turnover rates, and financial assumptions concerning discount and inflation rate. These assumptions are made at the level of each individual entity, based on its macro-economic environment.

Civil servants' pension plans in France

Civil servants employed by France Telecom are covered by the government-sponsored civil and military pension plan. France Telecom's obligation under these plans is limited to the payment of annual contributions (Act no. 96-660 dated July 26, 1996). Consequently, France Telecom has no obligation to fund future deficits of the pension plans covering its own civil servant employees or any other civil service plans.

Retirement bonuses and other similar benefits

Under the laws of some countries, employees are entitled to certain lump-sum payments or bonuses subsequent to retirement. The amount of these payments depends on their years of service and end-of-career salary.

Benefits other than pensions

France Telecom offers retired employees certain benefits such as free telephone lines and coverage of certain healthcare costs.

■ Other long-term benefits

Other long-term benefits consist mainly of seniority awards in France or similar awards in other countries, and paid long-term leaves of absence, for which the related obligations are also measured on an actuarial basis.

■ Termination benefits**Early retirement plan in France**

France Telecom has set up an early retirement plan for civil servants and contract-based employees in France. These employees, aged 55 and over who have completed at least 25 years' service, were eligible for early retirement until December 31, 2006 at 70% of their salary between the age of 55 and 60. Participants early retired also receive a lump-sum payment which is equal to one year's salary if they have early retired at 55 and is reduced progressively as the age at which they elect to retire approaches the statutory retirement age.

This benefit is accounted for in the same way as lump-sum benefits payable on termination of service and a provision is recognized for the obligation, based on actuarial assumptions.

Other termination benefits

Any other termination benefits are also determined on an actuarial basis and covered by provisions. For all commitments where termination of employment contracts would trigger payment of an indemnity, actuarial gains and losses are recognized in profit or loss for the period when the assumptions are revised.

**■ Individual training rights for employees
(Droit Individuel à la Formation - DIF)**

The Group has applied French GAAP (opinion 2004-F of CNC's *Comité d'urgence* (Emerging Accounting Issues Committee)) to account for statutory training rights. Any expenditure incurred in this respect is recorded as a current expense and no provision is recognized. The credit of training hours is disclosed together with the number of training hours still to be claimed by employees (see note 32.4).

In the limited number of cases (request for individual training leave, redundancy or resignation) where these costs cannot be considered as remuneration of future services, the resulting short-term obligation is provided for as soon as its settlement becomes probable or certain.

2.3.17 Share-based compensation

The fair value of stock-options, employee shareholding plans and bonus shares (concerning the shares of France Telecom or its subsidiaries) is determined on the grant date. The effects of share-based compensation are disclosed in note 27.

■ Employee shareholding plan

Following the sale by the State of a portion of France Telecom's capital, preferred subscription rights must be awarded to the Group's current and former employees, in accordance with Article 11 of the 1986 French Privatization Act.

The Group assumes that the grant date is the date when the main terms of the offer are announced to the employees, in accordance with the CNC communication dated December 21, 2004 on employee share ownership plans (*Plans d'Epargne Entreprise* - PEE).

Compensation cost is estimated based on fair value at grant date of the shares awarded. If applicable, a non-transferability discount is estimated by valuing the cost of a hedging strategy combining the forward sale of the non-transferable shares and the purchase of an equivalent number of transferable shares for cash, financed by borrowings, using a valuation model based on market data. As no vesting period applies, the amount is expensed directly against equity.

■ Other share-based payments

The award granted to the employees is accounted for as expense against equity and measured at fair value at the grant date.

The value of stock-options and bonus shares is generally determined by reference to the exercise price, the life of the options, the current price of the underlying shares at the grant

date, the expected share price volatility, expected dividends and the risk-free interest rate over the life of the options. The amount so determined is recognized in labour expenses on a straight-line basis over the period between the grant date and the exercise date (i.e. over the vesting period) against equity for equity-settled plans or against employee benefit liabilities for cash-settled plans.

NOTE 3

Segment information

France Telecom Group's management structure is based on: (i) business lines (Home, Personal, Enterprise) and (ii) management teams integrated at country level. Consequently, and in accordance with IAS 14 "Segment Reporting", the Group has defined the following three business segments as its basis for primary segment reporting:

- **Personal Communication Services (PCS)**, covering the mobile telecommunications services activities in France, the United Kingdom, Spain, Poland, and the rest of the world. This segment includes all the Orange subsidiaries, as well as the mobile telephony business of FT España in Spain, TP Group (with its subsidiary PTK Centertel) in Poland, and that of other foreign companies in the Group;
- **Home Communication Services (HCS)**, covering the fixed telecommunications services activities (fixed telephony, internet services, and services to operators) in France, Poland and the rest of the world, as well as revenues from distribution and from the support functions provided to other segments of France Telecom Group;
- **Enterprise Communication Services (ECS)**, covering business communications solutions and services in France and worldwide.

Each of the segments defined by the Group has its own resources, although they may also share certain resources in the areas of networks and information systems, research and development, distribution networks and other shared competencies.

The use of shared resources is taken into account in segment results based on the terms of contractual agreements between legal entities, or external benchmarks, or by allocating costs among all the segments. The supply of shared resources is included in inter-segment revenues of the service provider, and use of the resources is included in expenses taken into account for the calculation of the service user's gross operating margin. The cost of shared resources supplied may be affected by changes in regulations and may therefore have an impact on the segment results disclosed from one year to another.

Gross operating margin (GOM) is one of the key measures used by France Telecom internally to i) manage and assess the results of its business segments, ii) make decisions with respect to investments and allocation of resources, and iii) assess the

2.3.18 Treasury shares

Treasury shares are recorded as a deduction from equity, at cost. When shares are sold out of treasury shares, the resulting profit or loss is recorded in equity net of tax.

performance of the Group executive management. France Telecom's management believes that GOM is meaningful for investors because it provides an analysis of its operating results and segment profitability using the same measure used by management. As a consequence and in accordance with IAS 14, paragraph 46, GOM is presented in the analysis by business segment.

GOM is not an explicit measure of financial performance measure under IFRS and may not be comparable to other similarly titled measures for other companies. GOM should not be considered an alternative to operating income as an indicator of France Telecom's operating performance, or an alternative to cash-flows from operating activities as a measure of liquidity. GOM corresponds to operating income before employee profit sharing, share-based compensation, depreciation and amortization expense, impairment of goodwill and other non-current assets, gains and losses on disposal of assets, restructuring costs and share of profits (losses) of associates. GOM is calculated by excluding i) employee profit sharing and share-based compensation expenses because such expenses are mainly based on either mandatory statutory requirements or depend mainly on the sale of shares by the French State and various shareholders decisions, ii) depreciation and amortization because such expenses reflect the impact of generally long-term capital investments that cannot be significantly influenced by management in the short-term and iii) impairment charges, restructuring costs and gain and losses on disposals of assets because these elements can be both infrequent and material and are by their nature unpredictable in their amount and/or their frequency.

Segment results correspond to operating income, excluding gains and losses on disposals of assets not directly related to the segment concerned.

The Group has six geographic segments, including four main geographic markets (France, the United Kingdom, Poland and Spain), the rest of Europe and the rest of the world.

3.1 Analysis by business segment

3.1.1 Main operating indicators by segment for the year ended December 31, 2007

► INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2007

(in millions of euros)	PCS	HCS	ECS	Eliminations and unallocated items	Total France Telecom
Revenues	29,119	22,671	7,721	(6,552)	52,959
- external	28,144	17,548	7,267	-	52,959
- inter-segment	975	5,123	454	(6,552)	-
External purchases	(16,296)	(8,497)	(4,912)	6,549	(23,156)
Other operating incomes ⁽¹⁾	258	1,023	97	(938)	440
Other operating expenses ⁽¹⁾	(1,640)	(1,480)	(178)	938	(2,360)
Labour expenses: - Wages, and, employee, benefit, expenses	(1,464)	(5,918)	(1,385)	-	(8,767)
Gross operating margin	9,977	7,799	1,343	(3)	19,116
- Employee, profit-sharing	(65)	(268)	(26)	-	(359)
- Share-based, compensation	(18)	(232)	(29)	-	(279)
Depreciation and amortization	(4,456)	(3,238)	(420)	3	(8,111)
Impairment of goodwill	-	(26)	-	-	(26)
Impairment of non-current assets	(8)	(6)	(93)	-	(107)
Gains (losses) on disposals of assets	-	-	-	769	769
Restructuring costs	(27)	(153)	(28)	-	(208)
Share of profits (losses) of associates	4	-	-	-	4
Operating income					10,799
- Allocated by segment	5,407	3,876	747	-	10,030
- Non-allocable	-	-	-	769	769
Interest expenses, net	-	-	-	(2,521)	(2,521)
Foreign exchange gains (losses)	-	-	-	(4)	(4)
Discounting expense	-	-	-	(125)	(125)
Income tax	-	-	-	(1,330)	(1,330)
Consolidated net income after tax of continuing operations					6,819
Consolidated net income after tax of discontinued operations					-
Consolidated net income after tax					6,819
Non-cash income and expense items included in operating income allocated by business segment	(4,498)	(2,526)	(498)	-	(7,522)
Investments in property, plant & equipment and intangible assets					
- excluding telecommunications licenses	3,493	3,080	406	-	6,979
- telecommunications licenses	85	-	-	-	85
- financed through finance leases	30	-	14	-	44
Total investments ⁽²⁾	3,608	3,080	420	-	7,108

(1) In 2007, HCS includes the activities which hold the Orange trademark (previously included in the PCS segment).

(2) Including 1,693 million euros for other intangible assets and 5,415 million euros for property, plant and equipment (see Notes 13 and 14).

II - consolidated financial documents

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements

➤ BALANCE SHEET AT DECEMBER 31, 2007

(in millions of euros)	PCS	HCS	ECS	Eliminations and unallocated items	Total France Telecom
Goodwill	24,931	6,059 ⁽¹⁾	399	-	31,389
Other intangible assets	10,166	6,252 ⁽²⁾	240	-	16,658
Property, plant and equipment	12,073	15,190	586	-	27,849
Interests in associates	273	3	6	-	282
Other non-current assets	35	5	23	-	63
Non-segment non-current assets ⁽³⁾	-	-	-	9,847	9,847
Non-current assets					86,088
Inventories	684	342	42	-	1,068
Trade receivables ⁽⁴⁾	3,916	5,254	921	(3,535)	6,556
Other current assets	936	1,072	165	(138)	2,035
Prepaid expenses	362	313	81	(83)	673
Non-segment current assets ⁽³⁾	-	-	-	4,763	4,763
Current assets					15,095
TOTAL ASSETS					101,183
- o/w segment assets	53,376	34,490	2,463	(3,756)	86,573
- o/w non-segment assets	-	-	-	14,610	14,610
Equity					34,325
Non-current trade payables	429	6	-	-	435
Non-current employee benefits	22	429	84	-	535
Non-current provisions	352	1,252	53	-	1,657
Other non-current liabilities	13	857	-	-	870
Non-segment non-current liabilities ⁽³⁾	-	-	-	35,081	35,081
Non-current liabilities					38,578
Current trade payables	7,652	4,646	826	(3,544)	9,580
Current employee benefits	320	1,247	314	-	1,881
Current provisions	214	1,294	91	-	1,599
Other current liabilities	693	1,104	168	(128)	1,837
Deferred income	1,753	1,428	178	(84)	3,275
Non-segment current liabilities ⁽³⁾	-	-	-	10,108	10,108
Current liabilities					28,280
TOTAL EQUITY AND LIABILITIES					101,183
- o/w segment liabilities	11,448	12,263	1,714	(3,756)	21,668
- o/w non-segment liabilities	-	-	-	79,514	79,514

(1) Goodwill on TP Group is included in the Home segment.

(2) Includes the Orange trademark for 3,846 million euros.

(3) Mainly assets and liabilities comprising net financial debt and deferred taxes.

(4) Some trade receivables generated by the Enterprise Communication Services segment are included in the Home Communication Services segment, which is responsible for their collection. Their reallocation would amount to approximately 480 million euros.

3.1.2 Main operating indicators per segment for the year ended December 31, 2006

➤ INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2006

(in millions of euros)	PCS	HCS	ECS	Eliminations and unallocated items	Total France Telecom
Revenues	27,745	22,487	7,652	(6,182)	51,702
- external	26,770	17,701	7,231	-	51,702
- inter-segment	975	4,786	421	(6,182)	-
External purchases	(15,653)	(8,520)	(4,816)	6,180	(22,809)
Other operating incomes	155	529	122	(333)	473
Other operating expenses	(1,034)	(1,384)	(150)	333	(2,235)
Labour expenses: - Wages and employee benefit expenses	(1,527)	(5,847)	(1,218)	-	(8,592)
Gross operating margin	9,686	7,265 ⁽¹⁾	1,590	(2)	18,539
- Employee profit-sharing	(71)	(252)	(23)	-	(346)
- Share-based compensation	(13)	(14)	(3)	-	(30)
Depreciation and amortization	(4,183)	(3,241)	(402)	2	(7,824)
Impairment of goodwill	(2,525)	(275) ⁽²⁾	-	-	(2,800)
Impairment of non-current assets	(31)	(72)	(2)	-	(105)
Gains (losses) on disposals of assets	-	-	-	97	97
Restructuring costs	(68)	(474)	(25)	-	(567)
Share of profits (losses) of associates	-	24	-	-	24
Operating income					6,988
- Allocated by segment	2,795	2,961	1,135	-	6,891
- Non-allocable				97	97
Interest expenses, net	-	-	-	(3,155)	(3,155)
Foreign exchange gains (losses)	-	-	-	26	26
Discounting expense	-	-	-	(122)	(122)
Income tax	-	-	-	(2,180)	(2,180)
Consolidated net income after tax of continuing operations					1,557
Consolidated net income after tax of discontinued operations					3,211 ⁽³⁾
Consolidated net income after tax					4,768
Non-cash income and expense items included in operating income allocated by business segment	(6,691)	(2,823)	(368)	-	(9,892)
Investments in property, plant & equipment and intangible assets					
- excluding telecommunications licenses	3,581	2,721	430	-	6,732
- telecommunications licenses ⁽⁴⁾	283	-	-	-	283
- financed through finance leases	20	2	15	-	37
Total investments ⁽⁵⁾	3,884	2,723	445	-	7,052

(1) Includes a 129 million euro reversal of provisions for post-employment benefits (see Note 6).

(2) Goodwill on TP Group is included in the Home segment.

(3) PagesJaunes Group (see Note 4).

(4) Mainly renewal of Orange France's GSM license.

(5) Including 1,771 million euros for other intangible assets and 5,281 million euros for property, plant and equipment (see Notes 13 and 14).

II - consolidated financial documents

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements

➤ BALANCE SHEET AT DECEMBER 31, 2006

(in millions of euros)	PCS	HCS	ECS	Eliminations and unallocated items	Total France Telecom
Goodwill	25,371	5,838 ⁽¹⁾	308	-	31,517
Other intangible assets	16,609 ⁽²⁾	1,876	228	-	18,713
Property, plant and equipment	12,413	15,144	665	-	28,222
Interests in associates	318	36	6	-	360
Other non-current assets	5	14	20	-	39
Non-segment non-current assets ⁽³⁾	-	-	-	9,536	9,536
Non-current assets					88,387
Inventories	532	256	56	-	844
Trade receivables ⁽⁴⁾	3,861	4,842	873	(2,820)	6,756
Other current assets	850	908	153	(123)	1,788
Prepaid expenses	283	273	66	(42)	580
Non-segment current assets ⁽³⁾	-	-	-	4,816	4,816
Current assets					14,784
TOTAL ASSETS					103,171
- o/w segment assets	60,242	29,187	2,375	(2,985)	88,819
- o/w non-segment assets	-	-	-	14,352	14,352
Equity				31,638	31,638
Non-current trade payables	488	45	2	-	535
Non-current employee benefits	36	424	74	-	534
Non-current provisions	349	1,748	109	-	2,206
Other non-current liabilities	17	942	-	-	959
Non-segment non-current liabilities ⁽³⁾	-	-	-	39,812	39,812
Non-current liabilities					44,046
Current trade payables	6,788	4,226	826	(2,825)	9,015
Current employee benefits	293	1,044	269	-	1,606
Current provisions	225	1,480	111	-	1,816
Other current liabilities	911	1,169	149	(119)	2,110
Deferred income	1,589	1,464	164	(40)	3,177
Non-segment current liabilities ⁽³⁾	-	-	-	9,763	9,763
Current liabilities					27,487
TOTAL EQUITY AND LIABILITIES					103,171
- o/w segment liabilities	10,696	12,542	1,704	(2,984)	21,958
- o/w non-segment liabilities	-	-	-	81,213	81,213

(1) Goodwill on TP Group is included in the Home segment.

(2) Includes the Orange trademark for 4,201 million euros.

(3) Mainly assets and liabilities comprising net financial debt and deferred taxes.

(4) Some trade receivables generated by the Enterprise Communication Services segment are included in the Home Communication Services segment, which is responsible for their collection. Their reallocation would amount to approximately 450 million euros.

3.2 Analysis by geographic segment

3.2.1 Revenue contribution

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
France	27,856	27,454
United Kingdom	6,706	6,464
Poland	4,787	4,755
Spain	3,911	3,835
Rest of Europe	5,479	5,468
Rest of the world	4,220	3,726
GROUP TOTAL	52,959	51,702

3.2.2 Investments in property, plant & equipment and intangible assets (including finance leases and telecommunications licenses)

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
France	3,273	3,519
United Kingdom	549	555
Poland	963	770
Spain	627	688
Rest of Europe	719	791
Rest of the world	977	729
GROUP TOTAL	7,108	7,052

3.2.3 Property, plant and equipment and intangible assets, net (excluding goodwill)

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
France	15,520	15,711
United Kingdom	11,484	13,018
Poland	7,049	6,802
Spain	4,862	5,200
Rest of Europe	2,773	3,561
Rest of the world	2,819	2,643
GROUP TOTAL	44,507	46,935

NOTE 4

Main acquisitions and disposals of companies and changes in scope of consolidation

Year ended december 31, 2007

Main acquisitions

■ Telkom Kenya

On December 21, 2007, the consortium formed between France Telecom (78.5%) and Alcazar Capital Limited (21.5%) acquired a 51% stake in Telkom Kenya, the historical Kenyan telecoms operator, for a total consideration of 270 million euros. Telkom Kenya, which has 280,000 fixed-line customers, will be granted a new mobile license.

Due to the time required for Telkom Kenya to prepare its financial statements, coupled with the fact that the consortium only recently acquired control, it was not possible for Telkom Kenya's financial statements to be finalized within a timeframe compatible with that of France Telecom. Accordingly, the investment in Telkom Kenya is presented under "Non-consolidated investments" at December 31, 2007 (see Note 16).

■ Ya.com

On July 31, 2007, France Telecom acquired the entire share capital of T-Online Telecommunications Spain (now called FT España ISP) from Deutsche Telekom for a total cash consideration of 150 million euros. FT España ISP is Spain's third broadband operator and trades under the name Ya.com.

Goodwill relating to this transaction amounted to 125 million euros, after recognizing 76 million euros of identified assets acquired and liabilities assumed, mainly subscriber bases (see Note 12). Taking account of the intercompany loans acquired from the former shareholder and the cash acquired, the net cash out is was 319 million euros.

■ Orange Moldova

On July 2, 2007, France Telecom acquired indirectly, for a cash consideration of 103 million euros, an additional stake in Orange Moldova, bringing its total stake to 94.3%. Goodwill relating to this transaction amounts to 85 million euros.

■ VOXmobile

On July 2, 2007, Mobistar, which is 50.17% owned by France Telecom, acquired 90% of Luxembourg mobile operator VOXmobile for a cash consideration of 80 million euros. After analysis of the agreements between the parties regarding the remaining 10% interests, France Telecom is deemed to have acquired 100% of VOXmobile's interests. Goodwill relating to the transaction amounts to 71 million euros, after recognizing 11 million euros of identified assets acquired and liabilities assumed.

■ Acquisition of Groupe Silicomp

On January 4, 2007, France Telecom acquired a controlling block of approximately 54% of the capital of Groupe Silicomp, a company listed on Eurolist by Euronext Paris S.A., for a cash consideration of 50 million euros. Groupe Silicomp provides services in consulting, creation of software, development and implementation of network infrastructures. Pursuant to the standing market offer (garantie de cours) launched from February 7 through February 27, 2007 at a price per share equal to the price paid for the controlling block, France Telecom acquired an additional 36.5% stake of Groupe Silicomp for 43 million euros. At December 31, 2007, France Telecom owned 96.1% of the shares. Goodwill relating to the transaction amounted to 70 million euros, after recognizing identified assets acquired and liabilities assumed. Taking account of the cash acquired, the net cash out of the acquisition amounts to 96 million euros.

Main disposals

■ Sale of Orange's Dutch mobile and internet businesses

On October 1, 2007, France Telecom sold its Dutch mobile and internet subsidiaries to Deutsche Telekom for a total of 1,317 million euros, net of disposal costs. The net gain on disposal before tax was 299 million euros (see Note 8). Taking account of the cash sold, the net proceeds amounted to 1,306 million euros.

■ Sale of the shareholding in Bluebirds

Pursuant to the disposal by Bluebirds of its interest in Eutelsat Communications, France Telecom received 110 million euros in February 2007 and disposed of all its interests in Bluebirds in May 2007. The net gain on disposal before tax was 104 million euros (see Notes 8 and 15).

Other changes in the scope of consolidation

■ One

On October 2, 2007, the consortium formed between the investment fund Mid Europa Partners and France Telecom acquired the entire share capital of One GmbH for an enterprise value of 1.4 billion euros. The amount received by France Telecom for the sale of its 17.5% interest in One GmbH and the reimbursement of its shareholder's loan will be partially reinvested in order to obtain an indirect 35% stake in One GmbH.

The proceeds of this transaction amounted to 36 million euros, net of costs (see Notes 8 and 15). The transaction had a net positive effect of 82 million euros on cash flow.

Year ended 31 December 2006

Main acquisitions

■ Acquisition of Groupe Diwan shares

In July 2006, France Telecom Group acquired a controlling block of approximately 72% of the capital of Groupe Diwan for a cash consideration of 28.2 million euros. Groupe Diwan, an integration company specializing in systems, networks and telecoms infrastructure management and security, is listed on Alternext stock exchange. In accordance with Alternext rules and the General Regulation of the French stock market regulatory authority (*Autorité des Marchés Financiers* - AMF), France Telecom Group made a standing market offer (*garantie de cours*) to Groupe Diwan shareholders at a price per share equal to the price paid by the Group for the controlling block. Subsequently France Telecom Group made a buyout offer for the remaining shares. Pursuant to these transactions, which took place in November and December 2006, France Telecom Group acquired an additional interest of 27.51% for 11 million euros and owns 99.51% of Groupe Diwan. The company has since been delisted.

Goodwill relating to this transaction amounted to 47 million euros.

■ Acquisition of an additional interest in Jordan Telecommunications Company (JTC)

On April 4, 2006, France Telecom acquired an additional 12% interest in Jitco from Arab Bank for a cash consideration of 60 million euros. Pursuant to this transaction, France Telecom owns 100% of Jitco, holding company of Jordan Telecommunications Company (JTC), the historical telecoms operator in Jordan. Goodwill relating to this transaction amounted to 20 million euros.

On July 5 and November 30, 2006, France Telecom successively acquired 10% and then 1% less one share of JTC, company consolidated using the proportionate consolidation, from the Jordanian government for a cash consideration of 145 million euros. Pursuant to these transactions, France Telecom owns 51% less one share of JTC. By virtue of amendments made to the shareholders' agreement with the Jordanian government, France Telecom controls and therefore fully consolidates JTC from July 5, 2006. Goodwill relating to these two transactions amounted to 85 million euros.

■ Increase of ownership interest in TP Group

During 2007, TP S.A. purchased 2% of its own shares for a total of 185 million euros. France Telecom's ownership interest in TP S.A. therefore rose from 47.5% to 48.6% (see Note 36). Goodwill relating to this transaction amounted to 37 million euros.

Remeasurement of the assets and liabilities of JTC led to the recognition of trademarks for 14 million euros, licenses for 8 million euros, subscriber bases for 169 million euros and related deferred tax liabilities for 48 million euros (see Note 13).

Including the minority interests, these transactions had a positive effect on equity of 280 million euros, of which 59 million euros on equity attributable to equity holders of France Telecom S.A.

The change in the consolidation method for Jordan Telecommunications Company resulted in an increase in net cash of 137 million euros.

■ Acquisition of an additional interest in Amena and effects of the merger between the Spanish entities

In March 2006, in accordance with the undertakings made in November 2005 upon the acquisition of 79.4% of Auna, France Telecom acquired an additional 0.61% interest in Auna (now France Telecom Operadores de Telecomunicaciones SA (FTOT)) from the minority shareholders for a cash consideration of 49 million euros, raising its shareholding to 80%. In addition, FTOT acquired an additional 1.4% interest in Retevisión Movil SA (Amena), for a cash consideration of 106 million euros, raising its shareholding to 99.3%. The additional goodwill arising on these transactions amounted to 92 million euros.

In May and July 2006, France Telecom received 124 million euros pursuant to the purchase price adjustment provisions. These price adjustments were recorded as a deduction from goodwill.

On July 31, 2006, in accordance with the undertakings made in November 2005, FT España, FTOT and Amena merged into FT España. The minority shareholders of FTOT and Amena received shares in FT España in exchange for their interests. After the merger, France Telecom's ownership interest in FT España is 79.29%. As IASs/IFRSs do not specifically address this type of transaction with minority shareholders nor the resulting decrease in ownership interest, France Telecom applied the accounting treatment described in Note 2.3.2. The merger was treated as an acquisition of the minority interests in FTOT and Amena followed by the disposal of 20.71% of FT España. Goodwill arising on the acquisition of the minority

II - consolidated financial documents

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements

interests in FTOT and Amena amounted to 1,126 million euros. The disposal of 20.71% of FT España resulted in a gain of 129 million euros. Due to the preemption right and call option held by France Telecom over these minority interests, the gain was deferred and recorded in "Other non-current liabilities" at December 31, 2006 (see Note 29).

Pursuant to the merger, certain assets recognized in the consolidated financial statements upon the acquisition of Auna in November 2005 became tax deductible. Consequently, the deferred tax liabilities recognized at the time of the acquisition in connection with these assets were reversed, of which 709 million were reversed against goodwill.

Following these transactions, goodwill amounted to 4,840 million euros at December 31, 2006.

Main disposals

■ Disposal of France Telecom Mobile Satellite Communications (FTMSC)

On October 31, 2006, France Telecom sold its entire shareholding in FTMSC to Apax Partners France for an amount of 52 million euros net of disposal costs. At December 31, 2006, the gain on disposal before tax amounted to 10 million euros.

■ Disposal of PagesJaunes Group

On October 11, 2006, France Telecom disposed of its 54% shareholding in PagesJaunes Group to Médiannuaire, a subsidiary of Kohlberg Kraus Roberts & Co Ltd (KKR) for an amount of 3,287 million euros net of disposal costs. At December 31, 2006, the gain on disposal before tax amounted to 2,983 million euros. After the repayment of intercompany loans and affets of the cash sold, the net proceeds amounted to 2,697 million euros.

PagesJaunes Group is presented in the financial statements as a discontinued operation. The net result of the operations of PagesJaunes and net gains on disposal are reported under net income of discontinued operations.

The main aggregates comprising net income of discontinued operations for the period year December 31, 2006 are as follows:

(in millions of euros)⁽¹⁾

Revenues	822
Gross operating margin	361
Operating income	339
Finance costs, net	11
Income tax	(122)
Net income generated by PagesJaunes	228
Gain on disposal of PagesJaunes, before tax	2,983
Tax	-
Gain on disposal of PagesJaunes, after tax	2,983
Net income of discontinued operations	3,211

(1) Corresponds to the net result of the operations of PagesJaunes until the disposal date.

Net cash-flows relating to PagesJaunes for the year ended December 31, 2006 are as follows:

(in millions of euros)

Net cash provided by operating activities	275
Net cash provided by or used in investing activities ⁽¹⁾	2
Net cash used in financing activities	(280)

(1) Including investments in property, plant & equipment and intangible assets: 24 million euros in 2006 (see Notes 13 and 14).

■ Disposal of Ypso shares

In January 2006, France Telecom disposed of its 20% shareholding in Ypso, a cable network operator, for 44 million euros. The gain on disposal before tax amounted to 84 million euros.

NOTE 5 Revenues

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
Personal Communication Services (a)	29,119	27,745
France	9,998	9,882
United Kingdom	6,217	5,874
Spain	3,404	3,353
Poland	2,133	1,934
Other	7,550	6,920
Intra-segment eliminations	(183)	(218)
Home Communication Services (b)	22,671	22,487
France	17,957	17,657
Poland	2,886	3,048
Other	2,100	2,005
Intra-segment eliminations	(272)	(223)
Enterprise Communication Services (c)	7,721	7,652
Business network legacy	3,648	4,063
Advanced business network	1,964	1,879
Extended business services	1,139	836
Other business services	970	874
Inter-segment eliminations (d)	(6,552)	(6,182)
TOTAL (A) + (B) + (C) + (D)	52,959	51,702

France Telecom generates substantially all of its revenues from services.

NOTE 6 Operating income and expenses**6.1 Labour expenses**

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
Average number of employees ⁽¹⁾ (full time equivalents) (unaudited)	183,799	189,028
Wages and employee benefit expenses	(8,767)	(8,592)
o/w: - Wages and salaries	(6,518)	(6,460)
- Social security charges	(2,170)	(2,157)
- Capitalized labour expenses ⁽²⁾	575	547
- Other labour expenses ⁽³⁾	(654)	(522)
Employee profit sharing	(359)	(346)
Share-based compensation ⁽⁴⁾	(279)	(30)
o/w: - Free Share Award plan	(149)	-
- Employee Shareholding Plan	(107)	-
- Stock-option plans	(23)	(30)
TOTAL LABOUR EXPENSES	(9,405)	(8,968)

(1) Of whom approximately 38.2% are French civil servants at December 31, 2007.

(2) Capitalized labour expenses correspond to labour expenses included in the cost of assets produced by the Group.

(3) Other labour expenses comprise other short-term allowances and benefits and payroll taxes.

(4) See Note 27.

II - consolidated financial documents

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements

6.2 External purchases

Commercial expenses include (i) purchases of handsets and other products sold, (ii) retail fees and commissions, and advertising, promotional, sponsoring and rebranding costs.

Other external purchases include overheads, real estate fees, outsourcing fees relating to technical operation and maintenance, IT costs, purchases of equipment, and call center outsourcing fees, net of capitalized goods and services costs.

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
Commercial expenses ⁽¹⁾	(8,082)	(7,780)
Service fees and inter-operator costs	(7,895)	(8,053)
Other external purchases	(7,179)	(6,976)
TOTAL EXTERNAL PURCHASES	(23,156)	(22,809)

(1) Advertising, promotional, sponsoring and rebranding costs amounted to (1,258) million euros at December 31, 2007, and (1,305) million euros at December 31, 2006.

6.3 Other operating income

Other operating income includes late-payment interest on trade receivables, proceeds from trade receivables written off, income

from universal service, income relating to damage to lines, and penalties and reimbursements received.

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
TOTAL OTHER OPERATING INCOME	440	473

6.4 Other operating expense

Other expenses and changes in provisions mainly comprise costs, additions to and reversals from utilized and surplus provisions associated with penalties, litigation, royalties and patents, and universal service expenses.

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
Taxes other than income tax ⁽¹⁾	(1,663)	(1,586)
Impairment and losses on trade receivables ⁽²⁾	(382)	(316)
Other expenses and changes in provisions ⁽³⁾	(315)	(333)
TOTAL OTHER OPERATING EXPENSE	(2,360)	(2,235)

(1) Including business tax for an amount of (972) million euros at December 31, 2007 and (1,047) million euros at December 31, 2006.

(2) Including (379) million euros of trade receivables written off at December 31, 2007 and (466) million euros at December 31, 2006.

(3) In 2006, this item included a 129 million euro reversal of provisions for post-employment benefits (see Notes 3 and 26). Before the transfer of responsibility for social welfare and cultural benefits to France Telecom's Works Council, some post-employment benefits were managed directly by the company and had been provisioned in accordance with IAS 19. France Telecom believes that the transfer has extinguished its legal and constructive obligations in respect of these benefits and in the second half of 2006 therefore reversed the 129 million euro provision previously taken.

NOTE 7 Impairment

Impairment tests are carried out annually, or when indicators show that assets may be impaired. This note describes the impairment tests carried out for 2006 and 2007.

7.1 Definition of CGUs and groups of CGUs**Definition of cash-generating units (CGUs)**

At December 31, 2007, the France Telecom Group had 37 main CGUs, generally corresponding to an operation in a particular country. The CGUs break down as follows by primary business segment:

	Year ended	
	December 31, 2007	December 31, 2006
Personal Communication Services ⁽¹⁾	24	21
Home Communication Services ⁽²⁾	10	10
Enterprise Communication Services ⁽³⁾	3	2
TOTAL	37	33

(1) In 2007, mainly the sale of the Dutch businesses, the acquisition of VOXmobile in Luxembourg and the launch of mobile activities in Africa.

(2) In 2007, the sale of the Dutch businesses and acquisition of FT España ISP (Ya.com).

(3) The new CGU in the Enterprise Communication Services sector corresponds to the acquisition in 2007 of Groupe Silicomp.

Level of goodwill impairment testing

In accordance with the accounting policies described in Note 2.3.8, the main groups of CGUs used by France Telecom are the two CGUs representing the fixed-line and mobile businesses in Poland, the two CGUs representing the fixed-line and mobile businesses in Senegal, the two CGUs representing the fixed-line and mobile business in Jordan and the two CGUs representing the fixed-line and mobile businesses in Mauritius.

Other items of goodwill are tested at the level of each CGU, which is generally either the fixed-line or mobile business in each country. Due to its recent acquisition, FT España ISP (Ya.com) has been tested separately from France Telecom's other fixed-line activities in Spain.

At December 31, 2007, the main items of goodwill and intangible assets with an indefinite useful life included in the net book values of the CGUs or groups of CGUs tested were:

(in millions of euros)	Goodwill (net book value)	Intangible assets with an indefinite useful life ⁽¹⁾
Personal - France	12,873	-
Personal - Spain	4,657	-
Personal - Romania	1,806	-
Personal - UK	1,538	-
Personal - Belgium	934	-
Personal - Slovakia	723	-
Personal - Switzerland	603	-
Home - France	2,142	-
Home - UK	298	-
Home - Spain	249	-
Poland (Personal and Home)	3,003	222
ECS	400	-
Other	2,163	3,868
TOTAL	31,389	4,090

(1) Intangible assets with an indefinite useful life mainly comprise the Orange and TP trademarks recognized in the France Telecom Group's consolidated balance sheet (see Note 13).

7.2 Key assumptions used to determine recoverable amounts of the main CGUs and groups of CGUs

Basis for calculating recoverable amounts

See Note 2.3.8.

Key assumptions used to determine recoverable amounts

Key assumptions used to determine the value in use of assets in the telecommunications segment are similar in nature. They include:

- market level, penetration rate and market share; decisions of regulators in terms of the pricing, accessibility of services, and internet service provider tariffs between operators; the level of commercial expenses required to replace products and keep up with existing competitors or new market entrants; the impact on costs of changes in net revenues; and
- the level of investment spends, which may be affected by the roll-out of necessary new technologies.

The amounts assigned to each of these parameters reflect past experience adjusted for expected changes over the timeframe of the business plan, but may also be affected by unforeseeable changes in the political, economic or legal framework of certain countries.

Other assumptions which influence the estimation of recoverable amounts are:

At December 31, 2007:

MAIN CGUS AND GROUPS OF CGUS	Personal - France	Personal - UK	Personal - Spain	Home - France	ECS excluding Globecast	Poland - Home and Personal
Basis of recoverable amount	Fair value	Fair value	Value in use	Fair value	Value in use	Value in use
Source used	5-year plans	Plan	5-year plans	5-year plans	5-year plans	5-year plans
	Discounted cash flow	EBITDA multiples	Discounted cash flow	Discounted cash flow	Discounted cash flow	Discounted cash flow
Growth rate to perpetuity	1.0%	n/a	2.0%	0.0%	0.0%	0.0% - 3.0%
Post-tax discount rate ⁽¹⁾	7.7%	n/a	8.25%	7.7%	8.50%	11.0%

(1) The post-tax discount rate is based on a pre-tax discount rate defined by current accounting standards and used to calculate value in use: Personal - Spain: 10.7%; Enterprise excluding Globecast: 14.0%; Home - Poland: 13.5%; Personal - Poland: 13.1%.

At December 31, 2006:

MAIN CGUS AND GROUPS OF CGUS	Personal - France	Personal - UK	Personal - Spain	Home - France	ECS excluding Globecast	Poland - Home and Personal
Basis of recoverable amount	Fair value	Value in use	Value in use	Fair value	Fair value	Value in use
Source used	5-year plans	5-year plans	5-year plans	Plan	Plan	5-year plans
	Discounted cash flow	Discounted cash flow	Discounted cash flow	EBITDA multiples	EBITDA multiples	Discounted cash flow
Growth rate to perpetuity	1.0%	2.0%	2.0%	N/A	N/A	0.0% - 3.0%
Post-tax discount rate ⁽¹⁾	8.5%	9.0%	8.5%	N/A	N/A	11.3%

(1) The post-tax discount rate is based on a pre-tax discount rate defined by current accounting standards and used to calculate value in use: Personal - United Kingdom: 11.7%; Personal - Spain: 11.3%; Home - Poland: 11.7%; Personal - Poland: 11.6%.

Sensitivity of recoverable amounts

At December 31, 2007, among the main CGUs or groups of CGUs listed above:

- for Personal - France, Home - France and Enterprise excluding Globecast, the Group considers it improbable that there will

be a change in valuation parameters that would bring the recoverable amount into line with the book value;

- for Personal - UK, a decrease of a quarter of EBITDA multiples would bring the value in use into line with the book value;

■ for Personal - Spain, a 1.7 point increase in the discount rate assumption or a 2.2 point decrease in the growth rate to perpetuity assumption would bring the value in use in line with the book value;

■ for Personal and Home - Poland, a 0.6 point increase in the discount rate assumption or a 0.8 point decrease in the growth rate to perpetuity assumption would bring the value in use into line with the book value.

7.3 Impairment, net of reversals

(in millions of euros)	Year ended			Year ended		
	December 31, 2007			December 31, 2006		
	Goodwill	Assets with a finite useful life	Assets with an indefinite useful life	Goodwill	Assets with a finite useful life	Assets with an indefinite useful life
Personal - UK				(2,350) ⁽¹⁾		
Personal - Netherlands				(175) ⁽¹⁾		
Poland (Personal and Home)				(275) ⁽²⁾	(21)	
Other	(26)	(77)	(30)		(70)	(14)
TOTAL	(26)	(77)	(30)	(2,800)	(91)	(14)

(1) Until June 30, 2006, goodwill on the Personal operations which formed part of the sub-group headed by Orange SA in 2000, were tested at the level of that group. Within the Personal operations, return on investment is now monitored on a country basis, which has changed the level at which goodwill is tested for impairment. In accordance with the principles set out in Note 2.3.8, the goodwill on the former Orange sub-group has been reallocated to each of the constituent CGUs. The allocation was made in proportion to the fair values of each CGU as of November 30, 2006, the date on which the impairment test was carried out.

The allocation of goodwill on the former Orange sub-group has significantly increased the net book value of the assets of Personal Communication Services in the United Kingdom, which led to the recognition of a (2,350) million euros impairment loss in 2006. The impairment loss booked against the Personal - Netherlands CGU stems from the same source.

(2) For Poland, the impairment loss booked in 2006 was based on the business plan prepared by the company's management and stems from an increase in the discount rate to 11.3% (against 9.5% for Home and 10.5% for Personal previously), to take account of the uncertainty generated by the local regulatory environment. Long-term growth rates remain unchanged (0% for Home and 3% for Personal).

NOTE 8 Gains and losses on disposals of assets

The main disposals are set out in Note 4.

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
Tower Participations (see below)	307	-
Orange's Dutch mobile and internet businesses	299	-
Bluebirds	104	-
One	36	-
Cable activities	-	84
Dilution impacts	-	25
Other ⁽¹⁾	23	(12)
TOTAL	769	97

(1) Includes impairment losses on securities and receivables relating to non-consolidated companies and sales of tangible and intangible fixed assets.

Tower Participations (TDF)

In January 2007, France Telecom's former co-shareholders in Tower Participations sold their shareholding in this company. In accordance with the terms of the agreement to share net capital gains entered into in 2002 at the time of the disposal

of TDF to Tower Participations and amended in 2005 when France Telecom sold its shareholding, France Telecom received an additional consideration of 254 million euros. In addition, the gain that was deferred in 2005 in the amount of 53 million euros due to the risk of a repayment pursuant to the agreement has been recognized in 2007.

NOTE 9 Restructuring costs

Restructuring costs, net of restructuring provision reversals, break down as follows:

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
Public service secondment costs	(66)	(47)
Early retirement plan ⁽¹⁾	19	(280)
Contributions to the Works' Committee in respect of early retirement plans	-	(13)
Other restructuring costs ⁽²⁾	(161)	(227)
TOTAL	(208)	(567)

(1) Impact of revising the discount rate.

(2) See Note 28.

NOTE 10 Finance costs, net

(in millions of euros)	Year ended December 31, 2007					
	Cost of net financial debt	Finance costs, net Foreign exchange gains (losses)	Other net financial expense	Operating income Foreign exchange gains (losses)	Other	Equity Retained earnings
Assets available for sale	5	(6)	-	-	-	(38)
Loans and receivables	48	(445)	-	(28)	(286) ⁽⁴⁾	-
Financial assets at fair value through profit or loss, excluding derivatives	257	-	-	-	-	-
Liabilities at amortized cost ⁽¹⁾	(2,766)	1,177	(64) ⁽²⁾	29	(2)	-
Financial liabilities at fair value through profit or loss, excluding derivatives	-	-	(32) ⁽³⁾	-	-	-
Derivatives	31	(730)	-	(7)	-	319
TOTAL	(2,425)	(4)	(96)	(2,525)	(288)	281
Discounting expense				(125)		
Finance costs, net				(2,650)		

(1) Including the change in fair value of hedged liabilities.

(2) Redemptions of perpetual bonds redeemable for shares (TDIRA) for (64) million euros.

(3) Change in fair value of the commitment to buy out the minority interests in Orange Madagascar for (32) million euros.

(4) Mainly receivables written off for (379) million euros and sundry interests on receivables for 96 million euros.

At December 31, 2007, net finance costs includes financial income for 304 million euros, from which 196 million euros generated by France Telecom S.A.

(in millions of euros)	Year ended December 31, 2006					
	Finance costs, net			Operating income		Equity
	Cost of net financial debt	Foreign exchange gains (losses)	Other net financial expense	Foreign exchange gains (losses)	Other	Retained earnings
Assets available for sale	5	(8)	-	-	-	(5)
Loans and receivables	76	127	-	3	(232) ⁽⁴⁾	-
Financial assets at fair value through profit or loss, excluding derivatives	99	-	-	-	-	-
Liabilities at amortized cost ⁽¹⁾	(2,773)	678	(296) ⁽²⁾	(4)	-	-
Financial liabilities at fair value through profit or loss, excluding derivatives	-	-	(6)	-	-	-
Derivatives	(32)	(771)	(228) ⁽³⁾	3	-	104
TOTAL	(2,625)	26	(530)	(3,129)	(232)	99
Discounting expense				(122)		
Finance costs, net				(3,251)		

(1) Including the change in fair value of hedged liabilities.

(2) Mainly the change in fair value of a bond issue for (189) million euros and the redemption of perpetual bonds redeemable for shares (TDIRA) for (103) million euros.

(3) Mainly the change in fair value of the price guarantee given to the minority shareholders of FT España for (258) million euros (see Notes 20 and 32).

(4) Mainly receivables written off for (466) million euros, net provision reversals for 150 million euros and sundry interests on receivables for 84 million euros.

At December 31, 2006, net finance costs included financial income for 164 million euros, from which 51 million euros generated by France Telecom S.A.

NOTE 11 Income tax

11.1 France Telecom Group tax proof

Income tax for 2007 is based on the application of the effective tax rate on pre-tax profit for the year ended December 31, 2007. In France, deferred taxes are calculated based on enacted tax rates, i.e. 34.43% for 2007 and thereafter.

The reconciliation between effective income tax expense on continuing operations and the theoretical tax calculated based on the French statutory tax rate is as follows:

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
Net income of continuing operations before tax	8,149	3,737
Impairment of goodwill	26	2,800
Net income of continuing operations before tax and impairment of goodwill	8,175	6,537
Statutory income tax rate	34.43%	34.43%
Theoretical tax	(2,815)	(2,250)
Share of profits (losses) of associates	1	8
Recognition of share-based compensation	(30)	(12)
Recognition (derecognition) of tax losses	809	136
Difference in tax rates	283	233
Change in local tax rate	84	(271)
Capital gains and losses of equity investments not taxable at the statutory tax rate	283	14
Price guarantee granted to the minority shareholders of FT España (see Note 32)	-	(89)
Other	55	51
Effective tax	(1,330)	(2,180)

11.2 Income tax benefit/(charge)

The income tax split between the tax consolidation groups and the other subsidiaries is as follows:

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
France tax group	(499)	(1,280)
- Current taxes	3	(22)
- Deferred taxes	(502)	(1,258)
UK tax group	110	74
- Current taxes	(3)	37
- Deferred taxes	113	37
Spain	(494)	(327)
- Current taxes	22	(3)
- Deferred taxes	(516)	(324)
TP Group	(147)	(102)
- Current taxes	(174)	(156)
- Deferred taxes	27	54
Other subsidiaries	(300)	(545)
- Current taxes	(457)	(447)
- Deferred taxes	157	(98)
Income tax	(1,330)	(2,180)
- Current taxes	(609)	(591)
- Deferred taxes	(721)	(1,589)

At each period end, France Telecom reviews the recoverable amount of the deferred tax assets carried by certain tax entities with significant tax loss carryforwards.

Deferred tax assets arising on these tax losses are not recognized under certain circumstances specific to each company/tax consolidation group concerned, and particularly where:

- entities cannot assess the probability of the tax loss carryforwards being set off against future taxable profits, due to forecasts horizon and uncertainties as to the economic environment;
- entities have not yet begun to use the tax loss carryforwards;
- entities do not expect to use the losses within the timeframe allowed by tax regulations;
- tax losses are uncertain to be used due to risks of differing interpretations with regard to the application of tax legislation.

■ France tax group

The deferred tax charge in 2007 for the France tax group mainly consists of:

- use of tax loss carryforwards amounting to (2,172) million euros;

- recognition of deferred tax assets over the period amounting to 1,573 million euros due to a reassessment of their recoverability.

In 2006, the deferred tax change for the France tax group also included the use of tax loss carryforwards for an amount of (1,465) million euros and, to a lesser extent, a reassessment of the recoverability horizon for an amount of 416 million euros.

France Telecom and its main French subsidiaries were subject to audit by the French tax authorities for the financial years 2000 to 2004 inclusive, except for the entities of the former Orange tax group, which were subject to audit for the financial years 2002 to 2003 inclusive.

These audits have been completed and the tax adjustments which were accepted did not have a material impact on France Telecom's 2007 financial statements. As regards the tax adjustments which were contested, the companies concerned have made their comments and are awaiting a final decision by the tax authorities.

At the end of the year, the French tax authorities began a new audit on Orange France SA for the financial years 2004 and 2005.

■ UK tax group

The change of income tax rate in the United Kingdom led to an 84 million euros increase in deferred tax income of the period.

■ Spain

At December 31, 2007, a deferred tax expense of (516) million euros was recognized following a reassessment of the recoverability horizon. At December 31, 2006, the tax charge

mainly comprised the effect of a decrease in the corporate income tax rate for (271) million euros.

Members of the former Auna tax group were subject to audit by the tax authorities for the financial years 2000 to 2002. The audit was completed in 2007 with no adverse financial impact for FT España.

11.3 Balance sheet tax position

	Year ended			
	December 31, 2007			December 31, 2006
(in millions of euros)	Assets	Liabilities	Net	Net
France tax group				
- Current taxes	51	23	28	161 ⁽¹⁾
- Deferred taxes	6,100	-	6,100	6,667
UK tax group				
- Current taxes	-	8	(8)	27
- Deferred taxes	-	1,322	(1,322)	(1,567)
Spain				
- Current taxes	-	-	-	1
- Deferred taxes	953	-	953	1,468
TP Group				
- Current taxes	14	4	10	(119)
- Deferred taxes	28	-	28	4
Other subsidiaries				
- Current taxes	46	296	(250)	(289)
- Deferred taxes	192	118	74	(71)
NET BALANCE SHEET INCOME TAX				
- Current taxes	111	331	(220)	(219)
- Deferred taxes	7,273	1,440	5,833	6,501

(1) Including 139 million euros in respect of the 2001 carryback which matures in 2007.

The balance sheet tax position by class of temporary difference breaks down as follows:

(in millions of euros)	Year ended	
	December 31, 2007 Net	December 31, 2006 Net
Provisions for early retirement plans	618	887
Property, plant and equipment and intangible assets ⁽¹⁾	(881)	(1,229)
Tax loss carryforwards	5,408	6,347
Other differences	688	496
Net deferred taxes - France Telecom Group	5,833	6,501

(1) In 2006, following the merger of FT España, FTOT and Amena, certain assets recognized upon allocation of the Amena purchase cost became partially tax deductible.

At December 31, 2007, unrecognized deferred tax assets for France Telecom Group amounted to 4.8 billion euros (6.4 billion euros in 2006), including 1.6 billion euros in France and 1.5 billion euros in Spain. The remaining balance of 1.7 billion euros

mainly comprises tax loss carryforwards in other jurisdictions, which have not been recognized in the consolidated financial statements as it is not probable that future taxable profit will be available in a foreseeable future to offset them.

11.4 Changes in Group net deferred taxes

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
Opening balance (balance sheet asset position)	6,501	7,300
Changes in the scope of consolidation ⁽¹⁾	(11)	(60)
Recognition in net income of continuing operations	(721)	(1,589)
Recognition in net income of discontinued operations	0	(9)
Recognition in equity	(106)	(13)
Translation adjustments and other items ⁽²⁾	170	872
Closing balance (balance sheet asset position)	5,833	6,501

(1) In 2006, this item included (48) million euros in respect of the Jordanian companies, corresponding to the effect of remeasuring assets and liabilities following the change in consolidation method.

(2) In 2006, this item included the derecognition of a deferred tax liability for an amount of 893 million euros by offset against goodwill for an amount of 709 million euros (see Note 4) and against minority interests for an amount of 184 million euros, following the merger between FT España, FTOT and Amena.

NOTE 12 Goodwill

	Year ended			
	December 31, 2007			December 31, 2006
		Accumulated impairment losses	Net	
(in millions of euros)	Cost		Net	Net
PCS	27,092	(2,161)	24,931	25,370
HCS ⁽¹⁾	6,401	(342)	6,059	5,839
ECS	1,041	(642)	399	308
TOTAL	34,534	(3,145)	31,389	31,517

(1) Goodwill on TP Group is included in the Home segment. It is tested for impairment at the level of the "Poland Group" of CGUs (see Note 7).

Movements in the net book value of goodwill are as follows:

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
Opening balance	31,517	33,726
Acquisitions ⁽¹⁾	436	565
Disposals ⁽²⁾	(334)	(248)
Impairment ⁽³⁾	(26)	(2,800)
Translation adjustment ⁽⁴⁾	(79)	265
Reclassifications and other items ⁽⁵⁾	(125)	9
Closing balance	31,389	31,517

(1) See Note 4. Including, in 2007, FT España ISP (Ya.com) for 125 million euros, Orange Moldova for 85 million euros, VOXmobile for 71 million euros and Groupe Silicom for 70 million euros. Including, in 2006, FT España for 386 million euros and JTC for 104 million euros.

(2) See Note 4. In 2007, (334) million euros relating to the sale of Orange's Dutch mobile and internet businesses. Including, in 2006, (237) million euros relating to the sale of PagesJaunes Group.

(3) See Note 7.

(4) In 2006, this item mainly related to Orange in the United Kingdom for 272 million euros.

(5) In 2007, (184) million euros of remeasurement relating to the merger of the Spanish entities in 2006.

NOTE 13 Other intangible assets

	Year ended				December 31, 2006
	December 31, 2007				
(in millions of euros)	Cost	Accumulated depreciation	Impairment	Net	Net
Telecommunications licenses ⁽¹⁾	9,707	(2,535)	-	7,172	8,458
Trademarks	4,794	-	(704)	4,090 ⁽²⁾	4,423
Subscriber bases	6,182	(4,507)	(4)	1,671 ⁽³⁾	2,137
Software	8,573	(5,100)	(31)	3,442	3,471
Other	1,321	(857)	(181)	283	224
TOTAL	30,577	(12,999)	(920)	16,658	18,713

(1) See below.

(2) Including, at December 31, 2007, the Orange trademark for 3,846 million euros and the TP trademark for 222 million euros.

(3) Including, in 2007, FT España for 1,337 million euros, Sonatel for 136 million euros and the Jordanian entities for 112 million euros.

Movements in the net book values of other intangible assets were as follows:

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
Opening balance	18,713	18,865
Acquisitions of intangible assets ^{(1) (2)}	1,693	1,790
Impact of changes in the scope of consolidation ⁽³⁾	(220)	179
Disposals	(10)	(13)
Depreciation and amortization on continuing operations ⁽⁴⁾	(2,532)	(2,372)
Depreciation and amortization on discontinued operations	-	(5)
Impairment	(37)	(63)
Translation adjustment ⁽⁵⁾	(801)	209
Reclassifications and other items	(148)	123
Closing balance	16,658	18,713

(1) In 2007, this item mainly relates to software for an amount of 1,477 million euros. In 2006, it mainly relates to software for an amount of 1,393 million euros and licenses for an amount of 283 million euros.

(2) Including discontinued operations for an amount of 19 million euros at December 31, 2006 (see Note 4).

(3) In 2007, this item mainly relates to the sale of the Dutch businesses for an amount of (374) million euros and the acquisition of FT España ISP (Ya.com) for an amount of 92 million euros. In 2006, it mainly related to the Jordanian companies for an amount of 206 million euros.

(4) In 2007, this item mainly relates to telecommunications licenses for an amount of (624) million euros and subscriber bases for an amount of (531) million euros ((623) million euros and (466) million euros respectively in 2006).

(5) In 2007, this item relates mainly to Orange UK for an amount of (828) million euros (152 million euros in 2006).

II - consolidated financial documents

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements

› DETAILS OF THE GROUP'S PRINCIPAL INTANGIBLE ASSETS (TELECOMMUNICATIONS LICENSES) AT DECEMBER 31, 2007

France Telecom's commitments under licenses awarded are disclosed in Note 32.

(in millions of euros)	Cost	Net	Residual useful life ⁽¹⁾
GSM	732	374	7.7
UMTS	5,586	4,385	13.9
United Kingdom	6,318	4,759	
GSM	188	171	12.2
UMTS	639	534	12.2
Spain	827	705	
GSM	281	248	13.3
UMTS	629	498	13.6
France	910	746	
GSM (2 licenses)	169	42	5.8 - 6.7
UMTS	454	399	14.9
Poland	623	441	
Other ⁽²⁾	1,029	521	
TOTAL TELECOMMUNICATIONS LICENSES	9,706	7,172	

(1) In number of years at December 31, 2007.

(2) This item mainly relates to licenses in Belgium and Egypt.

› CAPITALIZED EXPENDITURE DURING 2007

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
	Net	Net
External purchases	463	395
Labour expenses	317	233
Other	-	7
TOTAL	780	635

NOTE 14 Property, plant and equipment

(in millions of euros)	Year ended				December 31, 2006
	Cost	Accumulated depreciation	Impairment	Net	Net
Land and buildings	6,423	(2,868)	(457)	3,098	3,193
Networks and terminals	73,988	(50,754)	(232)	23,002	23,529
IT equipment	4,060	(2,905)	(6)	1,149	981
Other	1,751	(1,086)	(65)	600	519
TOTAL	86,222	(57,613)	(760)	27,849	28,222

Movements in the net book value of property, plant and equipment can be analyzed as follows:

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
Opening balance	28,222	28,570
Acquisitions of property, plant and equipment ⁽¹⁾ and ⁽²⁾	5,415	5,286
Impact of changes in the scope of consolidation ⁽³⁾	(290)	148
Disposals and retirements	(82)	(106)
Depreciation and amortization on continuing operations ⁽⁴⁾	(5,579)	(5,452)
Depreciation and amortization on discontinued operations	-	(4)
Impairment	(70)	(42)
Translation adjustment	16	(74)
Reclassifications and other items	217	(104)
Closing balance	27,849	28,222

(1) In 2007, this item relates mainly to networks and terminals for an amount of 4,481 million euros (4,452 million euros in 2006).

(2) Including 44 million euros acquired under finance leases at December 31, 2007 (37 million euros at December 31, 2006). Including discontinued operations for an amount of 5 million euros at December 31, 2006 (see Note 4).

(3) In 2007, this item relates to the sale of the Dutch businesses for an amount of (418) million euros and the acquisition of FT España (Ya.com) for an amount of 97 million euros. In 2006, it mainly related to the Jordanian companies for an amount of 174 million euros.

(4) In 2007, this item mainly relates to networks and terminals for an amount of (4,834) million euros ((4,658) million euros in 2006).

PROPERTY, PLANT AND EQUIPMENT HELD UNDER FINANCE LEASES

(in millions of euros)	Year ended	
	December 31, 2007 Net	December 31, 2006 Net
Land and buildings	195	208
Networks and terminals	363	400
IT equipment	15	19
TOTAL	573	627

CAPITALIZED EXPENDITURE DURING 2007

(in millions of euros)	Year ended	
	December 31, 2007 Net	December 31, 2006 Net
External purchases	691	731
Labour expenses	258	313
Other	64	19
TOTAL	1,013	1,063

NOTE 15 Interests in associates**15.1 Interests in associates**

	Year ended	
	December 31, 2007	December 31, 2006
(in millions of euros)		
Opening balance	360	321
Dividends	(1)	(4)
Share of profits (losses)	4	24
Impact of change in scope of consolidation	(46)	33
Disposals of securities ⁽¹⁾	(35)	(1)
Translation adjustments	-	-
Reclassifications and other items	-	(13)
Closing balance	282	360

(1) Including, in 2007, Bluebirds for an amount of (27) million euros (see Note 4).

The net book values of France Telecom's interests in associates are as follows:

COMPANY	Main activity	Year ended	
		% interest December 31, 2007	December 31, 2006
	Holding vehicle for an indirect interest in Eutelsat Communications	-	26
BlueBirds Participations France		-	
Sonaecom	Telephone operator in Portugal	19.2	273
One ⁽¹⁾	Telephone operator in Austria	35.0	42
Other		9	19
TOTAL		282	360

(1) See Note 4. France Telecom has not made any commitment to acquire additional shares in One and the Group's holding has therefore been assigned a nil book value.

15.2 One

The table below shows the main financial aggregates for the new One group, which has been accounted for using the equity method since the acquisition date (3 months, unaudited data):

	Year ended
	December 31, 2007
(in millions of euros)	
Revenues	164
Operating income	(13)
Net income for the period	(69)
Total assets	1,673
Equity	239
Non-current financial liabilities	1,186

NOTE 16 Actifs disponibles à la vente

(in millions of euros)	% interest	Year ended	
		December 31, 2007 Fair value	December 31, 2006 Fair value
Telkom Kenya ⁽¹⁾	51%	244	-
Bull SA ⁽²⁾ and other instruments	10%	37	59
Mobilcom ⁽²⁾	1%	10	15
Investment funds ⁽³⁾	-	65	54
Other companies	-	45	50
TOTAL NON-CONSOLIDATED INVESTMENTS		401	178
Deposits relating to in-substance defeasance and cross-border lease operations (<i>QTE leases</i>) ⁽⁴⁾	-	105	106
Other financial assets at fair value ⁽⁵⁾	-	12	54
TOTAL ASSETS AVAILABLE FOR SALE		518	338

(1) See Note 4.

(2) Listed company.

(3) Principally in research and development.

(4) In 2007, this item includes 30 million and 75 million euros relating to, respectively, Orange Switzerland and France Telecom S.A. QTE leases. Deposits arising on specific transactions offset part of the related gross debt. These deposits are included in the calculation of net financial debt (see Notes 20 and 32).

(5) Assets available for sale include marketable securities and investments held for over one year.

Changes in assets available for sale are summarized in the table below:

(in millions of euros)	December 31, 2007	December 31, 2006
Opening balance	338	263
Change in fair value ⁽¹⁾	(38)	(5)
Other changes ⁽²⁾	218	80
Closing balance	518	338

(1) Recorded under equity in the assets available for sale reserve (see Note 30).

(2) Including, in 2007, Telkom Kenya for an amount of 244 million euros.

NOTE 17 Other assets and prepaid expenses**17.1 Other assets**

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
VAT receivables	1,266	1,223
Other tax receivables	52	56
Employee and payroll-related receivables	42	29
Employee shareholding plans	-	53
Advances and downpayments relating to non-current assets ⁽¹⁾	245	52
Other	493	414
Total other assets	2,098	1,827
o/w other non-current assets	63	39
o/w other current assets	2,035	1,788

(1) Including, in 2007, 145 million euros relating to the purchase of buildings.

17.2 Prepaid expenses

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
Prepaid external purchases	573	513
Other prepaid operating expenses	100	67
TOTAL	673	580

NOTE 18 Loans and receivables

(in millions of euros)	Note	Year ended			December 31, 2006
		December 31, 2007			Net
		Cost	Provisions	Net	
Trade receivables	18.1	7,679	(1,123)	6,556	6,756
Cash	20	1,303	-	1,303	1,275
Loans and other receivables	18.2	2,174	(133)	2,041	920
Loans and receivables		11,156	(1,256)	9,900	8,951

18.1 Trade receivables

The table below provides an analysis of the change in impairment provisions for trade receivables:

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
Opening balance	(1,136)	(1,264)
Change in provisions for impairment in value	(3)	150
Translation adjustment	15	11
Reclassifications and other items	1	(33)
Closing balance	(1,123)	(1,136)

379 million euros of trade receivables were written off at December 31, 2007 (466 million euros at December 31, 2006).

Trade receivables, net break down as follows:

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
Trade receivables depreciated according to their age	1,935	2,108
Trade receivables depreciated according to other criteria ⁽¹⁾	988	1,065
Net trade receivables past due but not provisioned	2,923	3,173
Not yet due	3,633	3,583
Trade receivables, net	6,556	6,756

(1) For these receivables, the impairment estimation is based on criteria other than age (individual impairment method). Accordingly, it is not meaningful to provide an aged balance of receivables past due but not provisioned.

The following table provides an aging balance of trade receivables past due and which are depreciated according to their age but not provisioned:

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
Past due – under 180 days	1,591	1,657
Past due – 180 to 360 days	143	194
Past due – over 360 days	201	257
Total trade receivables past due and depreciated according to their age but not provisioned	1,935	2,108

France Telecom consolidates securitized receivables in an amount of 1.1 billion euros with a corresponding liability of 1.1 billion euros. As France Telecom retains the risks inherent in

the securitized trade receivables, and particularly the credit risk, the conditions for derecognition are not met and the assets are therefore retained on the balance sheet.

18.2 Loans and other receivables

	Year ended			December 31,
	December 31, 2007			2006
(in millions of euros)	Cost	Provisions	Net	Net
Cash deposits ⁽¹⁾	788	-	788	459
Escrow deposit ⁽²⁾	760	-	760	-
Deposits relating to in-substance defeasance and cross-border leases (QTE leases) ⁽³⁾	91	-	91	96
Receivables from non-consolidated companies and current accounts	70	(1)	69	41
Other ⁽⁴⁾	465	(132)	333	324
Total loans and other receivables	2,174	(133)	2,041	920
o/w current loans and other receivables	82	(1)	81	53
o/w non-current loans and other receivables	2,092	(132)	1,960	867

(1) See Note 20.3.

(2) Including 3 million euros of accrued interests. See Note 33.

(3) This item only concerns Orange Switzerland. These deposits, arising on specific transactions, offset part of the related gross debt (see Note 20).

(4) This item mainly comprises security deposits and various loans.

The table below provides an analysis of the change in impairment provisions for loans and other receivables:

(in millions of euros)	December 31, 2007	December 31, 2006
Opening balance	(144)	(153)
Change in provisions for impairment in value	(10)	(3)
Translation adjustments	13	13
Impact of changes in the scope of consolidation	8	(1)
Closing balance	(133)	(144)

For loans and other receivables, amounts past due but not provisioned are not material.

NOTE 19 Financial assets at fair value through profit or loss

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
Deposits	89	232
Certificates of deposit	2,213	904
Treasury bills	344	-
Mutual funds (SICAV and FCP)	69	1,499
Other	7	59
Cash equivalents	2,722	2,694
Other financial assets at fair value through profit or loss	588	587
Financial assets at fair value through profit or loss	3,310	3,281

The table below shows a breakdown of other financial assets at fair value through profit or loss:

(in millions of euros)	Year ended			December 31, 2006		
	December 31, 2007			Current	Non-current	Total
	Current	Non-current	Total			
Negotiable debt securities	488	-	488	392	-	392
Mutual funds (OPCVM)	-	-	-	113	-	113
Other financial assets at fair value	2	-	2	-	-	-
Derivatives held for trading (assets) ⁽¹⁾	44	54	98	38	44	82
Other financial assets at fair value through profit or loss	534	54	588	543	44	587

(1) See Note 23.

Apart from derivative assets, which are by nature classified as financial assets at fair value through profit or loss, the other assets included in this category are short-term investments

whose management and performance is evaluated on the basis of fair value.

NOTE 20 Financial liabilities and net financial debt**20.1 Financial liabilities**

(in millions of euros)	At December 31, 2007			At December 31, 2006		
	Non-current	Current	Total	Non-current	Current	Total
Financial liabilities at amortized cost excluding trade payables	32,532	8,694	41,226	36,199	9,264	45,463
Trade payables	435	9,580	10,015	535	9,015	9,550
Liabilities at amortized cost	32,967	18,274	51,241	36,734	18,279	55,013
Financial liabilities at fair value through profit or loss	154	730	884	798	-	798
Hedging derivatives (liabilities) ⁽¹⁾	955	353	1,308	1,066	33	1,099
TOTAL FINANCIAL LIABILITIES	34,076	19,357	53,433	38,598	18,312	56,910

(1) See Note 23.

20.2 Net financial debt, repayment schedule and liquidity position:

Net financial debt as defined and used by France Telecom corresponds to total financial liabilities excluding trade payables (converted at the year-end closing rate), less (i) derivative instruments carried in assets for trading, cash flow hedges and fair value hedges, (ii) cash collateral paid on derivative instruments, (iii) cash and cash equivalents and financial assets at fair value, and (iv) deposits paid on certain specific transactions (if the related debt is included in gross financial debt). The Group has set up derivatives that are eligible for cash flow hedge accounting. The future cash-flows underlying the hedges are not included in the calculation of net financial debt. However, the market value of the derivatives used to hedge these cash-flows is included in the calculation. The line "Effective portion of cash flow hedges" is added to net financial debt in order to offset this temporary difference.

The following table shows undiscounted future cash-flows for each financial liability carried on the balance sheet. The key assumptions used are:

- amounts in foreign currencies are translated at the year-end closing rate;
- future variable-rate interest is based on the latest rate fixing, barring a better estimate;
- as the perpetual bonds redeemable for shares (TDIRA) are undated, redemptions of the nominal are not included. In addition, from January 1, 2010, interest payable on the bonds will switch to a variable rate over an undetermined period of time (see Note 21.2). Accordingly interest payable from that date has no longer been included as it would not provide meaningful information.

II - consolidated financial documents

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements

► FUTURE CASH-FLOWS ON FINANCIAL LIABILITIES

(in millions of euros)	Note	December 31, 2007	2008		2009	
			Nominal	Interest	Nominal	Interest
Bonds, excluding TDIRA	21	30,446	4,522	1,844	3,785	1,535
TDIRA	21	3,354	-	204	-	204
Bank loans	22	4,396	1,464	211	1,110	146
Finance lease liabilities ⁽¹⁾		1,525	71	55	85	51
Treasury bills		100	100	-	-	-
Bank overdrafts		189	189	-	-	-
Other financial liabilities ⁽²⁾		1,216	1,142	-	9	-
Financial liabilities at amortized cost excluding trade payables		41,226	7,488	2,314	4,989	1,936
Commitment to purchase minority interests		78	62	-	-	-
Derivatives, net ⁽³⁾	23	1,960	966	86	4	86
Gross financial debt after derivatives	(a)	43,264	8,516	2,400	4,993	2,022
Trade payables		10,015	9,580	-	50	-
TOTAL FINANCIAL LIABILITIES (INCLUDING DERIVATIVE ASSETS)		53,279	18,096	2,400	5,043	2,022
Gross financial debt after derivatives	(a)	43,264				
Deposits related to in-substance defeasance and cross-border leases (QTE leases)	16	105			Assets available for sale	
Deposits related to in-substance defeasance and cross-border leases (QTE leases)	18	91			Loans and receivables	
Cash collateral paid	18	788				
Other financial assets at fair value, excluding derivatives	19	490				
Cash equivalents	19	2,722				
Cash	18	1,303				
Assets included in the calculation of net financial debt	(b)	5,499				
Effective portion of cash flow hedges	(c)	215				
Net financial debt	(a)-(b)+(c)	37,980				

At December 31, 2007, the liquidity position of France Telecom is sufficient to cover its 2008 commitments linked to the net financial debt:

Year ended		December 31, 2007
Bank overdrafts		(189)
Cash and cash equivalents		4,025
Other financial assets at fair value, excluding derivatives		490
Available undrawn amount of credit facilities	22	9,580
Liquidity position		13,906

2010		2011		2012		2013 and beyond		December 31, 2006
Nominal	Interest	Nominal	Interest	Nominal	Interest	Nominal	Interest	
2,860	1,339	3,574	1,069	2,674	930	12,056	7,788	31,813
-	-	-	-	-	-	-	-	3,609
674	86	234	68	65	65	838	105	5,855
91	47	104	43	120	38	1,007	73	1,692
-	-	-	-	-	-	-	-	977
-	-	-	-	-	-	-	-	203
10	-	9	-	10	-	25	-	1,314
3,635	1,472	3,921	1,180	2,869	1,033	13,926	7,966	45,463
16	-	-	-	-	-	-	-	30
4	60	994	(17)	29	(24)	275	(56)	1,745
3,655	1,532	4,915	1,163	2,898	1,009	14,201	7,910	47,238
31	-	32	-	33	-	289	-	9,550
3,686	1,532	4,947	1,163	2,931	1,009	14,490	7,910	56,788
								47,238
								106
								96
								459
								505
								2,694
								1,276
								5,136
								(85)
								42,017

(1) Finance lease liabilities primarily include:

- liabilities related to Orange UK's in-substance defeasance operations, totalling 1,116 million euros at December 31, 2007 (1,246 million euros at December 31, 2006), for which the final settlement payments are due after 2017 (see Notes 18 and 32);
- Orange Switzerland's liability related to QTE leases, amounting to 103 million euros at December 31, 2007 (119 million euros at December 31, 2006), which is offset by guarantees deposited within the scope of this operation (see Notes 16 and 18);
- France Telecom S.A.'s liability related to QTE leases, amounting to 98 million euros at December 31, 2007 (73 million euros at December 31, 2006), which is offset by guarantees deposited within the scope of this operation (see Notes 16 and 18).

(2) Including, at December 31, 2007, gross debt carried by receivables securitization vehicles relating to France Telecom S.A., Orange France and Orange UK for an amount of 1,111 million euros (1,221 million euros at December 31, 2006).

(3) Including, at December 31, 2007 and December 31, 2006, the fair value of the price guarantee given to the minority shareholders of FT España amounting to 516 million euros (see Notes 10 and 32), which may be exercised from December 2008 at the earliest.

II - consolidated financial documents

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements

20.3 Guarantees

The covenants on the Group's borrowings and credit lines are presented in Note 24.4.

The Group has negotiated cash collateral agreements which may result in monthly payments to various banks, representing the marked-to-market impact of all off-balance sheet operations with these banks. Consequently, the amount of this cash collateral varies as the value of these operations changes in line with interest and exchange rates, and the thresholds set in the contracts. The amounts do not therefore change on a linear basis or identically by instrument. For France Telecom S.A., the amount of cash collateral is highly correlated with changes in the US dollar given the importance of cross-currency "euro borrower/US dollar lender" swaps in the derivatives portfolio.

A fall in the US dollar leads to a decrease in the market value of these off-balance sheet hedging instruments and therefore an increase in the amount of cash collateral paid, and vice-versa. As the euro-US dollar rate moved from 1.3170 to 1.4721 on 2007, the cash collateral amounts to 788 million euros at December 31, 2007 versus 459 million euros at December 31, 2006. These deposits are included under "Loans and other receivables" (see Notes 18 and 32).

Certain investments and other assets have been pledged to, or used as collateral for, financial institutions to cover bank borrowings and credit lines (see Note 32).

20.4 Analysis of net financial debt by currency

(equivalent value in millions of euros at the year-end closing rate)	EUR	GBP	PLN	CHF	USD	Other	Total
Analysis of net financial debt by currency of issue ⁽¹⁾	26,264	5,311	496	409	4,958	542	37,980
Nominal amount of currency derivatives	4,659	(406)	1,146	(403)	(4,788)	(208)	0
Analysis of net financial debt by currency after taking account of the nominal amount of derivatives	30,923	4,905	1,642	6	170	334	37,980

(1) Including the market value of derivatives in local currency.

20.5 Analysis of net financial debt by entity

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
France Telecom S.A.	32,392	35,502
TP Group	1,512	1,869
FT España	1,426	1,832
Other ⁽¹⁾	2,650	2,814
TOTAL	37,980	42,017

(1) Including, at December 31, 2007, 1,069 million euros of net financial debt carried by receivables securitization vehicles relating to France Telecom S.A., Orange France and Orange UK (1,180 million euros at December 31, 2006).

NOTE 21 Bonds

The table below provides an analysis of bonds by issuer:

(in millions of euros)	Note	Year ended	
		December 31, 2007	December 31, 2006
France Telecom S.A. - bonds convertible and/or exchangeable into new or existing France Telecom shares (OCEANE)	21.1	1,142	1,116
France Telecom S.A. - perpetual bonds redeemable for shares (TDIRAs)	21.2	3,354	3,609
France Telecom S.A. - other bonds	21.3.1	28,420	29,226
TP Group	21.3.2	849	1,406
Other issuers		35	65
TOTAL BONDS		33,800	35,422

The effective global interest rate on bonds before derivatives breaks down as follows:

- France Telecom S.A.: 6.51% at December 31, 2007 (6.50% at December 31, 2006);
- TP Group: 6.74% at December 31, 2007 (6.75% at December 31, 2006).

21.1 France Telecom S.A. - bonds convertible and/or exchangeable into new or existing France Telecom shares (OCEANE)

In accordance with current accounting policies applicable to hybrid financial instruments (see Note 2), OCEANE bonds are broken down into liability and equity components. At December 31, 2007, this breakdown is as follows:

- a liability component of 1,142 million euros;
- an equity component before deferred taxes of 97 million euros.

The liability component of OCEANE bonds breaks down as follows:

(in millions of euros)	Currency	Amount	Maturity	Nominal interest rate (%)	Effective interest rate (%)	Year ended	
						December 31, 2007	December 31, 2006
OCEANE bonds	EUR	1,150	2009	1.6	3.97	1,142	1,116

These are bonds with a face value of 2,581 euros convertible and/or exchangeable for new or existing France Telecom shares. They are redeemable or exchangeable as from October 20, 2004, at a rate of 100.297 France Telecom shares per bond, i.e. a conversion price of 25.73 euros per share (the initial ratio of 100 France Telecom shares per bond was adjusted to take into account of the September 2005 capital increase). These bonds are classified as hybrid instruments.

At December 31, 2007, the amortized cost impact on OCEANE bonds was 70 million euros (45 million euros at December 31, 2006).

21.2 France Telecom S.A. - Perpetual bonds redeemable for shares (TDIRAs)

On March 3, 2003, under the settlement relating to the UMTS investment in Germany in partnership with MobilCom Holding GmbH ("MobilCom"), in which it owned 28.3% of the capital, France Telecom issued 430,705 perpetual bonds redeemable for shares (TDIRA) with a nominal value of 14,100 euros each, representing a total amount of 6,073 million euros, of which 341,910 bonds were reserved for members of the banking syndicate (the "Bank Tranche") and 88,795 for MobilCom's suppliers (the "Supplier Tranche"). The TDIRAs are listed on Eurolist by Euronext Paris (international issuances) and were approved by the Commission des opérations de bourse on February 24, 2003.

II - consolidated financial documents

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements

They are redeemable for new France Telecom ordinary shares, at any time at the holders' request or, under certain conditions as described in the appropriate information memorandum, at France Telecom's initiative based on a ratio of 405.4002 shares for one TDIRA for the "Bank Tranche" (i.e. redemption price of 34.78 euros) and 360.4485 shares for one TDIRA for the Supplier Tranche (i.e. redemption price of 39.12 euros), the initial ratio of 300 shares for one TDIRA has been adjusted several times to protect the rights of the holders according to applicable law. In addition, during the first seven years, the redemption rate for the Bank Tranche of the TDIRAs will be adjusted to compensate for any dividend distribution, if these distributions are not otherwise taken into account through another adjustment.

Since January 1, 2006, as France Telecom has fulfilled the credit rating and share price conditions as described in the abovementioned information memorandum, the interest rate on the TDIRAs is 5.25% until December 31, 2009 inclusive and 3-month Euribor +2.5% thereafter. The interest is recorded on an annual basis in the statement of income. On January 2, 2008, France Telecom paid a coupon of 204 million euros.

If no dividend payment is voted in the Ordinary Shareholders' Meeting or no interim dividend payment is paid by the Board of Directors during the 12 months preceding the coupon payment, France Telecom can delay payment of the coupon. The amount of interest due will itself bear interest at the Euribor 12-month rate until the deferred payments are made. This deferred interest

must be paid in full - including the related accrued interest - at the date of payment of the coupon following any decision to pay a dividend or interim dividend and before redemption of the TDIRAs. When payment is deferred, identified interest and/or capitalized interest amounts are recognized as accrued interest and included in the "TDIRA" line under liabilities.

In 2007, France Telecom redeemed 27,153 TDIRAs from the Bank Tranche for a nominal amount of 383 million euros. Taking account of redemptions made since their issue, 275,019 TDIRAs remained outstanding at December 31, 2007, including 187,997 for the Bank Tranche and 87,022 for the Supplier Tranche, for a nominal amount of 3,878 million euros.

In accordance with current accounting policies applicable to hybrid financial instruments (see Note 2), perpetual bonds redeemable for shares (TDIRAs) are broken down into liability and equity components. At December 31, 2007, this breakdown was as follows:

- a liability component of 3,354 million euros;
- an equity component before deferred taxes of 1,156 million euros.

The liability component breaks down as follows:

(in millions of euros)	Number	Year ended	
		December 31, 2007	December 31, 2006
Opening balance	302,172	3,609	4,116
Redemptions ⁽¹⁾	(27,153)	(307)	(513)
Impact of measuring bonds at amortized cost	-	71	64
Change in accrued interest payable	-	(19)	(58)
Closing balance	275,019 ⁽²⁾	3,354 ⁽³⁾	3,609
Effective interest rate		8.90%	8.32%
Interest expense		232	315

(1) In March and August 2007, TDIRAs were redeemed for a nominal amount of 383 million euros including 307 million euros in respect of the liability component. The redemptions generated an expense of 60 million euros, which represents the difference between amortized cost and the liability/equity breakdown on the redemption date. In December 2006, TDIRAs were redeemed for a nominal amount of 645 million euros including 513 million euros in respect of the liability component, generating an expense of 90 million euros (see Note 10).

(2) Including 187,997 TDIRAs for the Bank Tranche and 87,022 TDIRAs for the Supplier Tranche. In 2007 and 2006, TDIRAs were redeemed from bondholders for the Bank Tranche.

(3) Including an amortized cost impact of 203 million euros at December 31, 2007 (148 million euros at December 31, 2006).

21.3 Other bonds

Bonds are mainly issued by France Telecom S.A. and TP Group.

21.3.1 France Telecom S.A.

(in millions of euros)

INITIAL CURRENCY	Initial nominal amount (in millions of currency)	Maturity	Nominal interest rate (%)	Outstanding at	
				December 31, 2007	December 31, 2006
Bonds maturing in 2007				-	2,965
EUR ⁽²⁾	3,650	2008	6.750	3,279	3,501
FRF ⁽³⁾	3,000	2008	5.400	474	473
			4.600 until 03/13/02 then TEC10 ⁽¹⁾ less		
FRF ⁽³⁾	900	2008	0.675	70	70
USD	500	2008	6.000	353	396
			TEC10 ⁽¹⁾ less		
FRF ⁽³⁾	1,500	2009	0.75	230	230
EUR	2,500	2009	7.000	2,496	2,493
FRF ⁽³⁾	3,000	2010	5.700	467	467
EUR	1,400	2010	6.625	1,407	1,405
EUR	1,000	2010	3.000	1,002	1,001
USD ⁽²⁾	3,500	2011	7.750	2,453	2,725
GBP ⁽²⁾	600	2011	7.500	813	887
CAD	250	2011	4.950	173	163
EUR	750	2012	4.625	778	778
EUR ⁽⁴⁾	1,000	2012	4.375	1,035	-
CHF	400	2012	2.750	240	249
GBP	250	2012	5.500	351	378
GBP ⁽⁴⁾	250	2012	6.000	359	-
EUR	3,500	2013	7.250	3,714	3,711
CHF ⁽⁴⁾	400	2014	3.500	240	-
EUR	1,000	2015	3.625	997	996
CAD	200	2016	5.500	138	130
EUR ⁽⁴⁾	1,500	2017	4.750	1,556	-
GBP	500	2017	8.000	682	745
GBP	450	2020	7.250	610	666
GBP	350	2025	5.250	468	505
USD ⁽²⁾	2,500	2031	8.500	1,720	1,922
EUR	1,500	2033	8.125	1,615	1,615
GBP	500	2034	5.625	700	755
TOTAL OTHER BONDS ISSUED BY FRANCE TELECOM S.A.				28,420	29,226

(1) TEC10: variable-rate (constant benchmark index) with 10-year maturity, determined by the Comité de normalisation obligataire.

(2) Bonds with coupons subject to revision if the Group's debt rating changes.

(3) These bonds, initially denominated in French francs, have been converted into euros.

(4) Issued during 2007.

France Telecom S.A.'s bonds at December 31, 2007 are repayable at maturity, and no specific guarantees have been

given in relation to their issuance. Certain bonds may be redeemed in advance, at the request of the issuer.

II - consolidated financial documents

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements

21.3.2 TP Group

(in millions of euros)

INITIAL CURRENCY	Initial nominal amount (in millions of currency)	Maturity	Nominal interest rate (%)	Outstanding at	
				December 31, 2007	December 31, 2006
Bonds maturing in 2007					602
USD	800	2008	7.750	544	499
EUR	300	2011	4.625	305	305
TOTAL OTHER BONDS ISSUED BY TP GROUP				849	1,406

NOTE 22 Bank borrowings

22.1 Main borrowers

(in millions of euros)	Note	Year ended	
		December 31, 2007	December 31, 2006
France Telecom S.A. ⁽¹⁾	22.2.1	1,898	3,172
FT España ⁽²⁾	22.2.2	1,420	1,820
TP Group ⁽³⁾	22.2.3	523	367
ECMS	22.2.4	337	171
Other ⁽⁴⁾		218	325
TOTAL BANK BORROWINGS		4,396	5,855

(1) 0.6 billion euros of Euro Medium Term Notes (EMTN) were issued during 2007 (0.5 billion euros in 2006). No specific covenants are attached to these issues.

(2) FT España's bank borrowings reflect drawdowns on credit lines and are measured at fair value.

(3) TP Group's bank borrowings reflect drawdowns on credit lines.

(4) This item includes 455 million euros in drawdown credit lines at December 31, 2007 (353 million euros at December 31, 2006).

The effective global interest rate on bank borrowings before derivatives breaks down as follows:

■ France Telecom S.A.: 4.66% at December 31, 2007 (3.78% at December 31, 2006);

■ TP Group: 5.45% at December 31, 2007 (3.76% at December 31, 2006);

■ FT España: 4.71% at December 31, 2007 (4.02% at December 31, 2006).

22.2 Credit lines

At December 31, 2007, France Telecom had the following principal bilateral and syndicated credit lines:

	Year ended December 31, 2007		
	Initial currency	Euro-equivalent (in millions)	Amounts drawn down ⁽¹⁾ (in millions of euros)
France Telecom S.A. bank overdrafts	EUR	150	-
France Telecom S.A. syndicated credit lines	EUR	8,000	-
France Telecom S.A. bilateral credit line	EUR	-	-
FT España syndicated credit line	EUR	1,420	1,420
TP Group bilateral credit lines	EUR	617	213
	PLN	70	70
	USD	17	17
TP Group syndicated credit line	EUR	550	-
	PLN	696	223
ECMS syndicated credit lines	EGP	359	332
Other bilateral credit lines		74	74
Other syndicated credit lines		25	49
TOTAL		11,978	2,398

(1) Amounts drawn down, before the impact of currency swaps and of measurement at amortized cost. Drawdowns on these credit lines are included under "Bank borrowings" (see Note 22.1).

22.2.1 France Telecom S.A.

On June 20, 2005, France Telecom S.A. entered into an euro 8 billion syndicated credit line. It is not subject to any specific covenants in respect of compliance with financial ratios. At December 31, 2007, no amount had been drawn down under this credit line.

This facility was issued at the following terms and conditions:

Amount (in euros)	Maturity	Fee on undrawn amounts		Margin
8 billion	June 20, 2012	4.25 basis points from 1 to 5 years	14.5 basis points from 1 to 5 years	
		5 basis points beyond 5 years	17 basis points beyond 5 years	

The 125 million euros bilateral credit line maturing on March 31, 2008 and paying interest linked to Euribor was repaid in full in September 2007.

22.2.2 FT España

The terms and conditions of this syndicated credit facility are as follows:

Amount (in euros)	Maturity	Margin
1.82 billion	June 30, 2010	20 to 60 basis points ⁽¹⁾

(1) The applicable interest rate linked to Euribor plus a margin of between 20 basis points and 60 basis points, determined by FT España's net bank debt/EBITDA ratio (net bank debt and EBITDA as defined in the contracts with financial institutions).

At December 31, 2007, this facility was drawn down in the amount of 1,420 million euros (1,820 million euros at December 31, 2006).

II - consolidated financial documents

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements

22.2.3 TP Group

The terms and conditions of TP Group's main credit lines are as follows:

INITIAL CURRENCY	Initial amount (in millions of currency)	Euro-equivalent (in millions)	Maturity	Fee on undrawn amounts	Benchmark rate	Margin
PLN	2,500	696	February 20, 2011	5.4 basis points	Wibor	18 basis points
EUR	550	550	April 18, 2010	8.25 basis points	Euribor	22.5 to 37.5 basis points ⁽¹⁾
EUR	400	400	November 25, 2016	-	Wibor, Euribor or Libor ⁽²⁾	38 basis points

(1) The margin depends on TP Group's rating.

(2) Depending on the currency of drawdown (zloty, euro, dollar, pound sterling).

These credit lines are not subject to any specific covenants in respect of compliance with financial ratios.

22.2.4 ECMS

The terms and conditions of ECMS's main credit lines (shown at 100%) are as follows:

INITIAL CURRENCY	Initial amount (in millions of currency)	Euro-equivalent (in millions)	Maturity	Fee on undrawn amounts	Margin
EGP	1,800	222	April 30, 2013	25 basis points	100 to 110 basis points ⁽¹⁾
EGP	2,300	283	August 2014	25 basis points	100 to 110 basis points ⁽¹⁾

(1) The rate applied on these credit lines is a formula based on the Egyptian Central Bank interest rate and on the six-month deposit interest rate issued by the main banks, with a margin of 110 basis points for the 3.5 first years, then 100 basis points until final maturity.

NOTE 23 Derivatives

(in millions of euros)	At December 31, 2007			At December 31, 2006		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Cash flow hedge derivatives	11	(379)	(368)	10	(344)	(334)
Fair value hedge derivatives	43	(929)	(886)	30	(755)	(725)
Hedging derivatives	54 ⁽¹⁾	(1,308)	(1,254)	40 ⁽²⁾	(1,099)	(1,059)
Trading derivatives ⁽³⁾	98	(804)	(706)	82	(768)	(686)
TOTAL DERIVATIVE INSTRUMENTS	152	(2,112)	(1,960)	122	(1,867)	(1,745)
of which foreign exchange derivatives	27	(1,558)	(1,531)	25	(1,253)	(1,227)
of which interest rate derivatives	124	(38)	86	96	(98)	(2)

(1) Of which 42 million euros non-current and 12 million euros current.

(2) Of which 37 million euros non-current and 3 million euros current.

(3) At December 31, 2007 and December 31, 2006, includes the fair value of the price guarantee given to the minority shareholders of FT España for (516) million euros (see Note 32).

The Group finances itself in euros and in foreign currencies. For loans issued in foreign currencies other than pounds sterling,

the Group sets up hedges to convert the debt into euros.

As far as loans issued in pounds sterling are concerned:

- the debt raised in the financial markets is used to finance subsidiaries operating in the United Kingdom;
- the Group has set up hedges to offset changes in fair value of a portion of this debt in pounds sterling.

At December 31, 2007, the France Telecom Group has set up the following cash flow hedges and fair value hedges.

23.1 Cash flow hedges

CURRENCY	Nominal amount hedged (millions of currencies)	Maturity date of hedged item	Hedging instrument	Hedged risk
USD	1,634	March 1, 2011	Cross-currency interest rate swaps	Fluctuations in foreign exchange rates
USD	2,498	March 1, 2031	Cross-currency interest rate swaps	Fluctuations in foreign exchange rates
CAD	250	June 23, 2011	Cross-currency interest rate swaps	Fluctuations in foreign exchange rates
CAD	200	June 23, 2016	Cross-currency interest rate swaps	Fluctuations in foreign exchange rates
CHF	400	December 4, 2014	Cross-currency interest rate swaps	Fluctuations in foreign exchange rates
EUR	170	July 5, 2011	Cross-currency swaps and cross-currency interest rate swaps	Fluctuations in foreign exchange rates
EUR	61	June 15, 2012	Cross-currency swaps, interest rate swaps and cross-currency interest rate swaps	Fluctuations in foreign exchange and interest rates

For each hedging relationship, the hedged item has an impact on the income statement:

- each year on interest payment dates;
- each year, on recognition of unrealized foreign exchange gains or losses upon revaluation of the nominal amount;
- at maturity of the hedged item, on recognition of the realized foreign exchange gains or losses upon revaluation of the nominal amount.

TP Group has also set up hedges against the risk of fluctuations in foreign exchange rates relating to its euro-denominated UMTS debt. Cross-currency swaps have been set up for a notional amount of 62 million euros. In this case, the hedged item has an impact on the income statement on payment dates, each year and until maturity of the hedge, i.e. September 30, 2014.

	Market value of derivatives at year-end ⁽¹⁾	Impact of derivatives on the income statement and on the balance sheet ⁽¹⁾					Realized cash-flows of year 2007		
			Change in market value	Effectiveness recycled to income statement ⁽²⁾	Ineffectiveness (finance costs, net)	Change in cash flow hedge reserve (net of amounts recycled)	Hedging instrument - paying leg	Hedging instrument - receiving leg	Hedged item
(in millions of euros)	2007	2006							
Cash flow hedges existing at December 31, 2007	(368)	(334)	(30)	(321) ⁽⁴⁾	(9)	300	(320)	316	(307)
Amortization of FTA impacts ⁽³⁾	-	-	-	(19)	-	19	-	-	-
TOTAL	(368)	(334)	(30)	(340)	(9)	319	(320)	316	(307)

(1) Market values of derivatives are balance sheet items converted at year-end closing rate, whereas impacts on the income statement are converted at year-end average rate.

(2) As the nominal amount of the issued bond is revalued at the year-end closing rate in the financial statements, an unrealized foreign exchange gain or loss on the hedged item is recognized in the income statement. Accordingly, the unrealized foreign exchange gain or loss on the cross-currency swap is recycled from the cash flow reserve to the income statement to offset the impact.

(3) This comprises the impacts related to derivatives recognized as hedges in the opening IFRS balance sheet (First Time Application) and subsequently derecognized.

(4) From which (317) million euros in finance costs, net.

23.2 Fair value hedges

The main purpose of the France Telecom Group's fair value hedges is to switch its fixed-rate debt into variable rate debt and, for certain hedges, to convert foreign currency issues into euro issues.

CURRENCY	Nominal amount hedged (millions of currencies)	Maturity date of hedged item	Hedging instrument	Hedged risk
USD	500	May 20, 2008	Interest rate swaps	Fair value (interest rate)
USD	775	December 10, 2008	Cross-currency interest rate swaps	Fair value (interest and foreign exchange rate)
USD	1,500	March 1, 2011	Cross-currency interest rate swaps	Fair value (interest and foreign exchange rate)
CHF	400	April 11, 2012	Interest rate swaps	Fair value (interest rate)
GBP	250	March 29, 2012	Cross-currency interest rate swaps	Fair value (interest and foreign exchange rate)
GBP	250	May 24, 2012	Interest rate swaps	Fair value (interest rate)
GBP	350	December 5, 2025	Interest rate swaps	Fair value (interest rate), partial maturity hedge until 2010
GBP	500	January 23, 2034	Interest rate swaps	Fair value (interest rate), partial maturity hedge until 2011
JPY	15,000	May 10, 2011	Cross-currency interest rate swaps	Fair value (interest and foreign exchange rate)
EUR	10	July 5, 2011	Cross-currency swaps	Fair value (foreign exchange rate)

(in millions of euros)	Market value of derivatives at year-end ⁽¹⁾		Impact of derivatives on the income statement ⁽¹⁾			Impact of hedged item on the income statement	
	2007	2006	Change in market value	Accrued interests	Change in market value (excluding accrued interests) ⁽²⁾ (A)	Revaluation of the hedged risk on the hedged item (B)	Ineffectiveness recognized through profit or loss (A) + (B)
Fair value hedges existing at December 31, 2007	(886)	(695)	(171)	13	(184)	196	12
Amortization of FTA impacts ⁽³⁾	-	-	-	-	-	2	2
TOTAL	(886)	(695)	(171)	13	(184)	198	14

(1) Market values of derivatives are balance sheet items converted at year-end closing rate, whereas impacts on the income statement are converted at year-end average rate.

(2) Used in effectiveness tests.

(3) This comprises the impacts related to derivatives recognized as hedges in the opening IFRS balance sheet (First Time Application) and subsequently derecognized.

NOTE 24 Exposure to market risks and financial instruments

France Telecom's Treasury and Financing Committee reports to the Group Management Committee. It is chaired by the Group's Chief Financial Officer and meets quarterly.

It sets the guidelines for managing the Group's debt, especially its liquidity, interest rate and foreign exchange rate exposure over the following months, and reviews past management (realized transactions, financial results).

24.1 Interest rate risk management

France Telecom seeks to balance its fixed-rate/variable-rate exposure in euros so as to minimize interest costs by using interest rate derivative instruments such as swaps, futures, caps and floors within limits established by the Treasury and Financing Committee.

Management of fixed-rate/variable-rate debt

France Telecom's policy in 2007 was to pre-finance very early the 3.3 billion euros repayment falling due in March 2008 and then to focus on niche markets (structured EMTNs, Swiss franc issue). The 2007 issues were all at fixed rates, thereby slightly increasing the portion of fixed-rate debt from 82.7% at December 31, 2006 to 85.5% at December 31, 2007. The average cost of 2007 refinancing was 4.55% after currency swaps.

Analysis of the Group's sensitivity to changes in interest rates based on probable scenarios

The sensitivity analysis only includes those financial assets and liabilities which are included in net financial debt, as these are the only items that bear interest and are therefore exposed to interest rate risk.

■ Sensitivity of financial expense

France Telecom's derivative instruments are analyzed according to whether or not they are eligible for hedge accounting:

- derivatives that do not qualify for hedge accounting increase the portion of fixed-rate net debt by around 8%. A 1% rise in interest rates would result in a 38 million euros decrease in financial expense and a 1% fall in interest rates would result in a 82 million euros increase;
- the variable-rate portion of net financial debt after hedging (excluding derivatives not eligible for hedge accounting) represents 24%. An instantaneous 1% rise in interest rates would result in an increase of approximately 89 million euros in financial expense, while a 1% fall in interest rates would result in a decrease of approximately 89 million euros.

Based on a constant amount of debt and a constant management policy, a 1% rise in interest rates on this portfolio would result in an increase of 51 million euros in financial expense and a 1% fall in interest rates would result in a decrease of 7 million euros.

■ Sensitivity of net financial debt

A 1% rise in interest rates would lead to a reduction in the market value of net financial debt after derivatives of approximately 1.42 billion euros, which represents 3.66% of its market value. A 1% fall in interest rates would lead to an increase of approximately 1.45 billion euros (3.75% of its market value).

■ Sensitivity of cash flow reserve

A 1% rise in interest rates would reduce the market value of derivatives designated as cash flow hedges and the associated cash flow reserve by approximately 77 million euros, which represents 1.06% of its current value. A 1% fall in interest rates would increase the market value of derivatives designated as cash flow hedges and the associated cash flow reserve by 78 million euros (1.08% of its current value).

24.2 Foreign exchange rate risk management

■ Foreign exchange rate risk at operating income level

The Group's foreign operations are carried out by subsidiaries that operate in their own country and in their own currency. Their operational exposure to currency risk is therefore limited. However, TP Group has an exposure to euros in its financial statements arising from the debt contracted to purchase its UMTS license. The debt amounts to 758 million zlotys at December 31, 2007, or 211 million euros. This exposure has been partially reduced through cross-currency swaps designated as cash flow hedges at TP Group level.

At December 31, 2007, net foreign exchange gains in relation to business operations amounts to 7 million euros (4 million euros at December 31, 2006).

■ Foreign exchange rate risk at finance cost level

The Group's subsidiaries finance themselves in their functional currency whenever possible.

France Telecom S.A. generally hedges its foreign currency issues with derivatives or with assets in the same currency.

The following table provides details of the exposure to foreign exchange rate fluctuations of the net debt in foreign currencies of the entities bearing the main foreign exchange rate risks (France Telecom S.A. and TP Group). It also shows the sensitivity of these entities to a probable 10% change in the foreign exchange rates of the currencies to which they are exposed.

Currency exposure							Sensitivity to a change in foreign exchange rates against the euro or the zloty (in millions of euros)		
(in millions of currencies)	USD	GBP	CHF	DKK	PLN	EUR	Total euro- equivalent	+10% change	-10% change
France Telecom S.A.	-	(5)	3	280	(1)	-	32	4	(3)
TP Group	(24)	-	-	-	-	(202)	(218)	(20)	24
TOTAL									
(CURRENCIES)	(24)	(5)	3	280	(1)	(202)	-		
TOTAL (EUROS)	(16)	(7)	2	37	(0)	(202)	(186)		

II - consolidated financial documents

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements

■ Conversion risk at income statement level

Due to its international presence, the France Telecom Group is exposed to foreign exchange risk arising from the conversion of income statements denominated in foreign currencies of its foreign subsidiaries.

The table below summarizes the sensitivity of France Telecom's consolidated income statement to a change of plus or minus 10% in foreign exchange rates against the euro, arising from the conversion of income statements denominated in foreign currencies of its foreign subsidiaries.

(in millions of euros)	Contribution to consolidated operating income	Sensitivity to a change in foreign exchange rates against the euro		Contribution to net income	Sensitivity to a change in foreign exchange rates against the euro	
		+10%	-10%		+10%	-10%
EUR	8,129	-	-	5,229	-	-
GBP	502	82	(67)	1	0	(0)
PLN	870	26	(21)	287	8	(7)
Other currencies	1,298			783		
TOTAL IN (EUROS)	10,799			6,300		

In addition, France Telecom has set up euro-zloty economic hedges at Group level in 2007 to reduce the foreign exchange risk related to the conversion of operating cash-flows from Poland (mainly TP Group).

A rise in the euro affects the conversion into the consolidated balance sheet of subsidiaries' assets denominated in foreign currencies. The currencies concerned are mainly the pound sterling and the zloty.

■ Conversion risk at balance sheet level

Due to its international presence, France Telecom Group's balance sheet is exposed to foreign exchange rate changes.

Material foreign currency assets are hedged by debt in the same currency.

(in millions of euros)	EUR	GBP	PLN	CHF	USD	Other currencies	Total
Assets excluding net debt by currency ⁽¹⁾	53,988	4,430	7,649	1,256	688	4,293	72,305
Net debt by currency ⁽²⁾	30,923	4,905	1,642	6	170	334	37,980
Net assets by currency	23,065	(475)	6,007 ⁽³⁾	1,250	518	3,959	34,325

(1) Net assets by currency does not include components of net financial debt.

(2) See Note 20.4.

(3) Net assets in zlotys attributable to equity holders of France Telecom S.A. amount to 2,918 million euros.

Assets by currency (net assets excluding components of net financial debt) in currencies other than euro, which are mainly denominated in pound sterling and in zloty, amount to 18 billion euros at December 31, 2007, which represents 25% of total net assets excluding components of net financial debt. A depreciation of 10% in all currencies other than euro would have the effect of reducing net assets excluding debt by 1.8 billion euros, or -2.5%.

Liabilities by currency at December 31, 2007 correspond to the contribution to net financial debt by currency after hedging derivatives. The main currencies other than euro are the pound

sterling and the zloty. Net financial debt by currency amounts to 7 billion euros at December 31, 2007, or 19% of total net financial debt. An appreciation against the euro of 10% in all currencies other than the euro would increase the net financial debt carried on the balance sheet by 0.7 billion euros, or +1.9%.

Net assets in currencies other than euro amount to 11 billion euros at December 31, 2007, or 33% of total net assets. A depreciation of 10% in all these currencies against the euro would, due to conversion of the currencies into euros, reduce net assets by 1.1 billion euros, or -3.3%. It would have no impact on the income statement or on the cash flow statement.

24.3 Liquidity risk management

The Group optimizes its liquidity management, overseen by the Treasury and Financing Committee, through:

■ Diversifying its sources of financing

- issuance in the short-term securities markets under the treasury bill program and the US commercial paper program;
- regular issuance in the bond markets under the EMTN (Euro Medium Term Note) program. In 2007, France Telecom issued debt denominated in Swiss francs, pounds sterling and euros (private and public issuances) to diversify its investor base;
- France Telecom has an undrawn syndicated credit line of 8 billion euros, maturing in June 2012.

■ Smoothing debt maturities: debt maturities are spread consistently over the next years (see breakdown of liquidity by maturity of financial liabilities in Note 20)

■ Liquidity of investments

France Telecom holds term deposits, mutual funds (OPCVM) and negotiable debt securities with first-class financial institutions.

The France Telecom Group's policy is that it must be able to meet its upcoming loan repayments from available cash and credit lines in place, for the next 12 months and without recourse to additional financing.

France Telecom's liquidity position is shown in the analysis of net financial debt by maturity (see Note 20) and amounts to 13,906 million euros at December 31, 2007.

➤ FRANCE TELECOM'S DEBT RATINGS

At December 31, 2007, France Telecom's debt ratings are as follows:

	Standard & Poor's	Moody's	Fitch IBCA
Long-term debt	A-	A3	A-
Outlook	Stable	Stable	Stable
Short-term debt	A2	P2	F1

A portion of the debt (8.1 billion euros of the outstanding balance at December 31, 2007) is subject to step-up clauses. This amount does not include the TDIRAs, whose step-up clauses are described in Note 21.

As France Telecom's ratings did not change in 2007, the step-up clauses were not triggered.

In respect of its 2005 and 2007 bank financing contracts, ECMS must comply with the following covenants:

- a net senior debt to EBITDA ratio equal to or less than 3.00 (net senior debt and EBITDA as defined in the contracts);
- a net senior debt below 9.7 billion Egyptian pounds (net senior debt as defined in the contracts);

The financial ratios to be respected in connection with receivables securitization programs are as follows:

- for Orange France, an interest cover ratio (EBITDA to net financial expense) greater than 4.50 and a net financial debt to EBITDA ratio less than 3.00 (net financial debt and EBITDA as defined in the contracts);
- for Orange S.A., an interest cover ratio (EBITDA to net financial expense) greater than 3.50 and a net financial debt to EBITDA ratio less than 6.00 (net financial debt and EBITDA as defined in the contracts).

If these ratios are not respected, the sale of receivables is discontinued in order to progressively pay the holders of beneficial interests with the cash received.

24.4 Management of covenants

■ Commitments with regard to financial ratios

In respect of its 2003 bank financing contract, FT España must comply with the following ratios:

- an interest cover ratio (EBITDA to net financial expense) equal to or greater than 6.00 (EBITDA and net financial expense as defined in the contracts);
- a net bank debt to EBITDA ratio equal to or less than 2.60 (net bank debt and EBITDA as defined in the contracts).

Neither France Telecom S.A. nor TP Group has any credit facilities or borrowings subject to specific covenants with regard to financial ratios.

At December 31, 2007, the ratios calculated met the conditions required.

■ Commitments related to instances of default or material adverse changes

Most of France Telecom's financing agreements, including, in particular, the 8 billion euros syndicated credit line set up on June 20, 2005, as well as the bonds issued within the scope of the EMTN program and France Telecom S.A.'s bilateral credit lines, are not subject to cross default or prepayment clauses in the event of a material adverse change. When such clauses exist, accelerated repayment clauses stipulate that default on a given contract does not automatically lead to the accelerated repayment of all other contracts.

As regards structured financing contracts, several repayment scenarios are possible for France Telecom S.A.'s receivables disposal programs: (i) standard repayment scenarios on the contractual maturity day of the programs at December 31, 2007 (renewable maturity); (ii) accelerated payment, notably in the event of a downgrading of France Telecom's long-term rating to BB-. In the event of early repayment, the securitization conduits stop participating in the financing of new receivables, and cash received on previously divested receivables serves to repay holders of beneficial interests progressively.

■ Other commitments

As part of the sale of future State receivables accounted for as bank borrowings, France Telecom provides a guarantee to the receiving establishment concerning the existence and amount of the receivables sold and undertakes to pay a related indemnity.

24.5 Credit risk management

Financial instruments that could potentially subject France Telecom to concentrations of credit risk consist primarily of cash, trade receivables and negotiable debt securities, investments and derivative financial instruments.

France Telecom considers that it has an extremely limited exposure to concentrations of credit risk with respect to trade accounts receivable due to its large and diverse customer base (residential, professional and large business customers) operating in numerous industries and located in many French regions and countries. In addition, the maximum value of the credit risk on these financial assets is equal to their recognized net book value.

France Telecom's policy is to invest its cash and cash equivalents and marketable securities with financial institutions and industrial groups that are rated A-/A3 or above. On the rare occasions when investments are made with lower-rated counterparties, the rating is therefore the best available rating in the country concerned.

France Telecom enters into interest rate and foreign exchange contracts with leading financial institutions. France Telecom believes that the risk of these counterparties defaulting is extremely low, since their credit ratings are monitored and financial exposure to any one financial institution is limited. Limits are set for each financial institution based on its ratings and its equity. The maximum commitment is then determined based on the notional amounts of interest rate and foreign exchange contracts outstanding, to which coefficients are applied that take into account the remaining duration of the operation and the type of transaction involved. Limits are monitored and reported daily to the Group treasurer and head of capital markets. France Telecom also has collateralization agreements with a certain number of its counterparties.

24.6 Equity market risk

At December 31, 2007, France Telecom S.A. has no option to purchase its own shares and holds 10,528,884 treasury shares (see Note 30.2). Besides, the Group's exposure to market risk on shares of listed companies included in assets available for sale is not material.

24.7 Equity management

France Telecom manages its equity as part of a balanced financial policy, aiming both to ensure flexible access to the capital markets, including for the purpose of investing in value creating projects, and to provide its shareholders with an attractive remuneration. This remuneration determined on the basis of the Group's organic cash flow ⁽²⁾, while taking account of sector practices.

This policy has led France Telecom to set successive targets for net financial debt to gross operating margin (GOM) and shareholder remuneration. The current targets are as follows:

- concerning indebtedness, the ratio of net debt to GOM will be maintained in the medium term at a level less than 2 in current market conditions;
- the Board of Directors reserves the option of raising the distribution rate above 45% of organic cash flow, if appropriate. In addition, each year the Board of Directors will examine the possibility of additional shareholder remuneration taking into account its cash flow projections and its investment plans.

	Year ended	
	December 31, 2007	December 31, 2006
Net financial debt to GOM ⁽¹⁾	1.99	2.27
Organic cash flow (in millions of euros) ⁽²⁾	7,818	7,157
Dividends paid by the parent company (in millions of euros)	(3,117)	(2,602)

(1) See definition of GOM in Note 3.

(2) Organic cash flow is measured as net cash provided by operating activities less acquisitions of property, plant and equipment and intangible assets (net of the change in non-current trade payables) plus the proceeds on disposal of property, plant and equipment and intangible assets. Organic cash flow is not an explicit measure of financial performance under IFRS and may not be comparable to other similarly titled measures for other companies.

NOTE 25 Fair value of financial assets and liabilities

The principal methods and assumptions used to estimate the fair value of financial instruments are described below.

For cash and cash equivalents, negotiable debt securities, trade receivables and trade payables, France Telecom considers their carrying amount to be the best proxy for market value, due to the short-term maturity of these instruments.

The market values of non-consolidated investments in quoted companies and listed marketable securities have been estimated based on quoted market prices at year-end. Other securities are measured using available information based on

factors such as transaction value, discounted future cash-flows and comparable multiples (see Notes 16 and 18).

The market value of financial liabilities was determined using:

- the estimated value of future cash-flows, discounted using rates available to France Telecom at the end of the period for instruments with similar terms and maturities;
- the quoted market value for convertible, exchangeable and indexed bonds.

(in millions of euros)	Year ended			
	December 31, 2007		December 31, 2006	
	Book value	Estimated fair value	Book value	Estimated fair value
Financial liabilities at amortized cost excluding trade payables	41,226	42,222	45,463	47,915
Financial liabilities at fair value through profit or loss, excluding derivatives	78	78	30	30
Net derivatives	1,960	1,960	1,745	1,745
Assets included in the calculation of net financial debt, excluding derivatives	(5,499)	(5,499)	(5,136)	(5,136)
Effective portion of cash flow hedges	215	215	(85)	(85)
Net financial debt	37,980	38,976	42,017	44,469

NOTE 26 Employee benefits

26.1 Key figures

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
Pensions and other post-employment benefits	598	581
Liabilities connected with the employee shareholding plans	40	-
Other employer-related payables and payroll taxes due ⁽¹⁾	1,778	1,559
Total employee benefit obligations	2,416	2,140
Of which non-current employee benefits	535	534
Of which current employee benefits	1,881	1,606

(1) Mainly comprises provisions for paid leave and payroll taxes payable.

26.2 Pensions and other long-term employee benefit obligations

Pensions and other long-term employee benefit obligations comprise post-employment benefits and other long-term benefits (see Note 2.3.16).

Post-employment benefits include:

- benefits other than pensions;
- retirement bonuses;
- other pension plans: France Telecom has defined benefit pension plans and defined contribution plans open to employees and retirees. The benefits provided under these plans are primarily based on years of service and average compensation, or a monthly retirement benefit amount.

The expense recognized in connection with the defined contribution plans totaled 1,295 million euros at December 31, 2007 (1,266 million euros at December 31, 2006), and mainly relates to contributions in full discharge to pension plans of civil servants among France Telecom's personnel.

Other long-term benefits consist mainly of seniority awards and paid long-term leaves of absence, for which the related obligations are also measured on an actuarial basis.

The assumptions used for the Eurozone (representing 80% of France Telecom's liability) are as follows:

- a long-term discount rate of 5.0% to 5.5%, and a medium-term discount rate of 4.75% to 5.0%;
- long-term inflation rate of 2%;
- average expected long-term increase in salaries of 2% to 4%;
- expected return on plan assets of 4.9%.

The other main contributory area is the pound sterling area ("UK area"). The assumptions used for the UK area (representing 6% of France Telecom's liability) are as follows:

- discount rate: long-term rate of 5.75%;
- long-term inflation rate of 3.25%;
- average expected long-term increase in salaries of 3.25%;
- expected return on plan assets of 5.50% to 7.25%.

The table below provides details on the movements in value of these commitments:

(in millions of euros)	Post-employment benefits				Year ended	
	Annuity-based plans	Capital-based plans (1)	Other post-employment benefits	Long-term benefits	December 31, 2007	December 31, 2006
Benefit obligations at the beginning of the year	397	243	71	232	943	1,114
Service cost	21	17	1	31	70	66
Interest cost	17	13	3	3	36	37
Employee contributions	5	-	-	-	5	5
Amendments	2	15	-	-	17	-
Curtailments/settlements	(14)	-	-	-	(14)	(172)
Actuarial losses/(gains)	(33)	36	(5)	4	2	17
Benefits paid	(27)	(22)	(5)	(22)	(76)	(85)
Changes in the scope of consolidation	(4)	(2)	-	-	(6)	9
Acquisitions/disposals	-	-	-	-	-	(40)
Other (exchange differences)	(16)	-	1	3	(12)	(8)
Benefit obligations at the end of the year (A)	348	300	66	251	965	943
- o/w benefit obligations at the end of the year in respect of employee benefit plans that are wholly or partly funded	348	-	-	-	348	394
- o/w benefit obligations at the end of the year in respect of employee benefit plans that are wholly unfunded	-	300	66	251	617	549

Changes in plan assets break down as follows:

(in millions of euros)	Post-employment benefits				Year ended	
	Annuity-based plans	Capital-based plans	Other post-employment benefits	Long-term benefits	December 31, 2007	December 31, 2006
Fair value of plan assets at the beginning of the year	246	-	-	-	246	204
Actuarial return on plan assets	13	-	-	-	13	30
Employer contributions	40	-	-	-	40	31
Employee contributions	5	-	-	-	5	5
Curtailments/settlements	(10)	-	-	-	(10)	-
Benefits paid	(27)	-	-	-	(27)	(19)
Changes in the scope of consolidation	-	-	-	-	-	-
Acquisitions/disposals	-	-	-	-	-	(2)
Other (exchange differences and gains or losses on plan assets)	(10)	-	-	-	(10)	(3)
Fair value of plan assets at the end of the year (B)	257	-	-	-	257	246

II - consolidated financial documents

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements

France Telecom plans to pay 34 million euros during 2008 for its Defined Benefit plans.

The following table provides a breakdown of plan assets:

(in%)	Year ended	
	December 31, 2007	December 31, 2006
Plan assets		
Equities	45.1%	45.7%
Debt securities	38.0%	37.6%
Real estate	5.6%	4.3%
Other	11.3%	12.4%
TOTAL	100.0%	100.0%

The expected long-term return on plan assets has been determined on a plan-by-plan analysis taking account of the expected return on each type of asset in the portfolio. The expected return rate on each type of asset is estimated using

an analysis of changes in the rate of inflation, long-term interest rates and the associated risk premium. These factors are combined and compared to the market to determine long-term return assumptions.

The corresponding provisions at end-2007 are as follows:

(in millions of euros)	Post-employment benefits				Year ended	
	Annuity-based plans	Capital-based plans	Other post-employment benefits	Long-term benefits	December 31, 2007	December 31, 2006
Net funded status (A) - (B)	91	300	66	251	708	697
Unrecognized actuarial gains/losses	(13)	(47)	(8)	-	(68)	(81)
Unrecognized prior service cost	-	(39)	(3)	-	(42)	(35)
Asset ceiling adjustment	-	-	-	-	-	-
Provisions	78	214	55	251	598	581
- of which current provisions	-	13	4	65	83	47
- of which non-current provisions	78	201	51	186	515	534

The following table provides a breakdown of the periodic pension cost:

(in millions of euros)	Post-employment benefits				Year ended	
	Annuity-based plans	Capital-based plans	Other post-employment benefits	Long-term benefits	December 31, 2007	December 31, 2006
Service cost	21	17	1	31	70	65
Interest cost	17	13	3	3	36	36
Expected return on plan assets	(13)	-	-	-	(13)	(13)
Actuarial (gains)/losses	8	1	-	4	13	2
Amortization of unrecognized prior service cost	2	8	-	-	10	6
Impact of curtailments/settlements	(5)	-	-	-	(5)	(140)
Other adjustments	-	-	-	-	-	2
NET PERIODIC PENSION COST	30	39	4	38	111	(42)

Changes in provisions can be broken down as follows:

(in millions of euros)	Post-employment benefits				Year ended	
	Annuity-based plans	Capital-based plans	Other post-employment benefits	Long-term benefits	December 31, 2007	December 31, 2006
Provision at the beginning of the year	94	200	55	232	581	744
Net periodic pension cost	30	39	4	38	111	(42)
Employer contributions	(40)	-	-	-	(40)	(32)
Benefits directly paid by the employer	-	(22)	(5)	(22)	(49)	(63)
Changes in the scope of consolidation	(3)	(3)	-	-	(6)	7
Acquisitions/disposals	-	-	-	-	-	(26)
Other	(3)	-	1	3	1	(7)
Provision at the end of the year	78	214	55	251	598	581

NOTE 27 Share-based compensation

The share-based compensation expense breaks down as follows:

(in millions of euros)	December 31, 2007	December 31, 2006
Free Share Award Plans		
France Telecom	146	-
ECMS	3	-
Employee shareholding plan	107	-
Stock-option plans ⁽¹⁾		
France Telecom 2005	18	19
France Telecom 2007	5	-
Orange	-	7
France Telecom (formerly Wanadoo)	-	3
Other	-	1
TOTAL SHARE-BASED COMPENSATION	279	30

(1) Equity-settled plans.

The share-based compensation expense is recognized in the income statement with a corresponding increase in equity, except for the employer's contribution due by France Telecom S.A. related to the Employee shareholding plan (40 million euros) which is accounted for as a liability under employee benefits.

27.1 Stock-option plan

27.1.1 Plans set up in 2007

■ France Telecom S.A.

France Telecom S.A. has granted 10,093,300 stock-options in 2007 to certain executive officers and employees of the

Group. The options may be exercised during a period of 10 years beginning on May 21, 2010 and ending on May 21, 2017. The exercise price has been set at 21.61 euros.

The shares acquired upon exercise of the options are subject to a lock-up period of 4 years as of May 21, 2007. In addition, the options will not vest unless the beneficiaries have been employed by the Group for a period of at least 3 years as of May 21, 2007.

The grant date is deemed to be the date when the main terms of the offer are announced to the employees, i.e. June 29, 2007. The average fair value of the stock-options granted during the year is 2.69 euros.

The plan has been valued using a binomial model.

The expense recognized in 2007 is 4.5 million euros. A further expense estimated at 20.8 million euros will be recognized over the vesting period until May 21, 2010.

The following assumptions were used:

Price of underlying at the grant date	20.40 euros
Exercise price	21.61 euros
Expected volatility ⁽¹⁾	21%
Option term (contractual or expected)	9.89 years
Turnover rate (annual)	1.50%
Expected dividend payout rate	6.00%
Risk-free yield	4.50%

(1) Multi-criteria analysis using the implied volatility of financial instruments at the measurement date, the historical volatility for the year preceding the measurement date, the historical volatility over the longest available period preceding the measurement date, and the current historical volatility for the period between mid-May 2003 and the measurement date.

■ TP S.A.

TP S.A. granted 6,047,709 stock-options to certain executive officers, exercisable for a period of ten years beginning on October 9, 2010 and ending on October 9, 2017.

The exercise price was set at 6.03 euros (closing price at December 31, 2007) and the average fair value of options granted during the year amounts to 1.22 euros.

The plan has been valued using a binomial model.

The expense recognized in 2007 is 0.4 million euros. A further expense estimated at 6.0 million euros will be recognized over the vesting period, i.e. until October 9, 2010.

The following assumptions were used:

Price of underlying at the grant date	6.08 euros
Exercise price	6.03 euros
Expected volatility ⁽¹⁾	30%
Option term (contractual or expected)	10 years
Turnover rate (annual)	4.06%
Expected dividend payout rate	6.00%
Risk-free yield	5.59%

(1) Corresponds to the average volatility over the past five years.

27.1.2 Plans set up before 2007

■ France Telecom – 2005 plan

The scope of the France Telecom S.A. 2005 stock-option plan was enlarged in 2006 following the consolidation of the Amena group.

The weighted average exercise price is 23.46 euros.

If exercised, these options may be exchanged for new France Telecom shares over a period of ten years. The vesting period is achieved after a three-year period.

■ France Telecom (ex-Wanadoo)

Following the purchase of the minority interests in Wanadoo in September 2004, France Telecom undertook to guarantee the liquidity of the Wanadoo stock-option plans by exchanging Wanadoo options for France Telecom S.A. options. These options, which are exercisable for a period of ten years from 2006, are equity-settled.

■ Orange

Orange stock-option plans, which are exercisable since 2006, can be broken down into four categories: "International", "France", "USA" and "Sharesave".

Following the purchase of the minority interests in Orange, France Telecom has proposed a liquidity contract to the holders of Orange's stock-options and then issued in September 2005 options liquidity instruments enabling the delivery of France Telecom S.A.'s shares.

Plan	Number of options granted	Remaining term to maturity (months)	End of vesting period
International	85,693,210	12 to 29	2006
France	45,983,363	31 to 61	2006
USA	3,621,755	4 to 28	2006
Sharesave UK Save – 5 years	4,037,379	-	2006
Sharesave UK Save – 3 years	5,839,507	-	2006
Sharesave Netherlands	232,186	-	2006

■ Mobistar

Mobistar granted 849,883 stock-options in 2000, which have been fully vested since July 2005.

27.1.3 Movements in stock-option plans

The following table summarizes the stock-option plans granted to France Telecom Group employees at December 31, 2007 and 2006.

	Year ended			
	December 31, 2007		December 31, 2006	
	Number of options	Weighted average exercise price (euros)	Number of options	Weighted average exercise price (euros)
STOCK-OPTION PLAN				
FRANCE TELECOM PLAN (2005/2007)				
Options outstanding at the beginning of the year	14,551,905	23.46	14,516,445	23.46
Granted	10,093,300	21.61	536,930	23.46
Exercised	(91,640)	-	-	-
Cancelled, lapsed	(889,310)	22.68	(501,470)	23.46
Options outstanding at the end of the year	23,664,255	22.70	14,551,905	23.46
FRANCE TELECOM PLAN (EX-WANADOO)				
Options outstanding at the beginning of the year	6,880,597	21.82	8,431,102	20.55
Exercised	(1,326,010)	14.99	(1,333,712)	14.20
Cancelled, lapsed	(685,428)	45.43	(199,686)	19.45
Expired	-	-	(17,107)	16.47
Options outstanding at the end of the year	4,869,159	20.36	6,880,597	21.82
ORANGE PLAN ⁽¹⁾				
Options outstanding at the beginning of the year	57,940,516	8.80	75,763,520	8.80
Granted	-	-	-	-
Exercised	(14,101,219)	8.12	(5,114,738)	6.59
Cancelled, lapsed	(4,000,321)	9.73	(12,708,266)	9.76
Options outstanding at the end of the year	39,838,976	8.94	57,940,516	8.80
TP S.A. PLAN				
Granted	6,047,709	6.03 ⁽²⁾	-	-
Exercised	-	-	-	-
Cancelled, lapsed	(14,686)	-	-	-
Options outstanding at the end of the year	6,033,024	6.03	-	-
MOBISTAR PLAN				
Options outstanding at the beginning of the year	1,831	34.15	18,097	34.15
Granted	-	-	-	-
Exercised	(1,831)	34.15	(16,266)	34.15
Cancelled, lapsed	-	-	-	-
Options outstanding at the end of the year	-	-	1,831	34.15

(1) Due to the issuance of the option liquidity instruments and the France Telecom's choice to grant new shares, the exercise of these options leads to issuance of France Telecom S.A.'s shares.

(2) Exchange rate used: closing rate at December 31, 2007.

27.1.4 Options exercisable at year-end

Options exercisable at year-end were as follows:

OPTIONS PLANS	Year ended December 31, 2007			
	Number of unexercised options at year-end	Weighted average residual vesting period (in months)	Exercise price range (euros)	Number of options exercisable at year-end
France Telecom plan	23,664,255	101	21.61 - 23.48	-
France Telecom plan (ex-Wanadoo)	4,869,159	51	13.84 - 48.70	4,869,159
Orange plan	39,838,976	35	4.30 - 10.00	39,838,976
TP S.A. plan	6,033,024	117	6.03	-

OPTIONS PLANS	Year ended December 31, 2006			
	Number of unexercised options at year-end	Weighted average residual vesting period (in months)	Exercise price range (euros)	Number of options exercisable at year-end
France Telecom plan	14,551,905	106	23.46 - 23.48	-
France Telecom plan (ex-Wanadoo)	6,880,597	61	13.84 - 48.70	6,880,597
Orange plan	57,940,516	43	4.72 - 10.00	50,223,541
Mobistar plan	1,831	18	34.15	1,831

27.2 Employee Shareholding Plan

Following the June 2007 sale by the French State of 130 million of its France Telecom shares, representing 5.0% of the share capital, the State launched a share offer for employees and former employees of the France Telecom Group. The share offer related to 14.4 million shares, representing 0.56% (undiluted) of the total number of shares making up the share capital of France Telecom S.A. at June 30, 2007.

The shares were offered at a unit price of 20.39 euros, which represents a discount of 4.31 euros to the share price on the grant date (24.70 euros).

The grant date is deemed to be the date when the French Securities Regulator (AMF) approved the securities note, i.e. December 6, 2007. The number of shares purchased amounts to 14.4 million, which will be completed by a maximum of 0.6 million bonus shares offered by the State to employees holding the shares purchased during a three-year period.

The average fair value of the benefit granted to employees and former employees of the Group is 7.07 euros per share (including the bonus shares).

After the deduction of a non-transferability cost of 9 million euros, the expense recognized in 2007 in respect of this operation is 107 million euros, taking account of a France Telecom contribution of 40 million euros.

The assumptions used to measure the fair value are as follows:

Price of underlying at the grant date	24.70 euros
Subscription price	20.39 euros
Expected dividend payout rate	6.00%
Risk-free yield	3.94%
Average rate on employee loans ⁽¹⁾	6.25%

(1) Corresponds to the retail borrowing rate used to calculate the non-transferability cost.

27.3 Free Share Award Plans

■ France Telecom S.A. – France plan

France Telecom has set up a free share award plan covering 10.8 million shares, which represents 0.4% of the share capital. The plan covers approximately 113,000 employees of France Telecom S.A. and most of its majority-owned French subsidiaries.

The free share award plan will not vest until April 25, 2009, and are contingent upon:

- performance conditions: achievement of the cash flow set out in the NExT plan in 2007 and 2008, and cost of the plan to be covered by additional cash flow generated over the same period - the cash flow performance condition has been met in 2007;

- beneficiaries must be contractually employed by the Group at the end of the vesting period.

The shares awarded may not be sold for a period of two years after the vesting date, i.e. April 25, 2011.

The fair value of the plan has been determined using a binomial model based on the following assumptions:

Price of underlying at the grant date	21.32 euros
Subscription price (zero in the case of free share award plan)	0.00
Expected dividend payout rate	6.00%
Risk-free yield	4.47%
Lending-borrowing rate ⁽¹⁾	4.91%

(1) Corresponds to the lending-borrowing rate on France Telecom shares used to calculate the non-transferability cost.

The fair value amounts to 18.72 euros per share including a non-transferability cost of 0.36 euros. The non-transferability discount has been estimated by valuing the cost of a hedging strategy combining the forward sale of the non-transferable shares and the purchase of an equivalent number of transferable shares for cash, financed by borrowings, using a valuation model based on the market data presented above.

The expense recognized in 2007, with a corresponding entry in equity, amounts to 146 million euros. A further expense estimated at 48 million euros will be recognized over the period to April 25, 2009.

■ ECMS

In 2007, ECMS granted a free share award plan covering 417,000 shares which will vest progressively over a period of 40 months.

The fair value of this plan has been determined using a binomial model.

The expense recognized in 2007, with a corresponding entry in equity, amounts to 2.8 million euros. A further expense estimated at 4.8 million euros will be progressively recognized over the period to August 22, 2010.

■ France Telecom S.A. – International plan

France Telecom granted a free share award plan covering 1.8 million shares, which represents less than 0.1% of France Telecom S.A.'s share capital. The plan was offered to approximately 45,000 employees and executive officers of the France Telecom Group's foreign law companies and consortia (International plan).

The vesting conditions are identical to those proposed for the France plan.

As the date of the individual information of beneficiaries, corresponding to the grant date, is scheduled in 2008, no expense is recognized in 2007.

NOTE 28 Provisions

28.1 Provisions break down as follows

(in millions of euros)	Notes	December 31, 2006	Increases	Reversals (utilizations)	Reversals (releases)	Discounting	Changes in the scope of consolidation, reclassifications and translation adjustments	December 31, 2007
Early retirement plan	28.2 and 32	2,309	-	(893)	(19)	69	-	1,466
Other employment termination benefits	28.2	20	-	(14)	(2)	-	2	6
Restructuring provisions	28.3	253	54	(110)	(7)	2	(1)	191
Provisions for claims and litigation	33	375	186	(56)	(51)	-	18	472
Provisions for dismantling and restoring sites	28.4	484	-	(17)	-	13	52	532
Other provisions		581	199	(120)	(96)	(1)	26	589
Total provisions		4,022	439 ⁽¹⁾	(1,210)	(175) ⁽²⁾	83	97	3,256
- o/w non-current provisions		2,206	80	(988)	(53)	83	329	1,657
- o/w current provisions		1,816	359	(222)	(122)	-	(232)	1,599

(1) Including a negative impact on operating income and consolidated net income after tax of 400 million euros and 439 million euros respectively.

(2) Including a positive impact on operating income and consolidated net income after tax of 168 million euros and 175 million euros respectively.

28.2 Provisions for employment termination benefits

Provisions for employment termination benefits (see Note 2.3.16) are composed of:

- early retirement plans in France for civil servants and employees under contract;

- other termination benefits.

The assumptions used are as follows:

- short-term discount rate: 4.75%
- inflation rate: 2.00%
- weighted average rate of salary increase: 2.00%

The table below provides details of movements in the value of these commitments:

	Termination benefits		Year ended	
	Early retirement plan	Other employment termination benefits	December 31, 2007	December 31, 2006
(in millions of euros)				
Benefit obligations at the beginning of the year	2,309	20	2,329	2,926
Service cost	-	1	1	-
Interest cost	69	-	69	73
Employee contributions	-	-	-	-
Amendments	-	-	-	-
Curtailments/settlements	-	-	-	-
Actuarial losses/(gains)	(19)	(2)	(21)	294
Benefits paid	(893)	(14)	(907)	(965)
Changes in the scope of consolidation	-	-	-	-
Acquisitions/disposals	-	-	-	-
Other (exchange differences)	-	1	1	1
Benefit obligations at the end of the year (A)	1,466	6	1,472	2,329
- o/w benefit obligations at the end of the year in respect of employee benefit plans that are wholly or partly funded	-	-	-	-
- o/w benefit obligations at the end of the year in respect of employee benefit plans that are wholly unfunded	1,466	6	1,472	2,329
Provisions at the end of the year	1,466	6	1,472	2,329
- of which current provisions	670	1	671	911
- of which non-current provisions	796	5	801	1,418

There are no plan assets associated with termination benefits.

The net periodic cost of these benefits is summarized in the table below:

	Termination benefits		Year ended	
	Early retirement plan	Other employment termination benefits	December 31, 2007	December 31, 2006
(in millions of euros)				
Service cost	-	1	1	-
Interest cost	69	-	69	73
Expected return on plan assets	-	-	-	-
Actuarial (gains)/losses	(19)	(2)	(21)	294
Amortization of unrecognized prior service cost	-	-	-	-
Impact of curtailments/settlements	-	-	-	-
Asset ceiling adjustment	-	-	-	-
NET PERIODIC COST	50	(1)	49	367

28.3 Restructuring provisions

(in millions of euros)	December 31, 2006	Increases	Reversals (utilizations)	Reversals (releases)	Discounting	Changes in scope, reclassifications and translation adjustments	December 31, 2007
Employee termination benefits	10	5	(13)	-	-	1	3
Site reorganization costs	10	16	(13)	(1)	-	(1)	11
Other	4	-	-	(3)	-	(1)	-
Sub-total PSC excl. France⁽¹⁾	24	21	(26)	(4)	-	(1)	14
Employee termination benefits	5	4	-	-	-	(4)	5
Site reorganization costs	38	-	(11)	-	-	2	29
Sub-total ECS excl. France⁽²⁾	43	4	(11)	-	-	(2)	34
Employee termination benefits	76	2	(34)	(1)	2	-	45
Other	-	-	-	(1)	-	3	2
Sub-total TP S.A.⁽³⁾	76	2	(34)	(2)	2	3	47
Employee termination benefits	20	6	-	-	-	-	26
Site reorganization costs	25	17	(14)	(1)	-	-	27
Other	54	-	(20)	-	-	-	34
Sub-total France Telecom S.A.⁽⁴⁾	99	23	(34)	(1)	-	-	87
Other entities	11	4	(5)	-	-	(1)	9
TOTAL	253	54	(110)	(7)	2	(1)	191

(1) At December 31, 2007, mainly concerns costs related to vacant leased properties in the United Kingdom.

(2) At December 31, 2007, mainly concerns costs related to vacant leased properties, principally at Equant.

(3) At December 31, 2007, mainly comprises planned employee termination costs relating to TP S.A. from 2008 to 2009 in accordance with the restructuring plan (approximately 3,350 people).

(4) At December 31, 2007, mainly comprises:

- departures in connection with the offer open to French civil servants of secondment within the public sector (see Note 32.4),
- costs related to leased property that has become vacant;
- contributions to the Works Committee in respect of early retirement plans.

28.4 Provisions for dismantling and restoring sites

The measurement of the obligation is based on dismantling costs (on a per-unit basis for telephone poles, terminals and public phones, and on a per-site basis for mobile antennae) incurred by France Telecom to meet its environmental commitments and annual scheduled asset returns for telephone poles and public telephones, and its estimated site departures for mobile antennae. These dismantling costs are calculated on the basis of the identified costs for the current financial year, extrapolated for future years using the best estimate of future trends in prices, inflation, etc, and are discounted at a risk-free rate. Forecasts of estimated site departures or asset returns are revised in light of future changes in regulations or technological requirements.

At December 31, 2007, the provision booked for dismantling and restoring sites mainly covered costs relating to:

- restoring mobile telephony antennae sites: 215 million euros (229 million euros at December 31, 2006);
- dismantling telephone poles: 156 million euros (119 million euros at December 31, 2006);
- management of waste electrical and electronic equipment: 65 million euros (60 million at December 31, 2006);
- dismantling public telephones: 62 million euros (54 million euros at December 31, 2006).

NOTE 29 Other liabilities and deferred income**29.1** Other liabilities

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
VAT payable	952	1,061
Taxes other than on income	351	389
Cable network access fees	653	705
Deferred gains and losses on securities ⁽¹⁾	157	232
Other	594	682
TOTAL OTHER LIABILITIES	2,707	3,069
Of which non-current liabilities	870	959
Of which current liabilities	1,837	2,110

(1) At December 31, 2007, this item mainly comprises the deferred gain following the merger of FT España, FTOT and Amena (see Note 4) for an amount of 129 million euros.

At December 31, 2006, it mainly comprised the deferred gain following the merger of FT España, FTOT and Amena (see Note 4) for an amount of 129 million euros and the deferred gain on shares in Tower Participations SAS for an amount of 53 million euros (see Note 8).

29.2 Deferred income

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
Prepaid telephone cards	634	631
Service access fees	1,000	1,041
Deferred revenue ⁽¹⁾	1,564	1,444
Other	77	61
TOTAL	3,275	3,177

(1) Including loyalty programs for an amount of 418 million euros at December 31, 2007 and 400 million euros at December 31, 2006.

NOTE 30 Equity

At December 31, 2007, the share capital of France Telecom S.A. amounted to 10,457,395,644 euros, comprising 2,614,348,911 ordinary shares with a par value of 4 euros each. For the year ended December 31, 2007, the weighted average number of ordinary shares outstanding amounted to 2,601,559,094, and the weighted average number of ordinary and dilutive shares amounted to 2,763,924,859.

At December 31, 2007, the French State owned 27.34% of France Telecom's share capital either directly or indirectly through ERAP and 27.45% of the voting rights.

30.1 Changes in share capital

In 2007, France Telecom S.A. issued 7,675,781 new shares including 1,326,010 shares underlying the subscription options for Wanadoo shares transferred to France Telecom, 6,258,131 shares underlying the options liquidity instruments held by Orange stock-option holders, and 91,640 shares underlying the subscription options for France Telecom S.A. shares (following accelerated exercise of the options due to the sale of the Dutch subsidiaries on October 1, 2007).

The resulting capital increase was noted by the Board of Directors on January 21, 2008.

30.2 Treasury shares

The Ordinary and Extraordinary Shareholders' Meeting of April 21, 2006 authorized a share buyback program for up to 10% of France Telecom's capital, valid until October 21, 2007. On May 21, 2007, it renewed this authorization until November 20, 2008. The description of France Telecom's share buy back program was published on May 21, 2007. During 2007, France Telecom bought back 9,113,884 shares under the program.

In May 2007, France Telecom also entered into a liquidity contract for its ordinary shares with a financial institution. An

amount of 100 million euros has been allocated to the liquidity account for purposes of implementing the contract.

At December 31, 2007 France Telecom held 1,415,000 treasury shares under the liquidity contract. The unused balance allocated to the liquidity account has been invested in liquidity money market funds.

At December 31, 2007, France Telecom S.A. held 10,528,884 treasury shares, recorded as a reduction in equity.

At December 31, 2006, France Telecom S.A. did not hold any treasury shares.

30.3 Earnings per share

The following table provides a reconciliation of the net income figures used for the purpose of calculating basic and diluted earnings per share:

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
Net income of continuing operations used for calculating basic earnings per share (a)	6,300	1,033
Impact on net income of converting each category of dilutive financial instrument:		
- Perpetual bonds redeemable for shares (TDIRAs) ^{(1) and (2)}	193	-
- OCEANE bonds ⁽²⁾	25	12
Net income of continuing operations used for calculating diluted earnings per share (b)	6,518	1,045
Net income of discontinued operations used for calculating basic and diluted earnings per share (c)	-	3,106
NET INCOME USED FOR CALCULATING BASIC EARNINGS PER SHARE (A) + (C)	6,300	4,139
NET INCOME USED FOR CALCULATING DILUTED EARNINGS PER SHARE (B) + (C)	6,518	4,151

(1) The TDIRAs were considered dilutive at December 31, 2007. At December 31, 2006, however, they were considered as anti-dilutive and were therefore excluded from the calculation of diluted earnings per share at that date.

(2) See Note 21.

The following table shows the weighted average number of ordinary shares used for calculating basic and diluted earnings per share:

(number of shares)	Year ended	
	December 31, 2007	December 31, 2006
Weighted average number of ordinary shares outstanding - basic	2,601,559,094	2,604,227,117
Perpetual bonds redeemable for shares (TDIRAs) ^{(1) and (2)}	110,067,701	-
OCEANE bonds ⁽²⁾	44,688,733	44,688,733
France Telecom stock-option plans and similar ⁽³⁾	3,901,336	2,823,071
Treasury shares held to cover free share award plans ⁽⁴⁾	3,707,995	-
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - DILUTED	2,763,924,859	2,651,738,921

(1) TDIRAs represented 110,067,701 shares at December 31, 2007 and 128,943,080 shares at December 31, 2006.

(2) See Note 21.

(3) See Note 27. Diluted earnings per share do not include subscription options whose exercise price is greater than the 12-month average market price.

(4) See Note 27.

30.4 Dividends

France Telecom S.A.'s Ordinary Shareholders' Meeting held on May 21, 2007 decided to pay shareholders a cash dividend of euro1.20 per share in respect of 2006. The dividend was paid on June 7, 2007 in the total amount of 3,117 million euros.

The Annual Ordinary Shareholders' Meeting held on April 21, 2006 decided to pay France Telecom shareholders a cash dividend of euro1 per share in respect of 2005. The dividend was paid on May 10, 2006 in the total amount of 2,602 million euros.

30.5 Cumulative translation adjustment

At December 31, 2007, the negative translation adjustment was mainly due to the variation of the pound sterling for an amount of (664) million euros. Of the total, (141) million euros at December 31, 2007 concerned goodwill relating to Orange UK.

At December 31, 2006, the positive translation adjustment was mainly due to the variation of the pound sterling for an amount of 390 million euros. Of the total, 272 million euros at December 31, 2006 concerned goodwill relating to Orange UK.

30.6 Gains and losses recognized directly in equity

30.6.1 Assets available for sale reserve

Gains or losses on securities

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
Bull	30	52
Steria	11	20
MobilCom AG	11	15
Other	28	31
TOTAL	80	118

30.6.2 Cash flow hedge reserve

Certain derivatives qualify for hedge accounting and are therefore accounted for as cash flow hedges. The effective portion of the gain or loss realized on the hedging instrument is recorded under equity in the cash flow hedge reserve. For France Telecom S.A., this mainly comprises the effective portion of cross-currency interest rate swaps which qualify for hedge accounting.

When the hedging relationship is discontinued either because the hedging instrument has been wound up or it no longer qualifies for hedge accounting, but the hedged item remains on the balance sheet, the portion held in the cash flow hedge reserve is amortized over the remaining term of the hedging relationship as documented at inception.

Cash flow hedge reserve

(in millions of euros)	Year ended	
	December 31, 2007	December 31, 2006
Effective portion of cross-currency interest rate swaps	220	(61)
Amortization of the reserve relating to discontinued hedges	(12)	(31)
France Telecom S.A.	208	(92)
TP S.A.	3	(6)
TOTAL	211	(98)

The deferred tax relating to the cash flow hedge reserve amounted to:

- (72) million euros at December 31, 2007, relating to France Telecom S.A.;

- 32 million euros at December 31, 2006, mainly including 30 million euros for France Telecom S.A.

30.7 Minority interests

30.7.1 Minority interests on the income statement

At December 31, 2007, net income attributable to minority interests relates mainly to TP Group (315 million euros) and Mobistar (144 million euros).

At December 31, 2006, net income attributable to minority interests related mainly to TP Group (206 million euros), Mobistar (149 million euros), and PagesJaunes (105 million euros).

30.7.2 Dividends

At December 31, 2007, dividends paid out to minority shareholders mainly concern TP Group (273 million euros), Mobistar (142 million euros), Sonatel (88 million euros) and ECMS (71 million euros).

At December 31, 2006, dividends paid out to minority shareholders mainly concerned TP Group (190 million euros), PagesJaunes (131 million euros), Mobistar (76 million euros) and ECMS (66 million euros).

30.7.3 Minority interests reflected on the balance sheet

At December 31, 2007, minority interests relate mainly to TP Group (2,000 million euros), FT España (1,153 million euros), Sonatel (528 million euros), and Mobistar (393 million euros).

At December 31, 2006, minority interests related mainly to TP Group (2,002 million euros), FT España (1,587 million euros), Sonatel (476 million euros), and Mobistar (391 million euros).

NOTE 31 Additional cash flow disclosures

31.1 Year ended December 31, 2007

France Telecom offset 178 million euros of various tax receivables against payment of VAT liabilities for May and June 2007.

31.2 Year ended December 31, 2006

France Telecom used 235 million euros from the reimbursement of its carryback receivable recognized in respect of 2000, which matured in 2006, against payment of VAT payables for May and June.

NOTE 32 Off-balance sheet commitments and contractual obligations

At December 31, 2007, management considers that to the best of its knowledge, there are no existing commitments, other than those described in this note, likely to have a material effect on the current or future financial position of France Telecom.

■ Details of commitments and contractual obligations reflected on the balance sheet

The table below provides a schedule of commitments and contractual obligations reflected on the balance sheet at year-end. It covers gross financial debt after derivatives, early retirement plans, pensions and other post-employment benefits, and the TDIRA equity component.

II - consolidated financial documents

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements

COMMITMENTS AND CONTRACTUAL OBLIGATIONS REFLECTED ON THE BALANCE SHEET AT DECEMBER 31, 2007

(in millions of euros)	Balance Sheet at December 31, 2007		Schedule of undiscounted future cash-flows			
	Note	Total	Before end December 2008	From January 2009 to December 2010	From January 2011 to December 2012	From January 2013
Gross financial debt after derivatives	20.2	43,264	10,916	12,142	9,985	22,111
o/w: Credit line drawdowns ⁽¹⁾	22	2,398	748	1,374	276	
OCEANE bonds and TDIRAs ⁽²⁾	20.2 and 21	4,496	222	1,275		
Finance leases	20.2	1,525	126	274	305	1,080
Amena price guarantee ⁽³⁾	10 and 20.2	516	516			
Early retirement plan	28	1,466	669	787	107	
Pensions and other post-employment benefits	26	598	118	215	135	333
Equity component of OCEANE bonds and TDIRAs ⁽²⁾	21	1,254		97		
TOTAL		46,582	11,703	13,241	10,227	22,444

(1) Before accounting for the impact of derivatives.

(2) Maximum amounts assuming no conversion or exchange. As the TDIRAs are undated, redemptions are not included in the schedule.

(3) Earliest date on which the guarantee may be exercised. See below.

■ Amena price guarantee

At the time of the acquisition by France Telecom, on November 8, 2005, of Auna Operadores de Telecomunicaciones SA, which owns Retevisión Movil SA (Amena), those shareholders holding the residual interest in Auna undertook not to sell their shares for a period of three years except in the event of a transfer to a Spanish entity that is not a competitor of France Telecom. At the end of this period, and for an initial period of one month, the minority shareholders may approach France Telecom in order to determine whether it is interested in buying their shares, in which case discussions could begin. After this one-month period, and for a period of six months, certain minority shareholders may decide to sell all of their shares provided that they received from a third party a "Bona Fide Offer", defined as an offer at least equal to a floor valuation of the shares as established by two investment banks. After receiving the "Bona Fide Offer", the minority shareholders are required to notify France Telecom, which may decide to acquire the shares or not.

If France Telecom decides to acquire the shares, it undertakes to pay a price per share at least equal to 90% of the price it paid for the Auna shares in 2005 plus capitalized annual interest of 4.5% (the "Guaranteed Price"). If it decides not to acquire the

shares, France Telecom undertakes to indemnify the minority shareholders, if they actually sell their shares, for any negative difference between the price of the "Bona Fide Offer" and the "Guaranteed Price". This price guarantee given to minority shareholders has been accounted for as a "synthetic" derivative and measured at fair value at 31 December 2007 for an amount of 516 million euros.

After the six months, minority shareholders may ask for their shares to be listed. The value of the shares must then be established by two investment banks. At any moment up to the date a prospectus is filed with the relevant stock exchange authorities, France Telecom can exercise its preemption right on the shares held by the minority shareholders, at a price at least equal to the Guaranteed Price per share.

As from three years and seven months after November 8, 2005 and until the fifth anniversary of the acquisition date, France Telecom holds a call option on the shares held by the minority shareholders, that may be exercised at a price equal to the higher of (i) the fair value of the shares and (ii) the Guaranteed Price.

32.1 Investment, purchase and leasing commitments

► PAYMENTS DUE BY MATURITY AT DECEMBER 31, 2007

(in millions of euros)	Note	Total	Before end December 2008	From January 2009 to December 2010	From January 2011 to December 2012	From January 2013
Operating lease commitments	32.1.1	6,023	1,144	2,006	1,190	1,683
Investment commitments	32.1.2	1,472	1,195	63	11	203
Commitments related to the purchase and leasing of goods and services	32.1.3	2,928	1,586	772	261	309
TOTAL		10,423	3,925	2,481	1,462	2,195

32.1.1 Commitments related to leases

The table below shows minimum future lease payments due under non-cancelable finance and operating leases at December 31, 2007:

(in millions of euros)	At December 31, 2007	
	Finance leases ⁽¹⁾	Operating leases ⁽²⁾
2008	126	1,144
2009	136	1,012
2010	138	994
2011	147	664
2012	158	526
2013 and beyond	1,080	1,683
TOTAL MINIMUM FUTURE LEASE PAYMENTS ⁽³⁾	1,785	6,023
Less interest payments	(260)	
Net present value of minimum commitments	1,525	6,023

(1) Included in financial debt (see Note 20).

(2) Includes lease payments in the form of overheads (land, buildings, equipment, vehicles and other assets), including those relating to contracts entered into in connection with the sale of a portion of France Telecom's real estate assets (see below).

(3) Includes lease payments corresponding to the Orange Switzerland and FT SA QTE Leases, for which deposits have already been provided (see Notes 16 and 18).

As part of the divestment of a portion of its real estate assets in 2001, 2002 and 2003, the Group undertook to re-lease these buildings, except for certain assets to be vacated in the short-term. The Group may choose whether or not to renew these leases upon expiry or replace them by other leases with renegotiated terms and conditions. Lease payments relating to the real estate divested as part of this program amounted to 297 million euros at December 31, 2007 (327 million at December 31, 2006). Lease payments booked under operating leases posted on the statement of income for the year ended December 31, 2007 amounted to 1,260 million euros (1,270 million euros for the year ended December 31, 2006).

32.1.2 Investment commitments

In connection with the awarding of licenses, concession contracts or the acquisition of businesses, the Group may be subject to certain obligations imposed by governmental and/or regulatory authorities relating to network coverage, number of subscribers, quality of service and tariffs. Compliance with these obligations requires significant investments in future years, not included in the table above, as part of network development plans in countries where a license was granted, particularly as

regards the rollout and enhancement of 2G and 3G European networks. Non-compliance with these obligations could result in fines and other sanctions ultimately including the withdrawal of licenses awarded. Management believes that the Group has the ability to fulfill its obligations imposed by governmental and/or regulatory authorities. The Group may also be required to pay further fixed or variable user fees on expiry of these licenses.

Moreover, in certain exceptional cases, the Group is committed to carry out or to vote in favor of valued investment programs. More particularly, as part of the acquisition of TP Group, France Telecom undertook to the Polish Treasury to vote in favor of a multi-annual investment program of 27 billion zlotys covering the period from January 1, 2001 to December 31, 2007. This undertaking has been fulfilled. At December 31, 2007, the total amount of investments made by TP Group, including the purchase by TP S.A. from FTMI of its 34% holding in PTK Centertel and the purchase by TP S.A. of the minority interests in Wirtualna Polska, amounted to 33 billion zlotys. FT España is committed to investing 368 million euros from January 1, 2006 as part of the program to expand network coverage in rural areas of Spain. At December 31, 2007, the residual amount of this commitment was 128 million euros.

32.1.3 Commitments related to the purchase and leasing of goods and services

In the ordinary course of its activities, the Group enters into purchase contracts with network equipment manufacturers and service providers, as well as various contracts with operators of telecommunications lines. Such purchases may form part of multi-annual contracts. The most significant commitments at December 31, 2007 relate to the following:

- the purchase of transmission capacity for an overall amount of 1,268 million euros, of which 713 million euros related to

the provision of satellite transmission capacity (comprising contracts with different commitment maturities up until 2015);

- purchases of mobile telephony equipment for an aggregate amount of 268 million euros; and,
- maintaining submarine cables for which France Telecom has joint ownership or user rights, for an estimated overall amount of 180 million euros.

32.2 Guarantees

COMMITMENTS DUE BY MATURITY AT DECEMBER 31, 2007

(in millions of euros)	Note	Total/Ceiling	Before end December 2008	From January 2009 to December 2010	From January 2011 to December 2012	From January 2013
Guarantees given to third parties by France Telecom						
- in the ordinary course of business ⁽¹⁾	32.2.1	125	33	10	5	77
- in relation to disposals ⁽²⁾	32.2.2	1,420	288	731	261	140
- France Telecom S.A. QTE leases	32.2.3	1,348	41	16	-	1,291
TOTAL		2,893	362	757	266	1,508

(1) This item concerns warranties given to cover borrowings or commitments of non-consolidated companies and companies accounted for by the equity method.

(2) Capped guarantees.

32.2.1 Guarantees given in the ordinary course of business

The Group's main commitments relating to borrowings are set out in Notes 20, 21, 22 and 24.

The Group provides certain guarantees to third parties (financial institutions, customers, partners and government agencies) to ensure the fulfillment of contractual obligations by France Telecom S.A. and its consolidated subsidiaries in the ordinary course of their business. These guarantees are not shown in the table above as they do not increase the Group's commitments in relation to the initial commitments undertaken by the entities concerned. However, when these guarantees consist of collateral, they are disclosed in Note 32.5 ("Assets covered by commitments"). No material guarantees have been granted by the Group to cover the contractual obligations of consolidated subsidiaries in which there are significant minority interests.

32.2.2 Guarantees granted on disposals

■ Asset and liability warranties

As part of the agreements between certain Group companies and the acquirers of certain assets, subsidiaries or investments, the Group is subject to standard warranty clauses relating to assets and liabilities. All material sale agreements provide for ceilings on these warranties. Management believes that the risk of these warranties being called upon is unlikely or that the potential consequences of their being called upon are not material with regard to the Group's results and financial position. The following table sets out the ceilings and expiration dates applicable to the main warranties granted at December 31, 2007:

CEILINGS AND EXPIRATION DATES

(in millions of euros)	Beneficiary	Total	Before end December 2008	From January 2009 to December 2010	From January 2011 to December 2012	From January 2013
Asset/investment sold						
- TDF ⁽¹⁾	Tower Participations and subsidiaries	631		631		
- Dutch businesses ⁽²⁾	Deutsche Telekom	400				400
- Casema ⁽¹⁾	Cable Acquisitions	250	250			
- Orange Denmark ⁽¹⁾	TeliaSonera	91		91		
- Other		48	38	9	1	
TOTAL		1,420	288	731	1	400

(1) At December 31, 2007, the only specific warranties outstanding were given in relation to taxation, social security, environmental law and competition law.

(2) The 400 million euros ceiling only applies to warranties concerning taxes. Other warranties are capped at 260 million euros and expire in 2009.

Other warranties

On the disposal of PagesJaunes Group to Mediannuaire (see Note 4), France Telecom undertook to compensate Mediannuaire in the event of failure to comply with the warranties, within a maximum limit of 450 million euros. This commitment expired during 2007 without being called upon.

dollars) represented 1,348 million euros (1,521 million euros at December 31, 2006).

32.3 Commitments in respect of securities

At December 31, 2007, France Telecom had no material commitment to unconditionally acquire or subscribe to any securities.

As part of agreements between France Telecom and its partners within jointly held subsidiaries, France Telecom has conditionally undertaken to purchase shares held by such partners or to subscribe for new share issues or to sell its holdings. At December 31, 2007, the main agreements concerned Mobinil (Egypt), Sonaecom (Portugal) and One (Austria).

32.2.3 France Telecom S.A. QTE leases

As part of cross-leasing transactions ("QTE" leases) with various third parties, France Telecom has given to investors, and then leased back, certain items of telecommunications equipment. Under the terms of these leases, France Telecom has guaranteed the aforementioned investors future lease payments, and has provided counter-guarantees to banks that have granted them letters of credit. France Telecom considers that the risk of such guarantees being called upon is negligible. At December 31, 2007, these guarantees (denominated in US

Amount of conditional commitments to acquire or subscribe to securities

COMMITMENTS DUE BY MATURITY AT DECEMBER 31, 2007

(in millions of euros)	Total	Before end December 2008	From January 2009 to December 2010	From January 2011 to December 2012	From January 2013
Conditional commitments to acquire or subscribe to securities ^{(1) (2)}	404		6		398

(1) When the range of maturities spans several periods, the commitment is classified at the earliest maturity date. When the maturity is not fixed, the commitment is classified at the latest maturity date.

(2) Mainly comprises Mobinil (Egypt) in the event of a change of control of one of the parties.

Mobinil (Egypt)

The shareholders' agreement which governs relationships between France Telecom and Orascom provides that in the

event of a change of control of one of the parties, that party shall have a put option over its shares and the other party shall have a call option over the shares. The exercise price of the put options is equal to the market value of the shares, determined on

the basis of the share price of ECMS (a listed company whose total market capitalisation was 2.6 billion euros on December 31, 2007 and which was 51%-owned by Mobinil, which in turn is 71.25%-owned by France Telecom). On this basis, France Telecom's maximum commitment at December 31, 2007 would amount to 378 million euros.

The shareholders' agreement governing the relationships between France Telecom and Orascom within Mobinil provides that in the event of serious disagreement between the parties, and in case the matter cannot be amicably resolved, the parties, having acknowledged the deadlock, may enter into a bidding process with a view to acquiring the other party's shares. The initial price offered may not be less than the market value of the shares, determined on the basis of the share price of ECMS. On August 8, 2007, Orascom initiated arbitration proceedings regarding the applicability of this provision. (see Note 33 "Litigation and claims").

■ Sonaecom

The shareholders' agreements between France Telecom and Portugal-based Sonae, a shareholder of Sonaecom, allow for the exercise of call options by Sonae or put options by France Telecom in the event of the non-renewal of the strategic partnership agreement between the two parties initially fixed at a term of three years. These options are generally exercisable at a price based on the market price. Their exercise terms and conditions and basis for calculation are defined in the shareholders' agreement. In the event that Sonae sold more than 80% of its interest in Sonaecom before the end of the three-year period covered by the strategic partnership agreement, France Telecom could be required to sell its own stake at the same price.

■ One

Upon their acquisition of the entire share capital of One, the investment fund Mid Europa Partners and France Telecom entered into a shareholders' agreement which contains clauses governing transfers of the shares. Under the agreement, the parties have undertaken not to sell their holdings for a period of four years as of the acquisition date (i.e. until October 2, 2011). France Telecom has granted Mid Europa Partners a call option over its shares in the company at their market price should France Telecom make acquisitions giving rise to a conflict of interest. Upon expiration of the lock-up period, each shareholder has a right of first refusal over the shares of the other party should that party decide to sell them. France Telecom also has a call option over the shares owned by Mid Europa Partners upon expiration of the lock-up period.

32.4 Commitments relating to employees other than pensions and other post-employment benefits

■ Commitments relating to the public service secondment plan

Article 29-3 of the law of July 2, 1990, set up by law 2003-1365 of December 31, 2003 and the related enabling decrees,

respectively set out the principles and terms and conditions applicable to the secondment of France Telecom civil servants to the public sector up to December 31, 2009, and the financial measures and assistance to be granted by France Telecom, i.e. France Telecom is responsible for (i) paying the costs for the provision of the recruiting body's services for a four-month period; (ii) paying an additional lump-sum indemnity to the employee concerned if the index he or she obtains in his or her new department is lower than that which he or she holds at France Telecom; (iii) reimbursing the new employer for any additional employer social security taxes due further to the secondment; and (iv) paying the new employer an amount equal to four months' salary of the seconded employee.

France Telecom is also required to pay (i) any training costs; (ii) an indemnity - paid at the time of the employee's secondment - intended to compensate over a two-year period for any difference between total remuneration received at France Telecom and that received in the new position, when the latter is lower than the former (capped at 60% of the previous total annual base salary); and (iii) a bonus, paid at the time of the employee's integration into the new public service position, equivalent to four months' remuneration. Similar provisions are applied for private sector employees moving to the public sector.

The impact of these provisions depends on (i) the number of volunteers; (ii) the volume and type of positions offered by the various public services; and (iii) the decisions made by the body responsible for the organization of integrations at the end of the secondment period.

Therefore, the associated costs are provisioned when it is probable or certain that these staff transfers will result in an outflow of resources without an inflow of at least an equivalent amount and the amount concerned can be measured reliably. The provision is recorded when the secondment of a volunteer to a specific position is accepted by the public service where the seconded employee will work.

If the volume of secondments through December 31, 2009 (the expiry date for secondments under the December 31, 2003 law) remained consistent with the volume of secondments in 2007, and based on the financial measures provided for under the agreement, the present value of future costs would amount to approximately 144 million euros, of which 22 million euros is covered by a provision at December 31, 2007.

■ Individual right to training for employees

Regarding statutory training rights for employees who are not civil servants and who are employed under indefinite-term employment contracts within the French subsidiaries of the France Telecom Group, vested training rights not yet used totaled approximately 2.3 million hours at December 31, 2007.

In accordance with the accounting policies set out in Note 2, at December 31, 2007 no provisions were recognized relating to statutory training rights in France Telecom's financial statements.

32.5 Assets covered by commitments

The table below demonstrates France Telecom's ability to freely use its assets at December 31, 2007.

(in millions of euros)	Note	Year ended	
		December 31, 2007	December 31, 2006
Assets held under finance leases	32.5.1	573	627
Non-current pledged or mortgaged assets	32.5.2	1,553	542
Collateralized current assets		377	114
Outstanding sold receivables ⁽¹⁾		2,653	2,823
TOTAL		5,156	4,106
Pledged consolidated shares		1	89

(1) Subordinated portion and deferred prices retained by the Group in relation to sold receivables.

32.5.1 Assets held under finance leases

The amount of assets held under finance leases includes, notably, 219 million euros in respect of Orange UK's in-substance defeasance operation at December 31, 2007 (282 million euros at December 31, 2006).

32.5.2 Non-current pledged or mortgaged assets

Non-current pledged or mortgaged assets correspond to assets given as guarantees, and include pledged investments in non-consolidated companies.

(in millions of euros)

Intangible assets, net (excluding goodwill)
Property, plant and equipment, net
Non-current loans and receivables ⁽¹⁾
Other ⁽²⁾

TOTAL NON-CURRENT ASSETS

Year ended December 31, 2007			
Amount of asset pledged or mortgaged (a)	Total on balance sheet line (b)	Percentage (a)/(b)	
1	16,658	0%	
1	27,849	0%	
1,551	1,960	79%	
	39,621	N/A	
1,553	86,088	2%	

(1) See Notes 20.3 and 33.

(2) This item includes net goodwill, interests accounted for by the equity method and assets held for sale, assets available for sale and net deferred tax assets.

NOTE 33 Litigation and claims

In the ordinary course of business, France Telecom is involved in a number of legal and arbitration proceedings and administrative actions.

The costs that may result from these proceedings are only accrued for when it is probable that a liability will be incurred and the amount of that liability can be quantified or estimated within a reasonable range. The amount of the provisions recorded is based on a case-by-case assessment of the risk level, and events arising during the course of legal proceedings may require a reassessment of this risk.

At December 31, 2007, provisions totalling 472 million euros (compared with 375 million euros at December 31, 2006) were recorded in France Telecom's accounts to cover all of the

litigation proceedings in which it is involved. France Telecom does not provide details of the provisions, as it considers that their disclosure on a case-by-case basis could seriously harm the Group.

The litigation and claims that could have a significant effect on France Telecom's financial position are described below.

Litigation related to competition law

A number of claims have been issued against France Telecom by competitors for alleged anti-competitive behavior, for which they are generally seeking a cease order together with financial

penalties in case of non-compliance. If the claims are upheld, France Telecom may be ordered to pay fines. Competitors may also claim damages in civil or commercial proceedings for harm caused by these practices.

European Commission procedures and requests for information

- In January 2003, the European Commission opened an inquiry into possible State aid in favor of France Telecom. The formal investigation procedure focused in particular on the special French business tax (*taxe professionnelle*) regime resulting from France Telecom's historical legal status established by the French law of July 2, 1990, to which it was subject from 1991 to 2002.

In its August 2, 2004 decision the European Commission stated that this regime was incompatible with the European Union Treaty and ordered the French State to recover from France Telecom an amount of aid that it estimated to be between 798 million euros and 1.140 billion euros plus interest, pending a more precise calculation. The precise quantification of the alleged aid has been the subject of extensive but inconclusive discussions between the French government and the European Commission, with the French authorities contesting the relevance of the method and reliability of the indicative figures proposed by the Commission.

In January 2005, France Telecom lodged an appeal against this decision with the European Court of First Instance. For its part, the French State had filed an equivalent appeal in October, 2004. In October, 2006, the European Commission asked the European Court of Justice to rule that the French authorities had failed to execute its decision.

On October 18, 2007, the European Court of Justice concluded that the French authorities had failed to respect their obligation to execute this decision within the prescribed time limits. Following the October 18 ruling, France Telecom placed in an escrow account, pending the final decision on the substance of the matter, the amount of 757 million euros corresponding to the net estimate of the supposed State aid on the basis of valuations provided by the State to the European Commission in July, 2004 (gross amount of 798 million euros), and after taking account of the impact of corporation tax applicable between 1994 and 2002, and of late interest charges calculated pursuant to the Commission regulation of April 21, 2004. The amount in escrow will be transferred to the French State if the appeal of the August 2, 2004 Commission decision should be dismissed by the European Court of First instance. In the contrary event, it will be returned to the full possession of France Telecom.

Subsequent to the setting up of the escrow account, the French authorities and the Commission held discussions aimed at establishing the methodology applicable to the calculation of late interest charges imposed by the Commission regulation of April 21, 2004. On the basis of the 798 million euros gross amount related to the supposed State aid, the amount to be placed in escrow was ultimately fixed at 813 million euros as at February 6, 2008. The discussions between the French authorities and the Commission services also concern the relevance of referring to the amount of 798 million euros for purposes of this calculation.

In its October 18, 2007 non-execution ruling, the European Court of Justice did not of course express any opinion on the validity of the underlying Commission decision of August 2, 2004. Under these circumstances, the assessment of the risk in this litigation is unchanged and the risk continues to be classified as a contingent liability as defined by IAS 37 "Provisions, Contingent Assets and Contingent Liabilities".

- In December 2001, following a sector inquiry on the conditions for unbundling the local loop and providing access to broadband services in the European Union member states, the European Commission notified Wanadoo of claims arising from the company's tariffs for the broadband Internet services Wanadoo ADSL and Pack eXtense. In July 2003, the European Commission ordered Wanadoo to pay a fine of 10.4 million euros for abuse of dominant position between March 2001 and October 2002. On January 30, 2007, the European Court of First Instance upheld this decision. France Telecom has filed an appeal with the European Court of Justice.

Proceedings with national competition authorities

- In July 2004, Bouygues Telecom Caraïbes filed a complaint with the Competition Council along with a claim for around twenty injunctions against Orange Caraïbes and France Telecom in relation to the Group's practices in the Caribbean mobile telephony market. On December 9, 2004, the Competition Council issued four injunctions against Orange Caraïbes, pending its decision on the substance of the case. Further to an appeal against this decision lodged by Orange Caraïbes, on January 28, 2005 the Paris Court of Appeal confirmed the principles behind these injunctions, while extending the timeframe for implementing two of them. An investigation into the substance of the case was opened in December 2005. In May 2007, the Competition Council joined this proceeding with a June 2005 claim by Outre-mer Telecom.

- On December 1, 2005, the Competition Council ordered Orange France to pay a fine of 256 million euros for engaging in anti-competitive agreements with SFR and Bouygues Télécom which were said to restrict competition on the mobile telephony market. The criticized practices involved the exchange of strategic information and a market share stabilization agreement between 2000 and 2002. France Telecom paid this fine in 2005. On December 12, 2006, the Paris Court of Appeal rejected Orange France's appeal, and on June 29, 2007, the French Supreme Court partially overturned the Court of Appeal Decision. Orange France has brought proceedings for a new hearing before the Court of Appeal.
- In Switzerland, the Competition Council's inquiry into mobile call termination charges, which began at end-2002, is still pending. On February 16, 2007, the Swiss Competition Council imposed a fine on Swisscom Mobile of 333 million Swiss francs for abuse of dominant position in the call termination market during the period prior to June 2005, at which date Swisscom Mobile significantly reduced its call termination charges. The Council did not sanction Orange or TDC (Sunrise) for their call termination charge practices during that same period. However, the Council opened an inquiry into the period after June 1, 2005. A decision could be handed down in the second half of 2008. France Telecom is currently unable to predict the outcome of these proceedings.
- On February 22, 2007, the Office for Electronic Communications (OEC) imposed a fine of 339 million zlotys (86 million euros) on TP for having established its Internet (neostrada) price list without observing the provision of the Polish law on telecommunication which requires prices to be based on the cost of provision. The European Commission has indicated that the market analysis on which the OEC founded its decision is incorrect. TP considers the regulatory authority erred in challenging its Internet tariffs since they are not defined as regulated services. In March 2007, TP filed an appeal with the Competition and Consumer Protection Court.
- On August 14, 2007, France Telecom was informed that Free had filed a complaint with the Competition Council against France Telecom concerning the rollout of fiber optic networks. This complaint includes a claim for injunctive relief to require France Telecom to provide access to its civil engineering facilities for purposes of implementing very high bandwidth services, and to do so at cost-oriented tariffs, while prohibiting France Telecom from marketing its own retail service offering or rolling out its own facilities outside Paris until such time as these measures are taken. A decision on the injunction is expected in February 2008. At this stage in the proceedings, France Telecom is not in a position to assess the risk involved.
- In October 2007, the national competition authority in Spain, the CNC, opened an investigation relating to a possible anti-competitive agreement among the country's three main mobile telephone operators, Movistar, Vodafone and Orange. This investigation follows complaints by consumer associations

which allege that the operators agreed among themselves to increase their tariffs as of March 1, 2007. At this stage of the proceedings, France Telecom is not in a position to assess the risk involved.

Civil proceedings

- Three proceedings are currently pending before German courts, all relating to the UMTS investment undertaken in Germany in 2000 in partnership with MobilCom. This investment was agreed to on March 23, 2000 under the aegis of the contract known as the "Cooperation Framework Agreement" (CFA), and subsequently was brought to an end on November 20, 2002 by a negotiated settlement, known as the "MobilCom Settlement Agreement" (MCSA). Under the terms of this settlement, France Telecom purchased the Mobilcom receivables held by the bank syndicate members and suppliers at their face value and wrote-off the receivables as well as the repayment of shareholders' advances made to MobilCom during the previous two years for a total settlement payment of approximately 7 billion euros. These judicial proceedings have been initiated either by the court-appointed liquidator in the personal bankruptcy of the former MobilCom CEO Gerhardt Schmid, or by minority shareholders of MobilCom related to Mr Schmid. The parties are claiming very significant amounts on the basis of the alleged improper enforcement of the CFA and/or violation of German law on the protection of minority interests. The plaintiffs accuse France Telecom in substance of having undertaken the UMTS project and then terminated it, and of having imposed these decisions on MobilCom and its then CEO by means of a supposed "hidden" or "de facto" domination.

The first action was brought in December 2003 before the Kiel Court by Millenium, a minority shareholder of MobilCom owned by Mrs. Schmid-Sindram. In December 2005, Millenium raised its claim to 5.41 billion euros excluding interest in respect of the losses suffered by it and by MobilCom as a result of the so-called de facto domination (see below). On January 30, 2008, the Court held that it was competent; it will set out the subsequent steps in the proceedings at a later date.

The second action, launched in December 2003, is currently pending before the Schleswig-Holstein Court of Appeal after the plaintiffs' claims were rejected as unfounded by the Flensburg Court on August 12, 2005. The claimants in this action are Mrs. Schmid-Sindram and Mr Marek, another MobilCom minority shareholder. They are also claiming compensation for loss suffered due to the alleged dominant relationship, which they evaluate at a theoretical supplement to the share price multiplied by the number of shares held by the plaintiffs or possibly by all the shareholders. In its September 14, 2007 hearing, the Chairman of the Court of Appeal found that no dominant relationship existed in this case; he also permitted the claimants to further develop their arguments.

The third pending action was brought before the Frankfurt Court in December 2004 by the court-appointed liquidator in Gerhardt Schmid's personal bankruptcy. The claim disregards all waivers of rights to legal recourse stipulated in the MCSA, which he claims are null and void, alleging improper enforcement of the CFA as well as de facto domination. In December 2005, the claim was increased to 7.22 billion euros excluding interest, on the basis of a fictitious reconstruction of MobilCom's value had the UMTS project been successful. On January 16, 2008, the Court dismissed the claim.

Although the outcome of this case cannot be determined with certainty, France Telecom considers that all these actions are unfounded and in bad faith.

- In December 2006, Free brought action against France Telecom before the Paris Commercial Court, claiming compensation for the loss it believes it has suffered due to France Telecom's anti-competitive practices in the broadband access market between 1999 and 2005. Free accuses France Telecom of having implemented a strategy that, between 2000 and 2002, prevented it from deploying ADSL and recruiting potential new customers to its dial-up customer base, and which, from 2003 to 2005, hampered its development in this market. Free has asked the court to order France Telecom to pay a provisional sum of 500 million euros subject to valuation, and to appoint a board of three experts to determine the number of subscribers lost by Free. Although the outcome of this case cannot be determined with certainty, France Telecom considers that Free's claims are unfounded, since Free was in a position to benefit fully from the growing and buoyant broadband market in France.
- In December 2004, Suberdine and some of its shareholders issued proceedings against Orange France before the Paris Commercial Court. Suberdine, which had participated along with its subsidiaries in the marketing and sale of Orange's products and services between 1995 and 2003 went into liquidation on December 18, 2003. Suberdine is claiming that Orange unlawfully terminated their business relationship and holds Orange responsible for its liquidation. In March 2006, the Paris Commercial Court dismissed the shareholders' claim but ordered Orange to pay Suberdine 12 million euros. Both Suberdine by its voluntary liquidator and Suberdine's shareholders have appealed, while the court-appointed liquidator has formally given notification of the Court's decision. Orange considers that Suberdine's appeal is inadmissible and that all its claims, amounting to some 778 million euros, are unfounded.
- The lawsuit by Lectiel (formerly Filetech) for anti-competitive practices and free provision of its directory database dates back to 1991. On January 5, 1994, the Paris Commercial Court dismissed its claim: it is this decision which is currently pending before the Paris Court of Appeal. A number of other proceedings have been initiated alongside this main claim, including the claim by Lectiel before the Competition Council which, on September 29, 1998, ordered France Telecom to pay a 1.52 million euro fine and to grant access to the directory data upon request using a cost-oriented tariff.

The Paris Court upheld this decision on June 29, 1999. In parallel, the "looting" by Lectiel of France Telecom's database resulted in Lectiel being convicted on criminal charges. Before the Paris Court, and following the principles of its June 13, 2001 preliminary judgement, the lawsuit turns on the legal protection for directory databases, their cost and the observance by France Telecom of the rules governing their provision. In December 2006, Lectiel increased its claim to 376 million euros and also asked the court to order France Telecom to provide its directory databases free of charge along with daily updates, or otherwise pay a fine of 1.5 million euros a day. Although the outcome of this dispute cannot be assessed with certainty, France Telecom considers that Lectiel's claims are unfounded.

- At the end of January 2004, Nerim issued proceedings against Wanadoo France and Transpac (since absorbed into France Telecom S.A.) before the Paris Commercial Court, following a claim against Nerim for unpaid invoices. Nerim claims not to owe any amounts to Transpac and is claiming that on the contrary Transpac and Wanadoo engaged in anti-competitive behavior, warranting damages of 57 million euros. Although the outcome of this dispute cannot be assessed with certainty, France Telecom considers that the claims are unfounded.

Administrative litigation

- In November 2000, the SNCF lodged a claim with the Paris Administrative Court (Tribunal administratif de Paris), for 135.2 million euros in damages against France Telecom relating to its use of SNCF railway infrastructure between 1992 and the end of 1996. France Telecom does not contest the fact that payment is due for the period since July 29, 1996, but considers that the action is unfounded for the period prior to that date. France Telecom has already set aside a provision for an amount sufficient to cover the expenses for the period since July 29, 1996. On March 11, 2004, the Paris Administrative Court held that the SNCF's claims were inadmissible, a decision upheld by the Paris Court of Administrative Appeal on May 24, 2007. The SNCF has lodged an appeal against the decision with the Administrative Supreme Court (Conseil d'Etat).

International arbitration

- In 2001, a dispute arose over the interpretation of a contract for the sale and installation by the Danish company DPTG of a fiber optical transmission system (known as "North-South Link", or "NSL") for the State-owned Polish Post, Telegraph and Telephone, the predecessor of TP SA. The contract, signed in 1991 and for which work was completed in 1994, provided for payment of part of the contract price by allocating to DPTG 14.8% of certain profit from the NSL for fifteen years from the system's installation, that is, from January 1994 to January 2009.

In 1999 the parties came into disagreement regarding the calculation of this revenue. In 2001, DPTG initiated arbitration proceedings. DPTG's claims, calculated up to January 2006, amount to 670 million euros excluding interest, with regard to services initially valued at less than 20 million euros. TP challenges both the basis of the claim and the amounts claimed by DPTG.

In 2004 the tribunal appointed an expert to evaluate the revenue "from the NSL" to be used as a basis for calculating the share attributable to DPTG. Between November 2005 and December 2007, this expert has delivered three successive reports proposing widely differing estimates. In October 2007, the tribunal named a second expert to assess the appropriateness and consistency of the first expert's models. In January 2008, the second expert concurred, in all material respects, with the conclusions of the latest report of the first expert.

The latest timetable issued by the tribunal anticipates a final hearing at the end of May or the beginning of June 2008.

- On March 13, 2007, the minority shareholders of FTML, who hold 33% of the share capital, filed suit against France Telecom in the Paris Commercial Court seeking payment of compensation provisionally estimated at 97 million US dollars. They claim that France Telecom imposed upon its Lebanese subsidiary and against the latter's interests the settlement agreement of January 12, 2006 under which FTML and its majority shareholder FTMI resolved their disputes with the Lebanese government in connection with the BOT contract

for a mobile telephone network in Lebanon, thereby depriving the minority shareholders of any opportunity to collect their share of the sum of 266 million US dollars awarded to FTML and FTMI by the arbitration rulings of January and April 2005. France Telecom considers that it has at all times acted in accordance with the will of the governing bodies of its subsidiary, and in accordance with its subsidiary's interests. It considers the claim to be unfounded.

- The shareholders' agreement governing the relationships between France Telecom and Orascom within Mobinil provides that in the event of serious disagreement between the parties, and in case the matter cannot be amicably resolved, the parties, having acknowledged the deadlock, may enter into a bidding process with a view to acquiring the other party's shares (see Note 32.3 "Commitments in respect of securities").

On August 8, 2007, Orascom initiated arbitration proceedings regarding the applicability of this provision to a disagreement for which it had previously launched the bidding process provided for in the shareholders' agreement. France Telecom considers that the launch of the bidding process is entirely groundless. The arbitral tribunal was formed on November 29, 2007.

There are no other governmental, legal or arbitration proceedings, including any proceedings that are pending or threatened of which France Telecom is aware, which may have or have had in the last twelve months a material impact on the company and/or Group's financial position or profitability.

NOTE 34 Related party transactions

34.1 Members of the Board of Directors and Group Management Committee of France Telecom

The following table shows the compensation disbursed by France Telecom S.A. and the companies it controls to persons who are, or were during the financial year 2007, members of France Telecom's Board of Directors or Group Management Committee.

(in euros)	Year ended	
	December 31, 2007	December 31, 2006
Short-term benefits excluding employer social security payments ⁽¹⁾	7,962,258	8,078,292
Employer social security payments on short-term benefits	1,893,757	1,568,386
Post-employment benefits ⁽²⁾	1,642,186	693,863
Other long-term benefits ⁽³⁾	-	-
Termination benefits	4,691,381	-
Share-based compensation ⁽⁴⁾	1,213,091	905,430

(1) The amount of variable compensation relating to the second semester of 2007 and incentive bonuses, profit-sharing and employer contributions, which will be paid in 2008, are not known on the publication date. Consequently, the 2007 amount includes all compensation (gross salaries, bonuses, attendance fees, non-monetary benefits, incentive bonuses, profit-sharing and employer contributions) which were paid in 2007 but not in respect of 2007. However, the 2006 amount includes all compensation (gross salaries, bonuses, attendance fees and non-monetary benefits) paid in respect of 2006 except incentive bonuses, profit-sharing and employer contributions which were not known on the publication date.

(2) Service cost.

(3) Deferred compensation.

(4) Expense recorded in the income statement in respect of stock-option plans and employee shareholding plans.

II - consolidated financial documents

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements

Didier Lombard has waived his right to receive attendance fees.

The total amount of retirement benefits (contractual retirement bonuses and defined benefit supplementary pension plan) provided for in the financial statements at December 31, 2007 in respect of persons who are, at the end of the 2007 financial year, members of the Group Management Committee, including Didier Lombard, amounted to 6,597,945 euros (6,563,870 euros in 2006).

Should the Board of Directors decide to end Didier Lombard's term of office and such decision leads to the termination of his employment contract, which was suspended at the time of his election as executive officer, he will receive a settlement equal to 21 months of his last total gross annual compensation (including the contractual termination benefit), upon the Board of Directors' decision. Contracts of other members of the Group Management Committee include a clause providing a contractual termination settlement not exceeding 15 months of their last total gross annual compensation (including the contractual termination benefit).

34.2 Related party transactions

The related party transactions summarized below cover the main transactions carried out in the ordinary course of business with associates, proportionally consolidated companies and companies in which the Chairman of France Telecom's Board of Directors is a member of the Board of Directors, Supervisory Board or Executive Committee.

Telecommunications services provided to French governmental authorities, which are one of France Telecom's largest customers, as well as those to its various regional and local authorities, are provided on an arm's length basis.

34.2.1 Transactions with associates

Transactions carried out with associates during the financial year represented less than 1 million euros and are therefore not described below.

34.2.2 Transactions with proportionally consolidated companies

(in millions of euros)	December 31, 2007			
	Trade receivables, net	Trade payables	Sales of goods and services	Purchases of goods and services
Darty FT	24	32	15	(22)

(in millions of euros)	December 31, 2006			
	Trade receivables, net	Trade payables	Sales of goods and services	Purchases of goods and services
Darty FT	21	29	17	(24)

The data presented above represents the portion which has not been eliminated on consolidation.

34.2.3 Transactions with companies in which the Chairman of France Telecom's Board of Directors is a member of the Board of Directors, Supervisory Board or Executive Committee

(in millions of euros)	December 31, 2007			
	Trade receivables, net	Trade payables	Sales of goods and services	Purchases of goods and services
Thomson	4	1	12	(2)

(in millions of euros)	December 31, 2006			
	Trade receivables, net	Trade payables	Sales of goods and services	Purchases of goods and services
Thomson	5	4	8	(2)

NOTE 35 Subsequent events

No event other than those described above has occurred since the year end.

NOTE 36 List of consolidated companies

The main changes in consolidation scope in the 12 months to December 31, 2007 are set out in Note 4. Special-purpose entities included within the scope of consolidation are mainly

companies linked to securitization operations. The table below covers the principal legal holdings.

COMPANY		COUNTRY
France Telecom S.A.	Parent company	France
Personal Communication Services		
Fully consolidated companies	% interest	Country
Orange SA	100.00%	France
Mobistar	50.17%	Belgium
Orange Botswana	51.00%	Botswana
Orange Cameroon	99.50%	Cameroon
Orange Côte d'Ivoire	85.00%	Ivory Coast
Orange Holding A/S	100.00%	Denmark
Orange Dominica	100.00%	Dominica
Amena Movil	79.32%	Spain
FT España (Personal)	79.32%	Spain
Inversiones en Telecomunicaciones	52.88%	Spain
FCC Orange SA	100.00%	France
Orange Caraïbes	100.00%	France
Orange France	100.00%	France
Orange International SAS	99.96%	France
Orange Mayotte	100.00%	France
Orange Réunion	100.00%	France
SPM Telecom	70.00%	France
CGBC (TEN)	75.70%	France
Orange Bissau ⁽¹⁾	42.33%	Guinea Bissau
Orange Guinée ⁽¹⁾	38.10%	Guinea
Orange Services India Private Limited	100.00%	India
Mobilecom	51.00%	Jordan
FTM Liban	67.00%	Lebanon
Orange Liechtenstein	100.00%	Liechtenstein
Moskito Productions	42.64%	Luxembourg
TopLine Distribution	42.64%	Luxembourg
VOXmobile	50.17%	Luxembourg

II - consolidated financial documents

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements

Personal Communication Services Fully consolidated companies	% interest	Country
Orange Madagascar	71.79%	Madagascar
Ikotel ⁽¹⁾	29.73%	Mali
Orange Moldova (formerly Voxtel)	94.31%	Moldova
Orange Niger	80.00%	Niger
PTK-Centertel ⁽²⁾	48.58%	Poland
Orange Centre Afrique	100.00%	Central African Republic
Orange Dominicana	100.00%	Dominican Republic
Orange Romania	96.82%	Romania
Orange Retail Ltd	100.00%	United Kingdom
Orange 3G Limited	100.00%	United Kingdom
Orange Holdings Ltd	100.00%	United Kingdom
Orange Ltd	100.00%	United Kingdom
Orange Personal Communications Services Ltd	100.00%	United Kingdom
Orange Cellular Services Ltd	100.00%	United Kingdom
Orange Global Ltd	100.00%	United Kingdom
Orange Mobile Services	100.00%	United Kingdom
Orange Paging	100.00%	United Kingdom
Orange Payment Handling Services (formerly The Point Telecommunications)	100.00%	United Kingdom
Trust of Receivables Orange	100.00%	United Kingdom
Orange Corpsec	100.00%	Slovakia
Orange Slovensko	100.00%	Slovakia
Orange Communications SA ("OCH")	100.00%	Switzerland
Orange Network SA	100.00%	Switzerland
Orange Sverige	100.00%	Sweden
Sonatel Mobiles ⁽¹⁾	42.33%	Senegal

(1) Sonatel and its subsidiaries are fully consolidated as France Telecom controls the Strategic Committee which makes recommendations to the Board of Directors.

(2) TP SA and subsidiaries (TP Group): France Telecom has the power to appoint the majority of TP SA's Supervisory Board members. TP SA and its subsidiaries are therefore fully consolidated.

Personal Communication Services Proportionally consolidated companies	% interest	Country
Irisnet	25.09%	Belgium
Mobinil for Telecommunications ⁽¹⁾	71.25%	Egypt
Egyptian Company for Mobile Services (ECMS) ⁽²⁾	36.36%	Egypt
Mobinil Invest ⁽²⁾	37.06%	Egypt
Mobinil Services Company ⁽²⁾	36.33%	Egypt
Darty France Telecom	50.00%	France
Getesa	40.00%	Equatorial Guinea
Cellplus Mobile Communications Ltd	40.00%	Mauritius

(1) France Telecom Group holds a 71.25% stake in Mobinil for Telecommunications, with the remaining 28.75% owned by Orascom Telecom. Since all executive decisions must be jointly approved by both partners at board level, Mobinil is consolidated by the proportional method.

(2) ECMS and its subsidiaries are controlled by Mobinil and therefore proportionally consolidated by France Telecom Group SA.

Personal Communication Services Associates consolidated by the equity method	% interest	Country
One (PASR 24)	35.00%	Austria
Safelayer	12.86%	Spain
GIE Preventel	27.90%	France
Sonaecom	19.19%	Portugal

Home Communication Services Fully consolidated companies	% interest	Country
Sofrecom Algérie	100.00%	Algeria
Sofrecom Argentina	100.00%	Argentina
Lightspeed Communications	51.00%	Bahrain
Atlas Services Belgium	100.00%	Belgium
Orange Belgium	100.00%	Belgium
Wirefree Services Belgium	100.00%	Belgium
Fimocam	100.00%	Cameroon
Orange Cameroon Multimedia Services	99.50%	Cameroon
FT R&D Beijing	100.00%	China
CI Telecom	45.90%	Ivory Coast
Cote d'Ivoire Multimedia	45.90%	Ivory Coast
Atlas Services Denmark	100.00%	Denmark
Wirefree Services Denmark	100.00%	Denmark
Autocity Networks	76.42%	Spain
Catalana	59.49%	Spain
FT España ISP (Ya.com)	79.32%	Spain
FT España (Home)	79.32%	Spain
Ya online	79.32%	Spain
Yacom Travel Market	79.32%	Spain
EresMas Interactiva	79.32%	USA
FT Participations US	100.00%	USA
FTLD USA	100.00%	USA
FTP Holding	100.00%	USA
FT R&D LLc San Francisco	100.00%	USA
FT R&D LLc Boston	100.00%	USA
FT North America	100.00%	USA
FTP Holdco 1 LLC	100.00%	USA
FTP Holdco 2 LLC	100.00%	USA
Orange World	100.00%	USA
Aura 2	100.00%	France
Citius 98	100.00%	France
Corsica Haut Débit	100.00%	France
EGT	100.00%	France
FCC FT SA Titricom 1.2	100.00%	France
FCC FT SA Titricom 1.3	100.00%	France

II - consolidated financial documents

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements

Home Communication Services Fully consolidated companies	% interest	Country
FCR	100.00%	France
FCR Côte d'Ivoire	90.00%	France
FT Capital Development	100.00%	France
FT Encaissements	99.99%	France
FT Immo Saint Grégoire	100.00%	France
FT Immo Gestion	100.00%	France
FT Immo GL	100.00%	France
FT Immo Holding	100.00%	France
FT Marine	100.00%	France
FT Mobiles International	100.00%	France
FT Technologies Investissement	100.00%	France
France Telecom e-Commerce	100.00%	France
France Telecom Lease	100.00%	France
Francetel	100.00%	France
Immobilière FT	100.00%	France
Innovacom Gestion	50.00%	France
Nordnet	100.00%	France
Orange Assistance (formerly RAPP 31)	100.00%	France
Orange Distribution	100.00%	France
Orange East-Africa (formerly RAPP 32)	78.50%	France
Orange Participations (formerly RAPP 18)	100.00%	France
Orange Promotions	100.00%	France
Orange Sports (formerly RAPP 24)	100.00%	France
Orange Vallée (formerly NEDDI)	100.00%	France
RAPP 23	100.00%	France
RAPP 33 (formerly SCRC1)	100.00%	France
RAPP 34 (formerly SCRC2)	100.00%	France
RAPP 9	100.00%	France
RAPPtel	100.00%	France
RAPP 26	100.00%	France
Sofrecom	100.00%	France
Studio 37 (formerly RAPP 27)	100.00%	France

Home Communication Services Fully consolidated companies	% interest	Country
TP SA Eurofinance France SA ⁽¹⁾	48.56%	France
Telincom Courtage	100.00%	France
Viaccess	100.00%	France
w-HA	100.00%	France
FTLD Hong-Kong	100.00%	Hong Kong
GOA Games Services Ltd	100.00%	Ireland
FT Japan	100.00%	Japan
E-Dimension	51.00%	Jordan
JIT CO	100.00%	Jordan
Jordan Telecom Cie (JTC)	51.00%	Jordan
Wanadoo Jordan	51.00%	Jordan
Miaraka	100.00%	Madagascar
Sofrecom Maroc	100.00%	Morocco
Sofrecom Services Maroc	100.00%	Morocco
Chamarel Marine Services	100.00%	Mauritius
Rimcom	100.00%	Mauritius
Telsea	60.80%	Mauritius
Régie T Mexico	75.00%	Mexico
StarMedia Mexico	78.53%	Mexico
MMT Bis	100.00%	Moldova
Atlas Services Nederland	100.00%	Netherlands
MMT Telecom Holding BV	100.00%	Netherlands
Wirefree Services Nederland	100.00%	Netherlands
TP Edukacja i Wypoczynek (Exploris) ⁽¹⁾	48.58%	Poland
Fundacja Grupy TP ⁽¹⁾	48.58%	Poland
OPCO Sp zo o (formerly OTO Lublin) ⁽¹⁾	48.58%	Poland
ORE ⁽¹⁾	48.58%	Poland
PTE TP ⁽¹⁾	48.58%	Poland
Paytel (formerly Contact Center) ⁽¹⁾	48.58%	Poland
Sofrecom Polska ⁽¹⁾	100.00%	Poland

II - consolidated financial documents

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements

Home Communication Services Fully consolidated companies	% interest	Country
TP EmiTel ⁽¹⁾	48.58%	Poland
TP Internet ⁽¹⁾	48.58%	Poland
TP Invest ⁽¹⁾	48.58%	Poland
TP Med ⁽¹⁾	48.58%	Poland
TP SA ⁽¹⁾	48.58%	Poland
TP SA Eurofinance ⁽¹⁾	48.58%	Poland
TP SA Finance ⁽¹⁾	48.58%	Poland
TP Teltech ⁽¹⁾	48.58%	Poland
TP DiTel ⁽¹⁾	48.58%	Poland
Telefon 2000 ⁽¹⁾	46.34%	Poland
Telefony Podalskie ⁽¹⁾	26.77%	Poland
Virgo ⁽¹⁾	48.58%	Poland
Wirtualna Polska ⁽¹⁾	48.58%	Poland
Wanadoo Serviços de Internet	100.00%	Portugal
Terravista	79.32%	Portugal
Wanadoo Broadband Serviços de Internet	100.00%	Portugal
1st Wave Networks Ltd (formerly Orange Ocean)	100.00%	United Kingdom
Ananova Ltd	100.00%	United Kingdom
FT Network Services UK	100.00%	United Kingdom
FT Participations UK	100.00%	United Kingdom
FT R&D Ltd	100.00%	United Kingdom
Freeserve Investments	100.00%	United Kingdom
Wanadoo Plc	100.00%	United Kingdom
Orange Austria Ltd	100.00%	United Kingdom
Orange Brand Services Ltd	100.00%	United Kingdom
Orange Direct Ltd	100.00%	United Kingdom
Orange FURBS Trustees Ltd.	100.00%	United Kingdom
Orange Holdings Ltd	100.00%	United Kingdom
Orange Home UK	100.00%	United Kingdom
Orange International Ltd	100.00%	United Kingdom
Orange Overseas Holdings No.2	100.00%	United Kingdom
Orange Pension Trustees Ltd.	100.00%	United Kingdom
Sonatel Business Solutions ⁽²⁾	42.33%	Senegal
Sonatel ⁽²⁾	42.33%	Senegal
Sonatel Multimedia ⁽²⁾	42.33%	Senegal
Sofrecom Thailand	100.00%	Thailand
FCR Vietnam PTE Ltd	74.00%	Vietnam

(1) TP SA and subsidiaries (TP Group): France Telecom has the power to appoint the majority of TP SA's Supervisory Board members. TP SA and its subsidiaries are therefore fully consolidated.

(2) Sonatel and its subsidiaries are fully consolidated as France Telecom controls the Strategic Committee which makes recommendations to the Board of Directors.

Home Communication Services Proportionally consolidated companies	% interest	Country
DT-FT Italian Holding GmbH	50.00%	Germany
Innocavom 3	34.24%	France
Call Services Ltd	40.00%	Mauritius
Mauritius Telecom	40.00%	Mauritius
Telecom Plus Ltd	40.00%	Mauritius
Teleservices Ltd	40.00%	Mauritius
Vanuatu Telecom Ltd	33.33%	Vanuatu

Home Communication Services Associates consolidated by the equity method	% interest	Country
Absline Multimedia	37.68%	Spain
Store Alcala	39.66%	Spain
Mainline Communication Group Plc	26.00%	United Kingdom
Midland Communication Distribution Ltd	35.00%	United Kingdom

Enterprise Communication Services Fully consolidated companies	% interest	Country
Globecast Africa	100.00%	South Africa
Globecast South Africa (Proprietary) Limited	70.00%	South Africa
Newsforce Africa	100.00%	South Africa
Etrali Allemagne	100.00%	Germany
FT Corporate Solutions Australia	100.00%	Australia
Silicomp Belgium	96.06%	Belgium
Silicomp Benelux	96.06%	Belgium
Silicomp Canada Inc	96.06%	Canada
Etrali SA Espagne	100.00%	Spain
Etrali North America	100.00%	USA
FT Corporate Solutions	100.00%	USA
Globecast America Incorporated	100.00%	USA
Equant Holdings US and subsidiaries	100.00%	USA
Equant SA and subsidiaries	100.00%	France
Almerys	64.00%	France
CVF	100.00%	France
Dynetcom	99.87%	France
Etrali France	100.00%	France
Etrali SA	100.00%	France
Expertel Consulting	100.00%	France
Globecast France	100.00%	France
Globecast Holding	100.00%	France
Globecast Reportages	100.00%	France
Groupe Diwan	99.87%	France
Groupe Silicomp	96.06%	France
Newpoint	99.87%	France
SCI Groupe Silicomp	95.27%	France
Silicomp Management	96.04%	France
Silicomp Networks	95.62%	France
Silicomp-AQL	95.60%	France
Sétib	100.00%	France
Telefact	69.53%	France
Etrali HK	100.00%	Hong Kong
Silicomp China Limited	96.06%	Hong Kong

II - consolidated financial documents

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements

Enterprise Communication Services Fully consolidated companies	% interest	Country
Silicomp India	96.06%	India
Etrali Spa	100.00%	Italy
Globecast Italie	100.00%	Italy
Etrali KK	100.00%	Japan
Silicomp (Malaysia) SDN BHD	96.06%	Malaysia
France Telecom Servicios	100.00%	Mexico
Newsforce BV	100.00%	Netherlands
EGN BV and subsidiaries	100.00%	Netherlands
Equant BV	100.00%	Netherlands
Etrali UK	100.00%	United Kingdom
Globecast UK	100.00%	United Kingdom
Etrali Singapore Pte	100.00%	Singapore
Globecast Asie	100.00%	Singapore
Silicomp Asia Pte Ltd	96.06%	Singapore
Equant Integration Services SA and subsidiaries	100.00%	Switzerland
Etrali Suisse	99.17%	Switzerland
Telecom Systems	96.06%	Switzerland
Feima Limited	96.06%	Taiwan
Silicomp Taiwan	96.06%	Taiwan

Enterprise Communication Services Proportionally consolidated companies	% interest	Country
Globecast Australia	50.00%	Australia
Neocles Corporate ⁽¹⁾	51.00%	France
Silicomp Software Validation	48.03%	France

(1) Neocles Corporate is proportionally consolidated as it is jointly controlled by France Telecom and the minority shareholders.

Enterprise Communication Services Associates consolidated by the equity method	% interest	Country
GlobePro	24.00%	Spain

III - report of the board of directors to the shareholders



1. company activities	160	6. changes in accounting methods	185
1.1 DESCRIPTION OF ACTIVITIES	160	7. information about subsidiaries and equity interests	186
1.2 MAIN DEVELOPMENTS	160	7.1 TABLE OF SUBSIDIARIES AND EQUITY INTERESTS	186
1.3 BREAKDOWN OF INCOME	160	7.2 ACTIVITIES OF THE MAIN SUBSIDIARIES OF THE FRANCE TELECOM GROUP	187
1.3.1 Operating income	161	7.2.1 Mobile activities	187
1.3.2 Financial income	163	7.2.2 Fixed line and Internet activities	187
1.3.3 Exceptional income	164		
1.3.4 Net income	164		
1.4 BALANCE SHEET	165	8. information about the shareholding structure and the share price	187
1.4.1 Fixed assets	165	8.1 FRANCE TELECOM'S SHAREHOLDING STRUCTURE	187
1.4.2 Current assets	165	8.2 FRANCE TELECOM'S SHARE PRICE PERFORMANCE	188
1.4.3 Shareholders' equity	165		
1.4.4 Provisions for risks and charges	165		
1.4.5 Debts	165		
1.5 ACTIVITIES AND PROFITABILITY	166		
		9. information about directors and corporate officers	189
2. subsequent events	166	9.1 COMPENSATION OF DIRECTORS AND CORPORATE OFFICERS	189
3. research and development	166	9.1.1 Compensation paid to the Chairman and Chief Executive Officer	189
4. employment and environmental information	167	9.1.2 Attendance fees paid to directors	190
4.1 EMPLOYMENT INFORMATION	167	9.1.3 Other compensation paid to employee directors	191
4.1.1 Workforce trends	167	9.2 DIRECTORS TRANSACTIONS ON COMPANY'S SHARES	191
4.1.2 Organization of working hours	170	9.3 DIRECTORSHIPS AND OFFICES HELD BY DIRECTORS AND CORPORATE OFFICERS IN 2007	192
4.1.3 Remuneration	171		
4.1.4 Labour relations	176		
4.1.5 Health and safety conditions	177		
4.1.6 Training	178	10. prior years' results	196
4.1.7 Employment and integration of people with disabilities	179	11. allocation of income	197
4.1.8 Social and cultural activities	179	12. resolutions	197
4.1.9 Outsourcing	180		
4.1.10 Impact on national employment and regional development	180	appendix to the board of directors' Report	198
4.2 ENVIRONMENTAL INFORMATION	181	1. SUMMARY OF DELEGATIONS AND AUTHORIZATIONS GRANTED BY THE ANNUAL SHAREHOLDERS' MEETING TO THE BOARD OF DIRECTORS - 2007	198
4.2.1 General environmental policy	181	2. INFORMATION WHICH COULD HAVE AN IMPACT IN CASE OF PUBLIC OFFER	200
4.2.2 Environmental risk analysis approach	181		
4.2.3 Compliance with environmental regulations	184		
4.2.4 Environmental Management System (EMS)	184		
4.2.5 Specific actions to raise employee awareness	184		
4.2.6 Provisions for environmental risks	184		
4.2.7 Action plan	185		
5. outlook	185		

1. company activities

1.1 DESCRIPTION OF ACTIVITIES

France Telecom S.A. ("France Telecom"), the parent company of the France Telecom Group, is the main telecommunications operator in France and, via its subsidiaries, one of the world's leading telecommunication operators. The France Telecom Group is the leading broadband Internet service provider and the third-largest mobile operator in Europe, as well as one of the world market leaders in telecommunications services for multinational companies. It offers its residential, business and wholesale clients a broad range of telecommunications services. Its main activities comprise providing fixed-line telephony services (local, national and international), mobile telecoms,

multimedia communications services for businesses, Internet services, equipment sales and hire, information services and other value-added services. Via the NEXT plan (New Experience in Telecommunications), the France Telecom Group is pursuing its transformation as an integrated operator aimed at making France Telecom the benchmark for new telecommunications services in Europe. In 2006, Orange became the Group's single brand for Internet, television and mobile services in most of the countries in which the Group operates, with Orange Business Services becoming the brand for services offered to businesses around the world.

1.2 MAIN DEVELOPMENTS

- **January 2007:** France Telecom acquires a 54% controlling block in the groupe Silicomp. Through successive purchases of shares, it increases its stake to 96.1% at the end of the year, representing an amount of 101 million euros. This acquisition fits in with France Telecom's strategy of providing convergent communications solutions and services for businesses and developing its position in this market.
- **February 2007:** France Telecom carries out a 2.5 billion euros bond issue, allowing it to optimize the refinancing of its debt in euros.
- **April 2007:** The Board of Directors decides to implement a share-based compensation plan for employees of France Telecom S.A. and French subsidiaries, representing a total of 10.8 million shares. This should help to achieve the targets

of the NEXT plan. In December 2007, the Board decides to implement a further plan of 1.8 million shares for employees of international subsidiaries.

- **June 2007:** The French government sells 130 million existing France Telecom shares, representing 5% of share capital. In December 2007, it then proceeds with an offer reserved for employees and former employees of the France Telecom Group concerning 14.4 million shares delivered in January 2008.
At December 31, 2007, the French government owned 27.34% of France Telecom S.A.'s share capital either directly or indirectly through ERAP and 27.45% of voting rights.
- **October 2007:** Apple chooses Orange as exclusive operator for the launch of the iPhone in France on November 29, 2007.

1.3 BREAKDOWN OF INCOME

The following data relates to income statement items based on France Telecom S.A. annual financial statements. Items with a negative impact are indicated with a "-" sign, with no sign for those with a positive impact. Year-on-year changes are

expressed as a percentage (with a "-" for a reduction in absolute terms and no sign for an increase in absolute terms).

2006 figures are provided on an unadjusted historical basis, unless stated otherwise.

1.3.1 Operating income

(in millions of euros)	Year ended December 31		
	2007	2006	Change (%) 2007-2006
Revenues	22,108	21,171	4.4%
Other operating income	3,128	3,093	1.1%
Consumption of goods and merchandises	(2,598)	(2,123)	22.4%
Other external expenses	(6,714)	(6,661)	0.8%
Taxes (other than income tax)	(926)	(1,011)	(8.4%)
Labour expenses	(6,675)	(6,674)	0.0%
Other operating expenses	(702)	(418)	67.9%
Depreciation and amortization	(2,391)	(2,666)	(10.3%)
Operating income	5,230	4,711	11.0%

1.3.1.1 Revenues

The following table shows France Telecom S.A.'s revenue growth by market in 2007 and 2006.

(in millions of euros)	Year ended December 31		
	2007	2006	Change (%) 2007-2006
Fixed line services	19,651	19,375	1.4%
Subscriber fixed telephone lines	8,808	9,559	(7.9%)
Internet services	2,212	1,741	27.1%
Carrier services	3,501	3,137	11.6%
Data transfer	3,202	3,145	1.8%
Other fixed-line services	1,928	1,793	7.5%
Other revenues	2,457	1,796	36.8%
Sales of mobile equipment	261	378	(31.0%)
Various other revenues	2,196	1,418	54.9%
TOTAL REVENUES	22,108	21,171	4.4%

France Telecom S.A. generated revenues of 22.11 billion euros in 2007, an increase of 4.4% compared with the previous year, reflecting growth in services provided to subsidiaries of the France Telecom Group. The rapid development of ADSL broadband services (via Internet services and services to operators) more than offset the decline in subscriber fixed telephone lines.

1.3.1.1.1 Fixed line services

Subscriber fixed telephone lines

Revenues from subscriber fixed telephone lines fell by 7.9%, corresponding primarily to the 14.9% drop in revenues from traditional telecommunications services relating to the development of Voice over IP services.

Internet services

The 27.1% increase in Internet services revenues reflects the sharp rise in broadband ADSL access sales and sales of complementary broadband ADSL services such as Voice over IP

and ADSL digital television to consumers under the Orange brand.

Services to operators

The 11.6% increase in revenues from services to operators corresponds to development in the unbundling of telephone lines and, to a lesser extent, growth in sale of ADSL access to ISPs and third-party operators.

Data transfer

The 1.8% increase in data transfer services relates to the development of company data network management services.

Other fixed line services

The 7.5% increase in other fixed line services relates to the rise in sales of company branch exchanges and consumer ADSL router leasing (Livebox), partly offsetting the decline in public phone products.

III - report of the board of directors to the shareholders

COMPANY ACTIVITIES

Breakdown of earnings

1.3.1.1.2 Other revenues

Sales of mobile equipment

The 31.0% fall in sales of mobile equipment relates to the transfer to Orange S.A. of management of sales of Orange mobile prepaid cards and lower selling prices for handsets.

1.3.1.1.3 Operating indicators

All figures in the table are in thousands.

Various other revenues

Various other revenues increased by 54.9% as a result of the development of services provided by France Telecom S.A. to its direct and indirect subsidiaries and the consolidation of Orange France's network unit activities.

	Cumulative to end-Dec	
	Actual 2007	Actual 2006
Subscriber fixed telephone lines		
Total number of telephone lines managed by FTSA	34,174	33,873
o/w		
Number of consumer telephone lines	22,962	25,470
Number of business telephone lines	5,645	5,804
Internet and ADSL multiservices		
Number of Orange broadband ADSL subscribers	7,296	5,916
Number of multiservice subscribers		
Number of leased Livebox	5,209	3,437
Number of subscribers to voice over IP services	4,102	2,081
Number of subscribers to ADSL TV offers	1,149	577
Business services		
Number of permanent access points to data networks managed in France	322	300
o/w		
Number of IP-VPN access points	242	209
Number of Business Everywhere mobile services users in France	571	486
Services to operators		
Number of unbundled telephone lines	5,187	3,919
Partial unbundling	1,563	1,810
Full unbundling	3,624	2,109

1.3.1.2 Other operating income

Other operating income increased by 1.1% year-on-year. This was thanks to:

- year-on-year growth of 11.2% in capitalized costs, relating to both the development of customer service platforms and the pooling of projects concerning the Group's IT systems;
- growth of 19.8% in other incomes, reflecting primarily the development of services provided by France Telecom S.A. to its direct and indirect subsidiaries;
- offset by the reduction in provisions reversals, relating chiefly to a reversal of 129 million euros in 2006 of provisions in respect of post-employment benefits following the transfer of social activities to the works council.

1.3.1.3 Operating expense

Consumption of goods and merchandises rose by 22.4% from 2,123 million euros in 2006 to 2,598 million euros in 2007,

mainly as a result of the increase in purchases of handsets in correlation with very rapid growth in the number of Liveboxes on lease (5,209,000 units distributed in France in December 2007 compared with 3,437,000 a year before).

France Telecom S.A.'s **labour expenses** remained stable at 6,675 million euros in 2007 compared with 6,674 million euros in 2006). This was the result of:

- a cost effect stemming primarily from pay rises and the increase in the variable portion of managerial pay;
- the cost of the additional contribution relating to the employee shareholding plan of 37 million euros (see Note 4.5 to the financial statements of France Telecom S.A.);
- the higher cost of incentive bonuses;
- the reduction in the number of employees (average number of full-time equivalent employees), down from 100,601 in 2006 to 95,857 in 2007, a reduction of 4,744 employees year-on-year.

Other operating expenses increased by 284 million euros between 2006 and 2007 to 702 million euros in 2007. This is mainly as a result of the centralization of a number of the Group's project development activities.

Operating income came to 5,230 million euros in 2007, an increase of 11.0% compared with 2006. Operating margin

improved by 1.4 percentage points from 22.3% in 2006 to 23.7% in 2007. This was primarily due to:

- a 4% increase in total operating income;
- partly affected by the 2.3% increase in operating expense, in particular expenses of a commercial nature reflecting growth in purchases of equipment (mainly Livebox) and efforts in view of the competitive climate in terms of both fostering the loyalty of existing customers and winning new customers.

1.3.2 Financial income

(in million euros)	Year ended December 31	
	2007	2006
Interest expenses excluding perpetual bonds redeemable for shares (TDIRAs)	(1,857)	(1,981)
Interest expenses for perpetual bonds redeemable for shares (TDIRAs)	(212)	(256)
Currency gains and losses	(191)	(12)
Dividends received	971	6,920
Change in provisions for equity interests and related receivables	2,460	(5,214)
Other income/expenses/accretion effects	(186)	(91)
Net financial income (expense)	985	(634)

Financial income came to 985 million euros in 2007 compared with a net financial expense of -634 million euros in 2006. This increase relates primarily to a change in provisions for equity interests and related receivables (-5,214 million euros in 2006 compared with 2,460 million euros in 2007), partly offset by the reduction of 5,949 million euros in dividends received.

The improvement of 124 million euros in **interest expenses excluding perpetual bonds redeemable for shares (TDIRAs)** was due to:

- a saving of 114 million euros in interest on borrowings between 2006 and 2007;
- an increase of 133 million euros in interest received in respect of receivables related to equity interests and intercompany current accounts between 2006 and 2007 (732 million euros in 2007 compared with 599 million euros in 2006);

- an increase in revenues from marketable securities of 120 million euros relating to an increase in investment outstandings and interest rates in 2007;
- offset by the increase of 244 million euros in interest paid on intercompany loans, which amounted to 787 million euros in 2007 (compared with 543 million euros in 2006).

Interest expenses for perpetual bonds redeemable for shares (TDIRAs) came to 212 million euros in 2007 compared with 256 million euros in 2006; this was due to the reduction in outstanding perpetual bonds redeemable for shares (TDIRAs) as a result of buybacks. By way of indication, average outstanding perpetual bonds redeemable for shares (TDIRAs) were 4,033 million euros in 2007 compared with 4,798 million euros in 2006.

(millions of euros)	Year ended December 31		
	2007	2006	Change (%) 2007-2006
Net financial expenses (excluding TDIRAs)	(1,857)	(1,981)	124
Net financial debt at year-end ⁽¹⁾	28,443	31,755	(3,312)
Average net financial debt outstandings over the period ⁽²⁾	30,197	35,053	(4,856)
Weighted average cost of net financial debt ⁽³⁾	5.92%	5.53%	0.39 pt

(1) See note 1.4.5.

(2) Average outstanding net financial debt adjusted for amounts not giving rise to interest such as accrued interest payable and allowing for calculation of the weighted average cost of net financial debt.

(3) See note 5.2.4 to the financial statements of France Telecom S.A.

III - report of the board of directors to the shareholders

COMPANY ACTIVITIES

Breakdown of earnings

The reduction in dividends received from 6,920 million euros in 2006 to 971 million euros in 2007 was mainly due to the reduction in dividends received from Orange S.A. subsidiaries (-5,045 million euros between 2006 and 2007) and FTMI (-869 million euros between 2006 and 2007). This stems from the exceptional payment in 2006:

- of a dividend of 5,434 million euros by Orange S.A. within the context of the restructuring of the debt and capital of Orange S.A. subsidiaries in the United Kingdom;
- a dividend of 969 million euros by FTMI following the sale of PTK to TPSA in December 2005, generating a capital gain of 956 million euros in FTMI's accounts, paid back to France Telecom S.A. in the form of a dividend in 2006.

Provisions for equity interests and related receivables came to 2,460 million euros in 2007 compared with -5,214 million euros in 2006. These comprise primarily:

- a reversal of 3,375 million euros for Orange S.A. shares;
- a -593 million euros provision charge for Equant B.V. shares;
- a -929 million euros provision charge for Atlas Services Belgium shares;
- a reversal of 627 million euros for TPSA shares.

The net foreign exchange loss came to -191 million euros in 2007 compared with -12 million euros in 2006. This was mainly due to a foreign exchange loss of 197 million euros relating to the fall in sterling against the euro.

As regards **exposure to market risks and financial instruments**, France Telecom's policy is not to use derivatives for speculative purposes. Details of all market risks and financial instruments are provided in Note 5.2.5 to the company's financial statements entitled "Exposure to market risks and financial instruments".

1.3.3 Exceptional income

(in millions of euros)	Year ended December 31	
	2007	2006
Gains on asset disposals and retirements	203	(50)
Change in provisions and other exceptional items	(314)	(463)
Exceptional income (expense)	(111)	(513)

Gains on asset disposals and retirements of 203 million euros comprise chiefly:

- a gain of 307 million euros on the disposal of TDF shares;
- a loss of -73 million euros on the disposal of Bluebirds shares;
- a loss of -68 million euros on the sale of FT Services Nederland BV shares.

Changes in provisions and other exceptional items of -314 million euros mainly includes:

- a 221 million euros provision reversal following the elimination of accelerated depreciation;
- a -159 million euros provision charge for free share awards made to employees;
- a -132 million euros provision charge for 2007 investment;

- a -116 million euros exceptional depreciation of property, plant and equipment and intangible assets.

1.3.4 Net income

Taking account of 290 million euros relating to employee profit-sharing in 2007 (264 million euros in 2006) and corporate income tax (see Notes 4.11 and 4.12 to the company's financial statements), representing net income of 1,517 million euros in 2007 (1,104 million euros in 2006), France Telecom S.A.'s **net income** stood at 7,331 million euros in 2007, an increase of 66.5% compared with 2006 (4,404 million euros).

There was no reintegration of general expenses within the sense of Article 223 *quinquies* of the French General Tax Code in 2007. Non-deductible vehicle leasing costs, carried as sumptuary expenses in tax declaration 2057-A, were reintegrated.

1.4 BALANCE SHEET

The following data relates to changes in balance sheet items based on France Telecom S.A.'s company financial statements. Items with a negative impact are indicated with a "-" sign, with no sign for those with a positive impact.

1.4.1 Fixed assets

Net fixed assets increased by 4,971 million euros between 2006 and 2007 to 105,282 million euros. This is mainly as a result of an increase of 4,746 million euros in financial assets. Intangible assets rose by 249 million euros and property, plant and equipment decreased by 25 million euros.

In net terms, the increase of 249 million euros in **intangible assets** relates primarily to investment in software and research and development.

The 4,746 million euros increase in **financial assets** from 85,343 million euros in 2006 to 90,089 million euros in 2007 net was mainly due to:

- the reversal of a provision for the impairment of Orange S. A. shares for 3,375 million euros and of TP S.A. shares for 627 million euros, offset by an allowance for Atlas Services Belgium of 929 million euros and for Equant of 593 million euros;
- the increase in receivables relating to subsidiary FT España of 977 million euros receivables relating to Equant BV of 411 million euros;

1.4.2 Current assets

Net current assets excluding marketable securities and cash and cash equivalents stood at 5,642 million euros in 2007, representing an increase of 1,032 million euros between 2006 and 2007.

The main increase concerns **other receivables**, which came to 2,031 million euros in 2007, an increase of 553 million euros compared with 2006. This is due to both an increase in cash current accounts of subsidiaries of 417 million euros between 2006 and 2007 and tax owed to France Telecom S.A. by its tax consolidated subsidiaries of 327 million euros (compared with 21 million euros in 2006).

The change in net current assets excluding marketable securities and cash and cash equivalents is also due to the increase in

trade accounts receivable, which came to 3,209 million euros in 2007, an increase of 392 million euros compared with 2006. Gross trade receivables came to 3,382 million euros compared with 2,950 million euros in 2006.

Marketable securities rose by 325 million euros while cash and cash equivalents decreased by 83 million euros between 2006 and 2007 (see Note 5.1.5 to the company's financial statements).

1.4.3 Shareholders' equity

Shareholders' equity stood at 43,623 million euros in 2007, an increase of 4,305 million euros compared with 2006. The main factors contributing to this increase were:

- the positive impact of net income for the year of 7,331 million euros;
- the payment in June 2007 of dividends of 3,117 million euros in respect of the 2006 financial year, corresponding to 1.2 euro per share.

1.4.4 Provisions for risks and charges

Provisions came to 3,178 million euros in 2007, down 363 million euros compared with 2006. This is primarily due to a 834 million euros reversal corresponding to the payment of termination benefits (civil servant early retirement plan), partly offset by an addition to provisions for foreign exchange losses of 305 million euros and the booking of a provision of 159 million euros for free share awards to all employees.

1.4.5 Debts

Gross financial debt was 31,861 million euros in 2007, including long and medium-term debts of 30,571 million euros and short-term debts of 1,290 million euros. Cash and cash equivalents and marketable securities stood at 3,418 million euros in 2007, with **financial debt net of cash** of 28,443 million euros in 2007 compared with 31,755 million euros in 2006. Debt was therefore reduced by 3,312 million euros in 2007. Details of the repayment schedule, composition and structure of financial debt are provided in Note 5.2.4 to the company's financial statements.

1.5 ACTIVITIES AND PROFITABILITY

Management indicators are monitored at the level of the France Telecom Group. An overview of the Group's activities and profitability is provided in France Telecom Group Management Report.

2. subsequent events

Details of subsequent events are provided in note 6.5 to the company's financial statements.

3. research and development

Since 2004, the France Telecom Group has devoted increasing efforts to innovation. The Group dedicated 1.7% of its revenues to innovation in 2007, a sum of 894 million euros compared with 856 million euros in 2006 and 716 million euros in 2005. This includes staff costs and other operating and investment expenses relating to research, development and innovation in new products and services. Research and development is managed by the "Orange Labs" network, comprising R&D laboratories, the "Explocentre", which tests out potential innovations with clients, the "Technocentre", which is responsible for industrial aspects of launching new products and services, while also reinforcing

the Group's responsiveness in its markets, and Group Strategic Marketing, which provides all aspects of market knowledge.

At December 31, 2007, the France Telecom Group had over 4,800 employees in R&D, Marketing Stratégique-Technocentre and Technologies-Explocentre, with 4,071 in the R&D division, including 3,661 engineers, scientists and researchers.

Details of the France Telecom Group's research and development activities are provided in France Telecom Group Management Report, section 5.2. "Research and development".

4. employment and environmental information

In addition to the employment and environmental information contained in this section of the management report, France Telecom prepares a Corporate Responsibility and Sustainable Development Report. The 2007 report is due to be published in spring 2008.

4.1 EMPLOYMENT INFORMATION

The information provided in this document relates primarily to France Telecom S.A., its French subsidiaries and, to a lesser extent, its international subsidiaries.

4.1.1 Workforce trends

General changes in the total number of employees

Overall Group changes

➤ NUMBER OF EMPLOYEES (ACTIVE EMPLOYEES AT END OF PERIOD)

SCOPE	2007	2006	2006 (proforma)
France Telecom S.A.	97,355	99,902	100,986
French subsidiaries	8,817	8,986	9,191
Total France	106,172	108,888	110,177
International subsidiaries	81,159	82,148	81,847
TOTAL GROUP	187,331	191,036	192,024

➤ NUMBER OF EMPLOYEES (ACTIVE EMPLOYEES AT END OF PERIOD)

TYPE OF CONTRACT	2007	2006	2006 (proforma)
Permanent	183,051	186,688	187,671
Temporary	4,280	4,348	4,353
TOTAL GROUP	187,331	191,036	192,024

Between 2006 and 2007, the number of employees (active employees at year-end) decreased by 3,705 on an historical basis. This reduction breaks down as follows:

- 2,716 employees in France, mainly as a result of retirements, resignations and transfers to the public sector; people leaving to set up on their own and within the framework of supported personal projects schemes;
- 989 employees in international subsidiaries.

On a comparable basis, the number of permanent employees in France decreased by 4,005 in 2007 (permanent and temporary staff). Within the scope of NEXT commitments (the Group in France excluding new Orange Business Services acquisitions), the number of permanent employees decreased by 4,105 in

2007. On a cumulative basis in 2006 and 2007, the number of permanent employees decreased by 11,991, equal to 75% of the three-year target (reduction of 16,000 permanent staff) within the context of the NEXT plan.

In France, the main aspect concerning changes in the number of employees in 2007 was the high level of definitive departures, primarily retirements (around 1,600) and transfers to the public sector (over 1,000 departures), partly offset by the hiring of new staff from outside the Group (1,464 new staff within the scope of NEXT commitments).

Outside France, changes in the number of employees in 2007 varied in each country and business sector. An increase in the number of employees was observed at mobile and Internet subsidiaries, with a reduction in fixed-line operations.

III - report of the board of directors to the shareholders

EMPLOYMENT AND ENVIRONMENTAL INFORMATION

Employment information

Between December 31, 2006 and December 31, 2007, the number of temporary contracts remained stable overall, down from 4,353 (pro forma) to 4,280 for the France Telecom Group as a whole. The number of temporary contracts in France remained more or less at the same level (1,788 at end-2006 versus 1,794 at

end-2007). Outside France, the number of temporary employees decreased by just 79, falling from 2,565 at end-December 2006 to 2,486 at end-December 2007, with a significant increase in Poland (increase of 261) and falls in Europe and the Middle East (decrease of 316) and the United Kingdom (decrease of 65).

The breakdown of persons employed in France by category of activity was as follows at December 31, 2007:

BREAKDOWN OF FRANCE GROUP* EMPLOYEES BY CATEGORY OF ACTIVITY AT DECEMBER 31, 2007

Sales and customer services	46.7%
Innovation & forecasting	3.2%
Management & support	13.1%
Content & multimedia production	0.5%
Information systems	8.5%
Technical & network	27.7%
Other	0.3%

* including Silicomp

Recruitment policy

➤ NUMBER OF EXTERNAL HIRES UNDER OPEN-ENDED CONTRACTS

ENTITY	2007	2006
France Telecom S.A.	1,288	2,124
French subsidiaries*	628	610
Total France	1,916	2,734
International subsidiaries*	12,733	10,060
TOTAL GROUP	14,649	12,794

* including new Orange Business Services acquisitions (Diwan, Néocles, Silicomp, etc.)

The France Telecom Group continued to exercise close management of its external recruitment in France in 2007. The number of external hires in France in 2007 came to 1,916 or 1,464 for the initial scope of the NEXT plan (excluding new Orange Business Services acquisitions). These hires concern primarily the priority sectors of sales and customer relations, business services, innovation, IT systems development and multimedia.

The number of external hires at France Telecom S.A. in 2007 includes 864 employees hired on a part-time basis in the area of customer relations (stores and telephone customer services). These employees were hired due to the significant number of departures in this category.

External hires at international subsidiaries remained at a high level due to the high turnover in some countries with a very competitive environment and the expansion needs of mobile phone and Internet subsidiaries.

Transfers to the public sector

The policy of transferring civil servants to the public sector continued in 2007, based on five government decrees (published in September and October 2004) facilitating transfers of France Telecom employees to the public sector.

A total of 1,061 transfers were made in 2007, 41% of which concerned management staff and 59% non-management staff.

The following table shows the breakdown of transfers of civil servants to the public sector by destination for the Year ended December 31, 2007.

➤ BREAKDOWN OF TRANSFERS OF CIVIL SERVANTS TO THE PUBLIC SECTOR BY DESTINATION

DESTINATION	2007	2006
State civil service	65%	54%
Regional civil service	29%	38%
Public hospitals	6%	8%

Private employees may also transfer to the public sector; they benefit from the "supported personal projects" scheme.

Around 10,000 job offers are published on our dedicated website every year. In 2007, these offers resulted in nearly 13,500 applications, an increase of 73% compared with 2006, thereby demonstrating our employees' interest in the public sector.

External workforceEXTERNAL STAFF ⁽¹⁾ - FRANCE TELECOM S.A.**INDICATOR**

	2007	2006
Payments made to external companies for providing staff (in million euros)	19.28	43.27
Monthly average number of temporary staff	386*	889*
Monthly average duration of temporary staff contracts	2.10	2.50

* calculated on the basis of temporary employment costs as recorded in FTSA's accounts.

(1) Only temporary staff.

The use of temporary staff enables France Telecom primarily to cope with temporary increases in activity related mainly to launches of new products and services, as well as sales campaigns and promotional offers.

As part of the Group's close management of the use of this resource, the number of temporary staff decreased significantly in France in 2007, down from a monthly average of 889 equivalent employees in 2006 to 386 in 2007, a reduction of 57%.

Management of economic impacts on employment**Main economic impacts on employment**

In 2007, France Telecom continued with its integrated operator strategy and the implementation of the new country organizational structure within the Group as a whole.

In France, this strategy resulted in the acquisition of new subsidiaries to develop new business services (Groupe Silicomp).

The ongoing implementation of the new organizational structure in the various countries in which the Group operates is associated with the rebranding of activities under the Orange brand and contributes to better integration in these countries and further synergies within the Group.

In Poland, the number of TP Group permanent employees decreased by 2,209 in 2007, equal to 7% of employees, as a result of the implementation of the 2007-09 three-year employment agreement signed with employee representatives. In parallel, an internal mobility plan has allowed employees to be redeployed to priority business areas.

In the United Kingdom, the number of permanent employees at Orange UK increased by 287 within the context of the plan to develop and improve the quality of service.

Equant continued with its growth strategy with the acquisition of GTL in India, as well as the expansion of its operations in emerging markets and the launch of new projects in Russia.

In Jordan, the number of permanent employees decreased by 397 as a result of a voluntary redundancy plan. This was accompanied by a skills renewal program through external hires and improved synergies between fixed-line and mobile activities.

In the Netherlands, the main event of 2007 was the deconsolidation of Orange Nederland and Wanadoo Nederland.

Development of the Group's business lines

Within the framework of the NEXT plan, the Group has implemented a program to support operating requirements. This program is based on a forward-looking view of skills requirements for all of the Group's activities.

The introduction of the Group job roles catalog constitutes the foundation of this process. It is used as a common language of all of the France Telecom Group's companies.

The cross-functional "business lines" approach has therefore been extended to all of the Group's activities (sales, customer relations, professional services, IT, network technology, multimedia, strategic marketing, research and development and support). The 23 "business lines" have put forward an updated three-year vision in terms of job and skills requirements both at Group level and for the main countries in which it operates – France, Poland, the United Kingdom and Spain. This approach has allowed:

- the implementation of forward-looking management of jobs and skills;
- a recruitment policy concerning new jobs and levels of expertise;
- the creation of professional training courses;
- a policy of transfers to priority sectors;
- an overhaul of training programs with professional courses in direct relation to new skills requirements, particularly in France.

The vision of development trends for the Group's job categories can now be accessed by all employees on the HR "careers-opportunities" Intranet site, which was launched for France in February 2006 in accordance with the commitments of the ACT program.

Furthermore, the deployment of the "Performance" IT system in France as of January 2007 has allowed the skills of each employee to be assessed. The Group is currently looking into the deployment of this program in other countries and it is being adapted to each country's requirements.

4.1.2 Organization of working hours

Work schedules and yearly working time

➤ BREAKDOWN OF EMPLOYEES BY WORK SCHEDULE – FRANCE TELECOM S.A.

WORK SCHEDULE	Yearly working time	2007 ⁽¹⁾	2006
Basic schedule	1,596 hours	41.6%	42.6%
Customer service hours	Between 1,148.4 and 1,548.0 hours	19.5%	19.7%
Non-business hours and night shift	Between 1,539.4 and 1,580.8 hours	2.7%	3.1%
Flexi-time	1,573.2 hours	0.6%	0.4%
Call center	Between 1,519 and 1,547 hours	0.9%	1.4%
Managers ("cadres exécutifs autonomes")	Fixed amount of 208 days a year	24.1%	21.7%
Local operating managers ⁽²⁾		10.6%	11.1%
TOTAL		100%	100%

(1) Provisional values.

(2) Local operational managers work according to the collective schedule applicable to the department to which they belong or the team they manage.

Between 2006 and 2007, the managers ("cadres exécutifs autonomes") category expanded, rising from 21.7% to 24.1% in connection with changes in France Telecom S.A.'s qualification structure.

Part-time work

➤ NUMBER OF PART-TIME EMPLOYEES – FRANCE TELECOM S.A.

PROPORTION OF WORKING TIME	2007 ⁽¹⁾	2006
Less than 30%	175	215
30% to 49%	1,607	1,891
50% to 59%	688	604
60% to 69%	273	270
70% to 79%	267	276
80% to 89%	7,814	7,922
90% to 99%	1,112	1,076
TOTAL	11,936	12,254

(1) Provisional values.

The number of part-time employees at France Telecom S.A. decreased by 2.6% overall between 2006 and 2007. This is in line with the overall development of FTSA employees, with the proportion of part-time employees in the total workforce remaining stable at 12.3%.

Absenteeism

➤ NUMBER OF DAYS OF EMPLOYEE ABSENCE – FRANCE TELECOM S.A.

REASON	2007 ⁽¹⁾	2006
Sick leave (all reasons)	1,521,935	1,560,280
Work-related and travel accidents	73,003	67,639
Maternity, paternity and adoption leave	140,639	139,769
Family reasons	57,383	62,349
Other reasons ⁽²⁾	7,136	7,842
TOTAL	1,800,096	1,837,880

(1) 2007 values are provisional.

(2) Absences not taken into account in other indicators, excluding annual leave or days taken under the reduction in working hours system ("RTT"), industrial action, unpaid leave and military service.

The total number of days' absence decreased slightly in 2007 compared with 2006. In absolute terms, absences under sick

leave decreased by 2.45% in 2007. This moderate reduction is also seen in absences of less than seven days, down by

7,508 days in 2007 compared with a reduction of 24,613 days in 2006. The same trend was also seen in absences of

more than eight days, at 1,311,871 in 2007 compared with 1,342,708 days in 2006, a difference of 30,837 fewer days.

4.1.3 Remuneration

4.1.3.1 Remuneration policy

France Telecom S.A.

► REMUNERATION – FRANCE TELECOM S.A.

INDICATOR	2007 ⁽¹⁾	2006
Gross average monthly remuneration (in euros)	3,053	2,924
Men	3,218	3,086
Women	2,778	2,662

(1) 2007 values are provisional.

France Telecom Group

Within the France Telecom Group in France, studies by the Internal Remuneration Survey showed consistency in the remuneration policies of all of the Group's companies and remuneration practices in line with those of the market.

In order to develop and anchor a results-based culture, France Telecom rewards its employees for their contribution and performance via a dynamic remuneration policy. In addition to changes in fixed salaries related to improved expertise in their position or a significant change in responsibility, variable pay is awarded for achieving individual and group targets:

- managers, who play a major role in mobilizing their staff, and supervisory staff benefit from half-yearly individual variable remuneration based on achieving the targets of the Group's major programs and their own personal targets;
- in 2007, all employees benefited from an average of at least one month's salary in the form of incentive bonuses awarded at company level and under the Group's profit-sharing agreement in France.

In order to help mobilize staff to achieve the targets of the NEXT Plan, France Telecom's Board of Directors decided at its meeting of April 4, 2007 to implement a new share-based remuneration scheme to reward the efforts of its staff.

At its meeting of April 25, 2007, the Board of Directors determined the conditions for the implementation of the free share award plan for all of its employees in France. These actions will be assigned definitively for employees present as at April 25, 2009 if the company achieves its organic cash flow commitment in 2007 and 2008.

On December 4, 2007, the Board of Directors also voted in favor of the deployment of a free share award plan or equivalent for other countries.

Following the French government's sale of a 5% stake in France Telecom in June 2007, an offer to buy shares under preferential terms was launched reserved for employees, retired employees and former employees of the France Telecom Group. This gave employees the opportunity to be involved in the Group's potential performance and future and to benefit from the value created by the Orange brand. The offer ran from December 13 to 24, 2007. Three choices were available at a preferential purchase price (20.39 euros), with an employer's contribution (up to 4,324.50 euros) and bonus shares (up to a maximum of 30).

4.1.3.2 Incentive and profit-sharing

Incentive

Incentive agreements are signed at the level of each company and there is therefore no Group incentive scheme. At France Telecom S.A., six incentive agreements have been signed since 1992. These concern all of the company's employees.

Under the terms of the agreement signed for 2006 to 2008, France Telecom S.A. incentive payments are based on achievement of the Operating Performance Indicator related to revenue growth, control of operating expenses, optimization of capital expenditure and improvement in the working capital requirement. Incentive payments are also based on the Customer Service Quality Indicator, which can result in an additional payment if it is achieved.

Achieving the 2007 Customer Service Quality Indicator target allows for the payment of an additional sum on top of that for exceeding the 2007 Operating Performance Indicator.

III - report of the board of directors to the shareholders

EMPLOYMENT AND ENVIRONMENTAL INFORMATION

Employment information

The following table shows the amount of incentive bonuses paid over the last two years.

(in million euros)	2007	Year 2006
France Telecom S.A. incentive payments ⁽¹⁾	194	157

(1) Amount corresponding to the provision booked as at December 31.

Employee profit sharing

The Group profit-sharing agreement signed in 1997 with trade union organizations applies to employees of France Telecom S.A. and its majority-owned French subsidiaries. As a corporate officer, the Chairman does not participate in profit sharing.

The Group's special profit-sharing reserve 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 operating income less financial expenses for each company within the scope of consolidation.

The special reserve is distributed to eligible employees, with 20% of the amount based on hours worked and 80% in proportion to their annual gross salary. The amounts attributed to each individual are held in the Group savings plan and are not available for five years.

The following table shows the amount distributed under the Group profit-sharing agreement over the last two years.

(in million euros)	2007	Year 2006
Group special profit-sharing reserve distributed under the terms of the agreement	345 ⁽¹⁾	325

(1) Including provisions of 290 million euros booked into France Telecom S.A.'s accounts as at December 31, 2007.

4.1.3.3 Stock-options

4.1.3.3.1 France Telecom S.A. stock option plans

In accordance with the authorization given by the Annual Shareholders' Meeting of September 1, 2004, the Board of Directors decided on October 26, 2005 to allocate 14.5 million stock-options representing 0.59% of share capital. The exercise price was fixed at 23.46 euros with no discount. The plan concerns senior executives with key responsibilities or expertise for France Telecom. The options were awarded to 3,747 beneficiaries.

On March 8, 2006, the Board of Directors made an additional allocation of 536,930 stock-options representing 0.02% of share capital, subject to the same terms as the plan of October 2005, particularly concerning the exercise price of 23.46 euros. The options were awarded to 165 beneficiaries.

On May 21, 2007, acting on the same authorisation granted by the September 1, 2004 Shareholders' Meeting, the Board of Directors allocated 10,093,300 stock-options (of which 140,000 were granted to Didier Lombard) representing 0.39% of share capital. The exercise price was fixed at 21.61 euros with no discount. The plan concerns senior executives with a key role for France Telecom. The options were awarded to 1,152 beneficiaries.

	October 2005 plan	March 2006 plan	May 2007 plan	Total
FRANCE TELECOM STOCK-OPTION PLANS				
Date of Annual Shareholders' Meeting authorizing the plan	01/09/2004	01/09/2004	01/09/2004	
Date of Board meetings allocating the options	26/10/2005	08/03/2006	21/05/2007	
Total number of options granted	14,516,445	536,930	10,093,300	25,146,675
- options granted to corporate officers	149,140	0	140,000	289,140
- options granted to top 10 employees	645,000	121,350	605,000	1,371,350
First possible exercise date	26/10/2008 ⁽¹⁾	08/03/2009 ⁽¹⁾	21/05/2010	
Expiry date	26/10/2015	08/03/2016	21/05/2017	
Exercise price	€23.46	€23.46	€21.61	
Total number of options exercised as at 31/12/2007	48,140	0	43,500	91,640
Total number of options cancelled as at 31/12/2007	928,510	85,970	376,300	1,390,780
Number of options outstanding as at 31/12/2007	13,539,795	450,960	9,673,500	23,664,255

(1) For non-French residents.

Stock-options exercised in 2007

91,640 options were exercised in 2007. All of them were subject to early exercise by 15 employees or former employees of Orange Nederland NV and Orange Nederland Broadband BV following the sale of these companies. The number of options exercised by the 10 employees who exercised the most options over the year is not relevant as several of the 15 employees who exercised options exercised the same number.

4.1.3.3.2 Stock-option plans granted by certain subsidiaries

Certain France Telecom Group employees have participated in stock-option plans granted by certain listed subsidiaries of

France Telecom, namely Orange S.A., Wanadoo S.A., Mobistar and ECMS (Mobinil). The different stock-option plans granted by subsidiaries of France Telecom are described in Note 27 to the Consolidated Financial Statements.

■ Wanadoo stock-options transferred to France Telecom S.A.

When Wanadoo S.A. merged with France Telecom S.A. on September 1, 2004, this resulted in France Telecom assuming Wanadoo's commitments to holders of Wanadoo stock-options. Those options thus carry the right to purchase France Telecom shares based on the exchange ratio of 7/18 which applied under the combined public offer to buy Wanadoo shares.

	2000 plan	March 2001 plan (UK)	April 2001 plan	November 2001 plans	June 2002 plans	November 2002 plans	2003 plan	TOTAL
STOCK-OPTION PLANS GRANTED BY WANADOO								
Date of Annual 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 Board meeting allocating 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⁾	1,660,966	2,178,705	4,329,916	691,883	3,817,710	435,618	2,107,115	15,221,913
First 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	
Expiry date	18/07/2010	21/03/2011	02/04/2011	26/11/2011	04/06/2012	26/11/2012	26/11/2013	
Exercise price ⁽¹⁾	€48.70	€15.69	€15.38	€15.38	€13.84	€13.84	€16.60	
Total number of options exercised as at 31/12/2007 ⁽¹⁾	0	741,455	2,415,336	336,191	2,050,200	230,726	342,013	6,115,921
Total number of options cancelled as at 31/12/2007 ⁽¹⁾	924,255	1,437,250	513,784	284,223	589,678	93,389	394,254	4,236,833
Total number of options outstanding as at 31/12/2007 ⁽¹⁾	736,711	0	1,400,796	71,469	1,177,832	111,503	1,370,848	4,869,159

(1) After conversion into France Telecom stock-options based on the exchange ratio of 7/18th and adjusted for the number of options and exercise price following the France Telecom capital increase of September 26, 2005.

(2) 10% of stock-options have been eligible for exercise since September 21, 2001, 10% since March 21, 2002, 40% since March 21, 2003 and 40% since March 21, 2004.

(3) 5% of stock-options became eligible for exercise on June 26, 2003, 23% on September 26, 2003, 5% on June 26, 2004, 23% on September 26, 2004 and 44% on November 26, 2004.

(4) 8% of stock-options became eligible for exercise on June 4, 2004 and the remaining 92% on June 4, 2005.

(5) 13.5% of stock-options became eligible for exercise on November 26, 2004 and the remaining 86.5% on November 26, 2005.

III - report of the board of directors to the shareholders

EMPLOYMENT AND ENVIRONMENTAL INFORMATION

Employment information

Stock-options allocated and exercised in 2007

No stock-options were granted in 2007.

In 2007, 1,326,010 options (after conversion on the basis of the exchange ratio) were exercised under plans granted by Wanadoo, including 253,476 options exercised by the 10 employees or former employees who exercised the most options.

As at December 31, 2007, 4,869,159 stock-options were outstanding with a weighted average exercise price of 20.36 euros per option.

■ Orange stock-options covered by a liquidity contract

Following the public buyout offer followed by a squeeze-out of Orange S.A. shares, France Telecom proposed a liquidity contract to holders of Orange stock-options and holders of Orange shares obtained through the exercise of options after the offer. In September 2005, France Telecom issued option-based liquidity instruments (ILO) which allow beneficiaries to receive new France Telecom shares upon the exercise of the options based on an exchange ratio of 0.446 France Telecom share for one Orange share.

	February 2001 plan	Orange UK Sharesave Plan (5 yrs)	Orange UK Sharesave Plan (3 yrs)	October 2001 plan (A)	October 2001 plan (B)	Orange UK Sharesave Plan (3 yrs)	May 2002 plan	Orange UK Sharesave Plan (3 yrs)
STOCK-OPTION PLANS GRANTED BY ORANGE								
Date of Annual 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 Board meeting allocating the options	12/02/2001	21/03/2001	21/03/2001	24/10/2001	24/10/2001	04/12/2001	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
First 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
Expiry date	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 31/12/2007	17,321,727	1,241,986	830,592	181,311	5,658,457	192,831	15,709,010	771,857
Total number of options cancelled as at 31/12/2007	34,292,411	2,795,393	1,525,505	169,725	3,064,028	370,672	3,355,066	577,837
Total number of options outstanding as at 31/12/2007	23,395,309	0	0	954,298	2,374,340	0	5,432,256	0

(1) Of which 0.4 million became eligible for exercise in 2001, 7.2 million in 2002, 7 million in 2003 and 59.6 million since February 12, 2004.

(2) Of which 1.2 million only became eligible for exercise on October 24, 2004.

(3) Of which 1.5 million became eligible for exercise in 2002, 1.5 million in 2003 and 8 million since October 24, 2004.

(4) Of which 4.1 million became eligible for exercise on May 15, 2003, 4.1 million on May 15, 2004 and 15.5 million since May 15, 2005.

	December 2002 plan	Orange UK Sharesave Plan (3 yrs)	Orange Nederland Sharesave Plan (5 yrs)	May 2003 plan (A)	May 2003 plan (B)	Orange UK Sharesave Plan (3 yrs)	TOTAL
STOCK-OPTION PLANS GRANTED BY ORANGE							
Date of Annual 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 Board meeting allocating 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
First possible exercise date	01/05/2003	01/03/2005	01/03/2006	13/05/2004	01/03/2005	01/07/2006	
Expiry date	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 31/12/2007	1,836,989	756,655	127,532	9,632,508	1,700,000	136,127	56,097,582
Total number of options cancelled as at 31/12/2007	543,999	513,099	104,654	1,994,121	0	164,332	49,470,842
Total number of options outstanding as at 31/12/2007	587,252	0	0	7,095,521	0	0	39,838,976

(5) Of which 0.6 million became eligible for exercise on December 20, 2003, 0.6 million on December 20, 2004 and 1.6 million on December 20, 2005.

(6) Of which 3.4 million became eligible for exercise on December 31, 2004, 2.8 million on May 13, 2005 and 12.2 million as of May 13, 2006.

(7) 67,200 options have an expiry date of December 20, 2014.

(8) 423,900 options have an expiry date of December 13, 2015.

Stock-options allocated and exercised in 2007

No stock-options were granted in 2007 in respect of these plans.

In 2007, 14,101,219 Orange options were exercised, including 2,388,932 by the top 10 employees or former employees who exercised the most options.

As at December 31, 2007, 39,838,976 Orange stock-options were outstanding with a weighted average exercise price of 8.94 euros per option. The exercise of these options could give rise to the issuance of a maximum of 17,567,903 France Telecom shares.

4.1.3.4 Free Share Award Plans

France plan

France Telecom has set up a free share award plan covering 10.8 million shares, which represents 0.4% of the share capital. The plan covers approximately 113,000 employees of France Telecom S.A. and most of its majority-owned French subsidiaries.

The free share award plan will not vest until April 25, 2009. Vesting is contingent upon:

- performance conditions: achievement of the cash flow set out in the NEXT plan in 2007 and 2008, and cost of the plan

to be covered by additional cash flow generated over the same period; the cash flow performance condition was met in 2007;

- beneficiaries must be contractually employed by the Group at the end of the vesting period.

The shares awarded may not be sold for a period of two years after the vesting date, i.e. until April 25, 2011.

The date of grant is deemed to be the date on which employees were personally informed of the free share award plan, i.e. June 19, 2007.

International plan

France Telecom granted a free share award plan covering 1.8 million shares, which represents less than 0.1% of France Telecom S.A.'s share capital. The plan covers approximately 45,000 employees and executive officers of the France Telecom Group's non-French companies and other entities.

The vesting conditions are identical to those of the France plan.

No expense was recognized in 2007 as the grant date, which is deemed to be the date on which the beneficiaries are personally informed of the awards, is scheduled for 2008.

4.1.4 Labour relations

Employee representation

In France

PROFESSIONAL RELATIONS – FRANCE TELECOM S.A.

INDICATOR

Number of meetings with employee representatives
Total volume of hourly time credits used

2007 ⁽¹⁾	2006
8,565	8,929
973,512	756,874

(1) 2007 values are provisional.

Following legal action by a trade union organization, in 2007 the central works council ("CCE") was changed into a France Telecom S.A. – Orange S.A. Central Council for Economic and Social Unity ("CCUES"), with subsidiary Orange S.A. joining the committee.

The committee met for 36 full days and dealt with 67 different matters, most of which concerned information and consultation of elected representatives. The issues addressed concerned primarily planned organizational changes and planned agreements or amendments, as well as periodical information and consultations within areas defined by labour law.

This social dialogue resulted in the signature of 17 agreements concerning areas as diverse as the life of Employee Representative Bodies, the implementation of the Economic and Social Unit and issues such as disabled workers, equality in the workplace, group pension plans, salaries and incentive bonuses.

Internationally

Throughout 2007, the France Telecom Group pursued a dynamic labour relations policy with all employee representatives (trade union organizations and elected members of employee forums). In keeping with our commitment, Orange Slovakia elected its employee forum, which met for the first time in the autumn. Social dialogue was continued within the Group's African subsidiaries with local labour organizations.

Social dialogue in Europe

During 2007, constant social dialogue in Europe was maintained with a number of fruitful discussions. The European Works Council met three times in plenary session and two conference calls were organized. In accordance with the commitments made, one of the meetings was held outside France in Bucharest and another meeting was held in Lille in order to allow our European colleagues to learn about a regional division. Each of these meetings provided the opportunity to meet with local employee representative bodies (works council of the Lille division, elected employee forum in Romania). At the March 2007 meeting, the European Works Council formally adopted the amendments made to the 2004 agreement that had been discussed in 2006.

The issues addressed during European Works Council meetings can be divided into three categories:

- information about the France Telecom Group's general strategic options;
- information and/or consultation about cross-border projects or reorganization plans;
- and information about the Group's general activities.

In addition to these meetings, the European Works Council regularly receives information concerning France Telecom Group employees and associated key events.

The Council constitutes a body for information and dialogue about a number of issues, in particular general policy, financial performance, social policy and reorganization plans concerning more than two countries. It also ensures that all Group companies have the same level of information about the Group's corporate strategy.

A total of 18 countries are currently represented within the Council via 30 employee representatives: Sweden, Norway, Finland, Denmark, Germany, Austria, the United Kingdom, Ireland, France, Spain, Portugal, Italy, Greece, Poland, Luxembourg, the Netherlands, Belgium and Slovakia. Nine of these representatives are French and all French trade union organizations are represented.

The development of social dialogue on a European level helps to reinforce the sense of belonging to a multinational and responsible Group. The European Works Council lends a strong pan-European dimension to social dialogue that is fully in keeping with the implementation of the Group's integrated operator strategy.

As part of its policy of developing social dialogue, the Group has also decided to implement a body for collective dialogue in European countries not required to do so by law. This body, called the "Employee Forum", allows for the sharing of opinions and dialogue between management and elected employee representatives. Employee Forums have been set up in the United Kingdom, Switzerland, Ireland, Romania and Slovakia. European countries in which France Telecom has more than 50 employees and where trade union organizations do not have

sole rights over social dialogue – as is the case in Poland and Sweden – will therefore be covered by a body for collective social dialogue.

Social dialogue on an international level

Social dialogue on an international level made further progress in 2007 with the implementation of the agreement signed in 2006 by Didier Lombard, CEO of the France Telecom Group, Gabou Gueye, Chairman of the UNI France Telecom Alliance, and Philip Jennings, General Secretary of Union Network International (UNI), concerning the observation of fundamental rights. The agreement, which follows on from the commitments made at the time of the signature of the Global Compact – a UN initiative aiming to engage businesses in the development of fundamental human rights and protecting the environment – is in keeping with the Group's social responsibility agenda. Regular meetings will be held. It is within this framework that the Group's international social relations director traveled to Cameroon to attend a meeting with West African trade union representatives and present the agreement.

Under the terms of this agreement, France Telecom is committed in particular to:

- respect for fundamental human rights. France Telecom will take particular care to prevent the use of forced labour, prohibit child labour and exploitation, combat discrimination, ensure health and safety in the workplace, respect people's freedom to join a trade union or not and favor collective social dialogue with trade union organizations and/or employee representatives;

- the implementation of dynamic labour policies. In particular, the Group will encourage international mobility, access to training, work time management, the implementation of a fair remuneration policy ensuring equity between men and women, anticipation of restructuring measures via training efforts, social dialogue and internal mobility;

- the application of ethical guidelines in its relations with suppliers and subcontractors. In accordance with the France Telecom Group Code of Ethics and its support for the Global Compact, all employees ensure compliance with the principles of fairness, integrity and objectivity in their relations with suppliers and subcontractors.

To facilitate labour relations, France Telecom and UNI undertake to hold prior discussions before any external communication if certain principles of this agreement appear not to be respected.

This agreement, which applies to all companies controlled by the France Telecom Group, will be monitored regularly by the signatories at half-yearly meetings. Fully aware that this is an important commitment, France Telecom will inform its suppliers and subcontractors that this agreement has been signed.

The second way of developing social dialogue at Group level concerns the implementation of a body for international dialogue. It is with a view to achieving this that discussions have been initiated with employee representatives to set up a body of this kind, which would enable all of the Group's employees all over the world to have a representative within a social dialogue body. Negotiations began in December 2007 and are due to continue throughout 2008.

4.1.5 Health and safety conditions

HEALTH AND SAFETY CONDITIONS – FRANCE TELECOM S.A. & ORANGE FRANCE

INDICATOR	2007 ⁽¹⁾	2006
Frequency of work-related accidents ⁽²⁾	4.1	4.2
Seriousness of work-related accidents ⁽³⁾	0.23	0.23
Number of fatal accidents	4 ⁽⁴⁾	3

(1) 2007 values are provisional.

(2) The frequency of work-related accidents corresponds to the number of work-related accidents with leave per million hours theoretically worked.

(3) The level of seriousness of work-related accidents corresponds to the number of lost days for work-related accidents per million hours theoretically worked.

(4) All traffic accidents (one work-related accident and three commuting accidents).

The deployment of the health and safety at work management system initiated in 2006 continued in France in 2007. The audit program also continued over the year: nearly all units were audited (Orange France, FTSA and national divisions such as SCE, DDSI etc.), with 123 audits representing a total of 735 days. A few major aspects have emerged, in particular the newness of the system, resulting in different level of appropriation. As

regards the results, the action plans implemented at the end of 2007 and in 2008 are centered around three core areas:

- helping units to understand and appropriate the health and safety at work management system;
- risk assessment;
- compliance with regulations.

Main actions in 2007

A number of the actions currently in progress were initiated several years ago. These actions continued in 2007 with added emphasis.

Prevention

Two new training sessions on prevention were introduced in 2007. This training program has been approved by the French telecommunications national employment commission ("CPNE"). Business leadership training for all parties involved in prevention has also been introduced.

Furthermore, within the context of permanent professional development and in connection with the results of audits carried out, training modules have been developed concerning compliance with regulations. Sessions took place in the last quarter of 2007 and are due to continue in 2008.

Risk assessment

A national risk assessment methodology has been devised, presented to all parties involved in prevention and made available to all units.

Risks

The risks identified within the Group's risk assessment policy constitute the basis for work over a number of years. Measures taken in 2007 concerned primarily:

Work at heights

The work started in 2006 on the high access platform continued with the first on-site experiments. We continued to receive the support of INRS, CRAM and expert advisors in this project.

Asbestos

A training module on risks related to asbestos in telecom works has been developed and tested on a unit before being extended to all units in 2008.

Ergonomics at work

The work carried out since the start of the project to the new store concept in 2006 concerning the ergonomics of workstations and their organization depending on the business activity being performed has allowed for these factors to be taken into account as the project progresses. Deployment of the final "NEXT store" concept began in mid-2007 with the opening of more than 50 stores.

Two projects have been implemented centered around the "Customer relations areas development Charter" introduced in 2006 and continued in 2007. The first concerns the choice of headsets used by call centre staff (a study into the choice of equipment has been carried out in partnership with LNE). The second project, in which we have been assisted by consulting firm Peutz, concerns the provision of a noise measurement protocol.

Driving-related risks

With around 25,000 FT vehicles in France, a number of business entities are exposed to motoring risks. Local efforts have been implemented and training provided.

4.1.6 Training

TRAINING - FRANCE TELECOM S.A.

INDICATOR

Percentage of wage bill allocated to training ⁽¹⁾

Continuing training expenses (in million euros)

Number of employees trained

Number of hours training

2007	2006
5.30 %	5.10 %
229.7	214.4
82,045	82,585
2,779,887	2,613,300

(1) 2007 values are provisional.

The "Anticipation and Skills for Transformation" ("ACT") program continued as part of the NEXT plan. In 2007, the number of training hours provided was more than one-third (33.7%) higher than in 2005, with training efforts representing over 5% of the total wage bill.

The rate of access to training and the average duration of training increased further in 2007, with 85% of employees undergoing training (compared with 77% in 2005 and 83% in 2006) and an

average of 28 hours of training per employee (compared with 19.9 hours in 2005 and 26.2 hours in 2006).

As part of the Group's efforts to support priority business areas, more than 2,000 employees took part in one of the 37 professional training programs on offer concerning all business areas and all job levels.

The professionalization of training programs also involved increasing work with business schools and the support of over

1,000 local trainers, trained by the Professional Development Department, providing employees with on-the-ground support.

training, with communications about personal training histories and all training offers now available on "Anoo Formation".

A major effort was initiated to ensure that employees and managers receive as much information as possible about

4.1.7 Employment and integration of people with disabilities

DISABLED EMPLOYEES – FRANCE TELECOM S.A.

INDICATORS

	2007	2006
Number of disabled employees ⁽¹⁾	2,805	2,504
Purchases charged to protected sector (in million euros)	15.6	13.9
Rate of integration ⁽²⁾	3.10%	2.70%

(1) People with disabilities declared under the DOETH system (mandatory yearly declaration for disabled employees).

(2) Rate of integration: calculated in accordance with DOETH methods.

In 2007, France Telecom confirmed its commitment to supporting the integration of people with disabilities in the workplace. This is reflected by its managing to exceed all of the targets of the 2007 agreement, as well as the implementation of qualitative actions targeting employees and people with disabilities who may join the company.

The following results were achieved to the end of 2007:

- the Group exceeded its target of hiring more than 50 people, with 68 permanent staff and four temporary staff hired in sales and marketing, customer relations, IT and network positions. These new hires were made primarily through partnerships with associations and websites, participation in recruitment fairs and advertising inserts in the specialist press;
- more than 1 million euros was allocated to converting work stations for disabled employees (purchasing equipment, IT equipment, training, sign language services etc.), more than double the initial budget;

- more than 500 people (managers, human resources managers, company doctors, nurses, social assistants, employees) took part in "Demystifying Disabilities" awareness days organized by the disability integration office ("Mission Insertion Handicap") in Paris and the surrounding regions;

- nearly one million euros was spent on adapting IT applications to people with visual disabilities (accessibility of Intranet and Internet sites, business applications);

- purchases charged to "protected sector" projects for the disabled exceeded 15.5 million euros in 2007 alone.

A network of disability correspondents positioned in local human resources departments – one per regional department and one per business division – also benefited from increased competence and means of action in 2007.

4.1.8 Social and cultural activities

SOCIAL ACTIVITIES EXPENDITURE (IN MILLION EUROS) – FRANCE TELECOM S.A.

AREA	2007	2006
Sporting and leisure activities	5.3	16.0
Children		16.7
Contingency and solidarity	2.6	9.3
Cultural activities		0.8
Economic action		0.4
Total expenditure by France Telecom S.A. on behalf of works committees in the framework of transitional management (a)	7.9	43.2
Catering	56.0	55.2
Housing	19.4	18.6
Social cohesion	6.2	6.3
Total France Telecom S.A. expenditure for social activities (b)	81.6	80.1
France Telecom S.A. subsidiaries to works committees (c)	88.8	55.7
TOTAL (a+b+c)	178.3	179.0

III - report of the board of directors to the shareholders

EMPLOYMENT AND ENVIRONMENTAL INFORMATION

Employment information

Works committees were set up in the first quarter of 2005.

Pursuant to the agreement of January 13, 2005, between management and all of the trade union organizations represented at France Telecom S.A., concerning the employer contribution to social and cultural activities and transferring their management from France Telecom S.A. to the works committees, the company continued to manage certain social and cultural activities in 2007 prior to their definitive transfer to the works committees as of January 1, 2008.

The employer contribution paid to works committees to finance the taking over of these activities and new actions came to 88.8 million euros.

Catering and social cohesion activities are managed directly by the company on behalf of the works committees.

Total expenditure for France Telecom S.A.'s social activities came to 178.3 million euros.

4.1.9 Outsourcing

› OUTSOURCING - FRANCE TELECOM S.A.

INDICATORS

Amount of outsourcing (in million euros)

Equivalent average number of employees

2007	2006
979	969
8,856*	9,046*

* Calculated on the basis of outsourcing costs recorded in France Telecom S.A.'s company financial statements.

France Telecom S.A.'s outsourcing expenses totaled 979 million euros in 2007. This represents the equivalent of 8,856 employees on average over the year.

France Telecom S.A. uses external staff under service agreements. This concerns in particular network research, engineering and architecture activities and IT design, development and integration activities. To a lesser extent, outsourcing is also used in customer relations for customer telephone support.

In addition to a straightforward contractual arrangement, France Telecom's relationship with its suppliers is structured around an economic, social and environmental performance assessment system, which allows for regular analysis of services provided and planning of any joint corrective measures or ongoing improvement efforts required.

The Group's responsible purchasing policy is based on the QREDIC supplier evaluation process. Since 2004, an Ethics and Environment clause has been included in all of the Group's contracts.

4.1.10 Impact on national employment and regional development

Professional integration

› PROFESSIONAL INTEGRATION - FRANCE TELECOM S.A.

INDICATORS

Number of students on internships

Number of apprenticeship and work-based training contracts

2007 ⁽¹⁾	2006
2,279	1,730
2,113	1,859

(1) Provisional values.

The France Telecom Group signed the Apprenticeship Charter in September 2005 and increased the number of staff on work-based training schemes at France Telecom S.A. by 24%. In 2007, France Telecom S.A. continued with its efforts to support young people in their initial training or in addition to this initial training. At the end of 2007, these efforts concerned 3.5% of active employees (temporary and permanent) compared with 2.9% at the end of 2006. This figure compares favorably with the work-based training quota set by the French government at

2% of the average annual workforce in 2007 for companies with more than 250 employees.

Relationships with education establishments

France Telecom S.A.'s policy in this area is focused on two main aims:

- developing the France Telecom Group's reputation as an employer among students;

- and anticipating its recruitment requirements in terms of required skills for the years ahead.

This policy has been pursued via a number of actions:

- relationships with around 30 higher education establishments, involving in particular participation in careers fairs (present at around 15 fairs) and the payment of a significant proportion of the apprenticeship tax;
- closer relationships with the top five engineering and business schools to present our business activities, our international dimension and the "Telecom Talents" program to these top-ranking schools;
- partnerships with certain schools to develop professional training courses, including the Master's degree in production engineering and open-system infrastructure (IPISO) and the IP vocational degree course.

France Telecom also maintains strong ties with the Groupe des Écoles de Télécommunications (GET), with Group representatives on GET's management and directional bodies and its school bodies. France Telecom is directly involved in the financing of the GET schools comprising an economic interest group: Eurecom and Telecom Lille 1.

Through its involvement in the X, Supelec and GET Foundations (Telecom Foundation), France Telecom supports international expansion and financing bursaries for foreign students, as well as research and other efforts to support the development of these schools.

France Telecom's support also includes teaching in the Group's recognized areas of expertise, through its involvement in designing teaching courses at universities, the joint creation of teaching and research chairs such as the ESSEC "Media & Entertainment" chair, the joint IFACI/ESCP-EAP chair dedicated to "Internal Control and Management of Activities" and the "Innovation and Regulation of Digital Services" Ecole Polytechnique/Télécom Paris joint chair.

France Telecom sponsors two graduating classes, at INT (Management & Telecom) and at Eurecom.

Two major research programs are run jointly by schools including Ecole Normale Supérieure, Ecole Polytechnique, Groupe des Ecoles de Télécommunications (Télécom Paris, ENST Bretagne, Institut National des Télécommunications (INT) etc.) and Supelec.

4.2 ENVIRONMENTAL INFORMATION

4.2.1 General environmental policy

France Telecom's environmental policy is based upon a program of continuous improvement, aiming on the one hand to reduce the impact of its activities, products and services on the natural environment and on the other to contribute to the development of telecommunications solutions which promote sustainable development towards people, local authorities and the industrial, commercial and services world.

This policy is based on the signature in 1996, of the European Telecommunication Network Operators (ETNO) Environmental Charter, extended in 2004 with the signature of the European Telecommunication Network Operators Sustainable Development Charter, as well as France Telecom joining the Global Compact in 2000.

France Telecom is also involved in the work of the Global e-Sustainability Initiative (GeSi), sponsored by the United Nations Environment Program (UNEP), which helps telecommunications operators and manufacturers to further sustainable development in the information and communications technologies sector.

The France Telecom Group's structure is organized by country and region – Spain, France, Poland, the United Kingdom, EME, EMEA, OBS – with correspondents in the areas of energy, commodities, waste and environmental management.

Activities in these countries are managed by Group correspondents in these areas, with the aim of achieving continuous improvement and reducing our impact on the environment.

Employee training and awareness are ensured on several levels by the Group team for the core business line. These programs are rolled out in each country. Communications are provided via an Intranet site, the Group's communications tool. Specific awareness campaigns are organized in each country.

4.2.2 Environmental risk analysis approach

The France Telecom Group believes that its activities as a telecommunications operator do not pose a serious threat to the environment. These activities do not entail any production processes that have a severe impact on rare or non-renewable resources, natural resources (water, air) or biodiversity.

However, the France Telecom Group does use certain equipment, products and substances that may be hazardous to the environment (even slightly) and which are subject to specific regulations. These include classified sites for the protection of the environment ("*Installations Classées pour la Protection de l'Environnement*" or "ICPE") and, for all countries in which

III - report of the board of directors to the shareholders

EMPLOYMENT AND ENVIRONMENTAL INFORMATION

Environmental information

the France Telecom Group operates, waste production and elimination.

In Europe, France Telecom does not require authorization under the IPPC Directive (2001/78) for its activities.

The France Telecom Group conducts ongoing in-depth analysis of these risks, leading to the adoption of action plans and prevention programs.

In 2007, with respect to Legionnaires' disease (legionellosis), no cases of contamination were reported at any of France Telecom S.A.'s 58 cooling towers.

In order to prevent health-related risks (legionellosis) and reduce its water consumption, a major program to replace refrigerating towers with dry cooler systems was implemented in 2006 and 2007 and is set to continue in 2008.

The main risks related to the Group's activities and the assessment and preventive measures adopted by the France Telecom Group for each of these risks are detailed below.

Facilities at risk

► FACILITIES AT RISK – FRANCE TELECOM S.A.

INDICATORS

Number of ICPE facilities subject to declaration or authorization
Number of cooling towers
Number of fuel tanks

2007	2006
(1)	2120 ⁽²⁾
58	80
1,714	1,850

(1) 894 sites (number of facilities not communicated).

(2) The 2,120 facilities stated for 2006 were divided between 904 sites.

Legislation requires operators of classified sites for the protection of the environment ("ICPE") either to obtain authorization from the government or to make a declaration in advance to the authorities. All ICPE sites are subject to a number of applications at *préfecture* level and a maintenance program has been launched.

Use of substances or products presenting risks for the environment

Some facilities use regulated products or substances. These are chlorofluorocarbon or CFC gases or other refrigerants (more specifically HCFCs or HFCs) contained in air conditioning installations.

Programs to eliminate the use of halon and replace it with less environmentally damaging FM 200 or FE 13 fire extinguishing gases or even inert Azote or INERGEN gases in sprinkler systems have been in place since the end of 2003, in accordance with regulations in France.

Strict observation of regulatory requirements and prevention are the rule in this area.

Some of the Group's electrical transformers also contain polychlorinated biphenyls (or PCBs), the gradual elimination of which is continuing and will be completed in 2010, in accordance with legislation in force in France and Europe.

Controls are systematically carried out with suppliers in France, Europe and around the world to ensure that their products comply with the RoHS (Restriction of Hazardous Substances) Directive.

In addition, the new REACH regulation – which becomes effective in 2008 – was addressed in September 2006 in the France Telecom Group's Corporate Responsibility and Sustainable Development questionnaire sent to all suppliers.

Risks related to waste collection and elimination

After a survey resulting in the creation of 12 waste management units at France Telecom S.A., waste management processes have been optimized through:

- the implementation or renegotiation of national framework agreements for waste collection and treatment services on and off France Telecom S.A. sites;
- training and management of local and national correspondents, as well as France Telecom Group correspondents implementing waste management;
- and the integration of waste management into the processes concerned.

Waste management procedures have been defined at Group level and their implementation is coordinated. Sharing of best practices at the main waste management units, in particular the waste from electrical and electronic equipment (WEEE) unit, is ensured at all times.

In 2007, WEEE regulations were consolidated in all European countries. In France, the France Telecom Group belongs to the Eco-Système organization for "household WEEE" and has developed its own system for "business WEEE".

Energy

France Telecom's activities require the use of thermal facilities such as heating facilities and power generators, which emit greenhouse gases, such as carbon dioxide. In France, the census of overall energy consumption (electricity and fuel) carried out in 2002 and 2003 was continued in 2005, 2006 and 2007. Once the steering tools were consolidated, a

savings program was launched. In addition to compliance with regulatory requirements concerning the type of facilities, France Telecom S.A. intends to help limit greenhouse gas production. However, as it does not have any sites eligible for the emissions trading system, for the time being France Telecom S.A. is not directly involved in emission trading programs arising from the application of the Kyoto Protocol in Europe.

ENERGIE – FRANCE TELECOM S.A.

INDICATORS	2007 (estimate)	2006
Energy consumption		
Electricity (in GWh)	1,730	1,724
Carbon dioxide emissions (in tonnes)		
CO ₂ issued by transportation	98,480	112,008
CO ₂ excluding total transportation	⁽¹⁾	159,710
o/w CO ₂ excluding transportation (electricity only)	77,930	75,788

(1) More information, in particular about non-electricity energy consumption (domestic fuel, gas) and associated carbon dioxide emissions, will be provided in the sustainable development report.

Protected sites

Poles and overhead cables have an impact on landscapes. France Telecom S.A. participates in efforts to bury these telephone lines in accordance with applicable legislation at

classified and protected sites in France, in conjunction with the local and national authorities responsible for natural and cultural heritage.

LANDSCAPE PRESERVATION – FRANCE TELECOM S.A.

INDICATORS	2007	2006
Number of poles removed	51,960	46,460
Number of kilometers of cables buried	2,078	2,020

Biodiversity

WILDLIFE PRESERVATION – FRANCE TELECOM S.A.

INDICATORS	2007	2006
Number of metal poles visited (in thousands)	380	450
Number of poles blocked (in thousands)	175	189

Hollow metal poles present a danger for certain species of cave-dwelling birds and animals, which can become trapped. Some of the covers installed on top of these poles over the years have come off, for example during bad weather. In France, France Telecom has resolved to systematically verify that these covers are in place during its telephone pole maintenance visits, which take place over a six-year cycle. This ensures that all metal poles are verified and that covers are replaced if they are missing.

France Telecom has made a commitment to set up a dialogue with bird protection organizations and associations in France at the most decentralized level in order to ensure better coordination of priority areas of intervention concerning its metallic poles.

Agreements were signed in 2006 and 2007 with regional representatives of the *Ligue pour la Protection des Oiseaux*

(the French bird protection league) in the Aquitaine and Lorraine regions and then in Alsace.

Electromagnetic fields

The Group maintains a permanent scientific overview of all research relating to health and electromagnetic waves. In May 2006, the World Health Organization (WHO) published fact sheet No. 304 on base stations and wireless networks concluded that: "Considering the very low exposure levels and research results collected to date, there is no convincing scientific evidence that the weak RF signals from base stations and wireless network cause adverse health effects."

III - report of the board of directors to the shareholders

EMPLOYMENT AND ENVIRONMENTAL INFORMATION

Environmental information

The WHO also recommends that national authorities adopt international standards. It continued its studies in 2007.

Mobile base stations meet the international standards of the International Commission on Non-Ionizing Radiation Protection (ICNIRP), recognized by the WHO and in France by decree 2002-775 of May 3, 2002.

In France, more than 427 field measurements of Orange base stations were taken by independent laboratories in 2007 to check that phone masts comply with regulatory limits. The results of these measurements can be accessed by the public on the Agence Nationale des Fréquences (ANFR) website. They show that the average exposure of people living close to telephone masts is well below accepted limits.

As regards mobile phones, the WHO also states that no danger to health has been established below the thresholds set by international standards (ICNIRP) and scientific research should be pursued. All mobile phones sold in Europe must have a specific absorption rate (SAR) below 2W/kg (for the head and trunk), the limit recommended by ICNIRP. Orange only sells phones with an SAR below this level.

In France, mobile phones are sold with a hands-free kit and a guide to responsible use. In addition, their SAR is displayed in all Orange stores.

4.2.3 Compliance with environmental regulations

Monitoring of compliance with regulations in France has been enhanced in collaboration with Bureau Veritas for all of our local and regional entities.

Overall, in the countries in which the Group operates, all aspects of its regulatory monitoring comply with ISO 14001. In particular, paragraph 4.3.2 entitled "Legal and other requirements" of applicable regulations.

4.2.4 Environmental Management System (EMS)

In order to meet its targets of reducing the risks and the environmental impact of its activities, the France Telecom Group has implemented in each of the countries in which it operates an Environmental Management System pursuant to the ISO 14001 international standard.

In order to facilitate the implementation and assessment of EMS performance, the Group has defined a reference framework and provides help with its implementation.

This reference framework comprises:

- a dedicated and scheduled in different steps methodology for managing such projects;
- Group processes and tools in key areas, such as risk and impact analysis or managing regulatory compliance;

- guides and checklists to support a detailed audit of the EMS and its key components.

In addition, guidelines in line with the project management methodology and essential requirements of ISO 14001 enable country project managers to steer their work effectively and ensure regular reporting to the Group.

The reference framework and EMS key indicators facilitate benchmarking between units and objective performance comparisons.

In 2006 and 2007, in accordance with the reference framework, the main countries in which the Group operates mapped out their significant risks and environmental impacts and took them into account in their environmental management program.

Project managers in several countries have already obtained ISO 14001 certification for some of their activities or sites, such as the mobile operator in Spain, while others such as Belgium are currently presenting their sites and activities to external auditors responsible for certification.

The process for obtaining certification is under way in France, Poland, Spain and the United Kingdom and levels of deployment vary in each country. The use of data has been particularly useful for the Environment section of the Group's Risk Management guides, which were updated continually in 2007.

4.2.5 Specific actions to raise employee awareness

A program to raise employee awareness was initiated in June 2007 by the departments in charge of corporate responsibility and sustainable development and the internal communications department. The goal was to highlight our corporate responsibility approach and underscore the Group's commitment through a two-tier competition:

- a local competition in which employees in each of the 16 participating countries nominated the project that best symbolized corporate responsibility for each of five categories (clients, employees, environment, suppliers and company);
- a Group-wide competition, to determine the 2007 Group prize-winners from projects chosen locally.

4.2.6 Provisions for environmental risks

The valuation of the obligation to restore or dismantle sites is calculated on the basis of:

- dismantling costs (on a per-unit basis for telephone poles, terminals and public phones, per site for mobile phone masts) incurred by France Telecom to meet its environmental commitments;
- annual scheduled asset returns for telephone poles and public telephones;

- estimated site closures for mobile phone masts.

These dismantling costs are calculated on the basis of the identified costs for the current financial year, extrapolated for future years using the best estimate of future trends in prices, inflation etc. and are discounted at a risk-free rate. Forecasts of estimated site closures or asset returns are revised in light of future changes in regulations or technological requirements.

At December 31, 2007, the provision booked for dismantling and restoring sites mainly covered costs related to:

- restoring mobile phone mast sites: 215 million euros;
- dismantling telephone poles: 156 million euros (including 122 million euros related to France Telecom S.A.);
- management of waste electrical and electronic equipment: 65 million euros (including 36 million euros related to France Telecom S.A.);
- dismantling public phones: 62 million euros (including 52 million euros related to France Telecom S.A.).

4.2.7 Action plan

The deployment of the environmental policy in all areas of the France Telecom Group is based on a route map that is updated every year, formally setting out priority environmental actions.

The main actions concern:

- reducing our clients' indirect energy consumption through the products we sell them;
- controlling our energy consumption at our work premises and in the choice and use of our business vehicles;
- enhancing the contribution of information and communications technologies to sustainable development;
- reducing our visual impact on the environment;
- reducing consumption of other resources, particularly paper;
- reducing indirect production of waste at our clients sites, in our business activities and in our behavior;
- managing all activities in accordance with EMS principles.

5. outlook

France Telecom's outlook is defined at Group level. Details are provided in the Group Management Report, Section 1, "Overview".

6. changes in accounting methods

The financial statements of France Telecom S.A. have been prepared in accordance with accounting principles generally accepted in France and according to the arrangements of the General Accounting Plan (*Plan Comptable Général*).

Details of the accounting policies used by France Telecom S.A. are provided in Note 2 to the company's financial statements.

7. information about subsidiaries and equity interests

7.1 TABLE OF SUBSIDIARIES AND EQUITY INTERESTS

COMPANY DATA (in millions of euros)	Share capital	Other shareholders' equity*	Percentage interest	Book value of shares held at December 31, 2007		2007 revenue	2007 earnings	Dividends received in 2007	Receivables related to subsidiaries
				Cost	Net				
Subsidiaries (over 50% owned)									
Atlas Services Belgium	9,910	(1,481)	100.00%	20,671	7,480	1	167		
Equant BV		(888)	100.00%	1,300	67	2,061	(560)		573
EGT	3	(2)	100.00%	53	0	22	(2)		
FT Immo H	255	9	100.00%	255	255	69	23		
Nordnet		22	100.00%	90	90	56	17	10	
Orange S.A.	4,871	35,050	100.00%	62,904	60,945	80	3,038	389	
Orange Participations	184	(82)	100.00%	184	144	N/A	(50)		
Rimcom	140	40	100.00%	310	221	N/A	42	13	
FCR	763	128	100.00%	762	762	19	90	86	
FTCD	39	39	100.00%	64	64	N/A	0	5	
FTMI	22	119	100.00%	679	385	N/A	48	100	
FTP Us	312	(266)	100.00%	437	41	N/A	(17)		
GlobeCast Holding	7	(29)	100.00%	125	26	N/A	(6)		
Silicomp	1	21	96.06%	101	101	8	(1)		
Other				176	138			11	
Total subsidiaries				88,111	70,719			614	573
Minority interests (between 10% and 50% owned)									
TPSA	1,169	3,131	48.58%	6,335	5,485	2,871	294	247	278
Bull	10		10.07%	445	38				
Other				12	1				
Total minority interests				6,792	5,524			247	278
Other equity interests									
Other				4	3				
Total other equity interests				4	3				
TOTAL SUBSIDIARIES AND MINORITY INTERESTS				94,907	76,246			862	851

* Including net income at December 31, 2007.

The following significant transactions occurred in 2007:

- France Telecom S.A. acquired shares in the Groupe Silicomp, a company listed on Eurolist by Euronext, for a total of 101 million euros. At December 31, 2007, France Telecom S.A. held a 96.1% stake in the company;
- France Telecom S.A. acquired 100 % of shares in Orange International SAS for 1.6 million euros in November 2007;
- France Telecom S.A. acquired 50 % of shares in Orange BNP Parisbas Services for 15 million euros in December 2007.

7.2 ACTIVITIES OF THE MAIN SUBSIDIARIES OF THE FRANCE TELECOM GROUP

In accordance with the structure of the Group's activities, 2007 revenues for France Telecom's main subsidiaries are summarized below.

7.2.1 Mobile activities

At December 31, 2007, the main subsidiaries of the France Telecom Group in the mobile sector were grouped together in the "Personal Communication Services" division, which generated revenues of 29,119 million euros in 2007 (under IFRS).

The Group's main subsidiaries are in France, the United Kingdom, Spain and Poland.

7.2.2 Fixed line and Internet activities

The France Telecom Group's main subsidiaries in the fixed line and Internet sector ("Home Communication Services") are TP S.A., Poland's incumbent operator and its non-mobile subsidiaries.

At December 31, 2007, France Telecom owned 48.58% of TP S.A.

In 2007, TP S.A. and its fixed line and Internet subsidiaries generated revenues of 2,886 million euros (under IFRS).

8. information about the shareholding structure and the share price

8.1 FRANCE TELECOM'S SHAREHOLDING STRUCTURE

➤ SHAREHOLDING STRUCTURE AS AT DECEMBER 31, 2007

	Number of shares	%	Number of voting rights	%
French government	473,938,144	18.13%	473,938,144	18.20%
ERAP	240,823,564	9.21%	240,823,564	9.25%
Total French government + ERAP	714,761,708	27.34%	714,761,708	27.45%
Public	1,812,628,901	69.33%	1,812,628,901	69.61%
Employees ⁽¹⁾	76,429,418	2.93%	76,429,418	2.94%
Treasury stock	10,528,884	0.40%	0	0%
TOTAL	2,614,348,911	100.00%	2,603,820,027	100.00%

(1) Includes only shares held directly by employees or former employees in registered form or in the Group savings plan, as well as shares purchased under offerings by the French government reserved for employees and former employees and entitling holders to free share awards in January 2008. Shares purchased under the offering by the French government of December 2007 are not included as these shares were not delivered until January 29, 2008.

Treasury shares

The Ordinary and Extraordinary Shareholders' Meeting of April 21, 2006 authorized a share buyback program for up to 10% of France Telecom's capital, valid until October 21, 2007. On May 21, 2007, it renewed this authorization until

November 20, 2008. A description of France Telecom's share buyback program was published on May 21, 2007.

III - report of the board of directors to the shareholders

INFORMATION ABOUT THE SHAREHOLDING STRUCTURE AND THE SHARE PRICE

France Telecom's share price performance

In May 2007, France Telecom also entered into a liquidity contract for its ordinary shares with a financial institution. Funding in the amount of 100 million euros has been allocated for purposes of implementing the contract.

► SUMMARY OF PURCHASES AND SALES OF TREASURY SHARES IN 2007

PURPOSE	Number of shares bought	Weighted average gross price (€)	Number of shares sold	Weighted average gross price (€)	Number of shares held as at December 31, 2007
Coverage of commitments ⁽¹⁾	9,113,884	19.76	0	N/A	9,113,884
Liquidity contract ⁽²⁾	10,894,896	23.59	9,479,896	23.63	1,415,000
TOTAL					10,528,884

(1) Coverage of commitments relating to debt instruments giving access to share capital or stock option programs or any other form of allocation of shares to employees.

(2) Does not include transactions carried out in December 2007 for which shares were delivered in January 2008. Taking these transactions into account, France Telecom held 1,399,992 treasury shares within the context of the liquidity contract.

The 10,528,884 treasury shares held by the company as at December 31, 2007, are recognized as marketable securities.

8.2 FRANCE TELECOM'S SHARE PRICE PERFORMANCE

France Telecom shares have been listed since October 1997 on the Eurolist market (formerly the *Premier Marché*) of Euronext Paris (ISIN code: FR 0000133308) and on the New York Stock Exchange in the form of American Depositary Shares (ADS) (Code 35177Q10).

The following table shows France Telecom's monthly historical share price performance (unadjusted for payment of dividends) and trading volume on the Eurolist market of Euronext Paris in 2007.

	Historical share price (in euros)			Trading volume (daily average)
	Monthly average share price	High	Low	No. of shares
January 2007	21.69	22.29	20.95	10,581,009
February 2007	21.28	21.55	20.53	10,352,227
March 2007	19.69	20.17	18.94	13,332,152
April 2007	20.81	21.63	20.14	11,342,037
May 2007	22.10	22.83	21.52	11,710,330
June 2007	21.42	23.42	20.40	16,282,220
July 2007	20.20	20.67	19.40	13,016,245
August 2007	20.99	20.14	19.66	17,174,741
September 2007	22.52	23.49	21.81	11,657,885
October 2007	24.01	25.80	22.75	14,247,059
November 2007	25.68	26.78	24.81	12,597,686
December 2007	24.88	26.22	24.39	9,934,898

Source: Bloomberg.

■ Highest and lowest prices in 2007 (historical): 18.94 euros – 26.78 euros;

■ Historical closing share price performance from December 31, 2006 to December 31, 2007: +17.5%;

■ Closing share price performance adjusted for dividends from December 31, 2006 to December 2007: +24.1%;

■ Stoxx Telecom index performance from December 31, 2006 to December 31, 2007: +14.6%.

9. information about directors and corporate officers

9.1 COMPENSATION OF DIRECTORS AND CORPORATE OFFICERS

9.1.1 Compensation paid to the Chairman and Chief Executive Officer

➤ GROSS AMOUNTS EXCLUDING EMPLOYER'S SOCIAL SECURITY CONTRIBUTIONS AND BENEFITS PAID IN RESPECT OF 2007 AND 2006

(in euros)

	2007	2006
Fixed	900,000	900,000
Variable ⁽¹⁾	598,500	464,738
Incentive and employee profit-sharing ⁽²⁾	0	0
Exceptional	0	0
Benefits in kind	3,885	3,382
Attendance fees ⁽³⁾	0	0
TOTAL	1,502,385	1,368,120

(1) Including the portion relating to the second half of the relevant year, which is paid in the following year.

(2) As a corporate officer, the Chairman does not receive any incentive or employee profit-sharing.

(3) The Chairman has waived his right to receive attendance fees.

Compensation paid to the Chairman and Chief Executive Officer is set by the Board of Directors on the basis of a proposal from the Compensation, Nominating and Governance Committee.

Bonus

Every six months, the Compensation, Nominating and Governance Committee examines and proposes to the Board of Directors the parameters for calculating the variable amount of the compensation (bonus) of the Chairman and Chief Executive Officer for the following six-month period and proposes the amount of the bonus for the past six-month period based directly on France Telecom's financial results.

In 2007, Didier Lombard was eligible for a bonus whose target rate is 50% of his base compensation. In the event that these objectives are exceeded, this bonus may reach a maximum of 66.6% of the base salary. The semi-annual variable portion of the Chairman and CEO was based on an overall financial objective calculated on the scope of France Telecom Group and consisting of the weighted average growth rate on a comparable basis of the revenues and the Organic Cash flow indicator.

Pension plan

Didier Lombard is not a beneficiary of any specific pension arrangements. He is covered by the France Telecom

supplemental retirement system and shall continue to benefit for the rest of his term of office from the supplemental pension system created for employees classified as "off-grid", in view of his being placed off-grid before the age of 55. This pension will be paid to him at the liquidation of his other pension plans provided that he is still at that time with the Company. The end-of-career salary used to calculate the supplemental pension is equal to the best annual average of the gross compensation for 36 months "off-grid" or as a corporate officer.

Other benefits

The benefits in kind received by Didier Lombard consist of a company car, a telephone line package and assistance from private firms providing personal legal assistance related to his position, up to a maximum of 100 hours of advice annually.

In the event his duties with the company are terminated by decision of the Board of Directors, and should such decision also involve the premature termination of his employment contract (which was suspended upon his appointment as a corporate officer), he would receive a payment equivalent to 21 months of his latest total annual compensation (including the contractual severance package), after a decision by the Board of Directors.

III - report of the board of directors to the shareholders

INFORMATION ABOUT CORPORATE OFFICERS

Compensation of corporate officers

Didier Lombard also participated in the share purchase offer reserved for employees in December 2007 (see section 4.1.3).

Stock-options

Didier Lombard was allocated 140,000 stock-options by the Board of Directors at its meeting of May 21, 2007, within the framework of the "May 2007" stock-option plan (see Section 4.1.3). The Board of Directors decided that all shares issued in the event of these options being exercised will be kept as registered shares by Didier Lombard for the rest of his term of office.

Free share award plan

No shares were allocated to Didier Lombard within the framework of the free share award plan approved by the Board of Directors on April 25, 2007 (see section 4.1.3.).

9.1.2 Attendance fees paid to directors

(in euros)	In respect of 2007	In respect of 2006
Didier Lombard	0	0
Hélène Adam ⁽¹⁾	34,000	31,500
René Bernardi	46,000	43,500
Bruno Bezar ^{(2) (3)}	27,111	na
Bernard Dufau	58,000	56,500
Jean Michel Gaveau ⁽¹⁾	34,000	30,000
Claudie Haigneré ⁽⁴⁾	14,111	na
Arnaud Lagardère	11,000	17,000
Jacques de Larosière ⁽²⁾	36,000	44,500
Henri Martre	34,000	32,000
Marcel Roulet	53,000	46,500
Henri Serres ⁽²⁾	37,000	37,000
Jean Simonin	40,000	38,500
Stéphane Tierce	38,000	31,500
Former directors		
Jean-Pierre Jouyet ^{(2) (5)}	12,806	16,500
Stéphane Richard ⁽⁶⁾	19,944	32,000
Pierre-Mathieu Duhamel ⁽⁷⁾	na	5,500
Denis Samuel-Lajeunesse ⁽⁸⁾	na	27,000
TOTAL	494,972	489,500

na: not applicable.

(1) Attendance fees paid to these directors representing employees were paid to their trade union organization on their request.

(2) Attendance fees paid to directors representing the French government are paid to the Treasury Department.

(3) Appointed on March 9, 2007.

(4) Appointed on May 21, 2007.

(5) Stood down on May 18, 2007.

(6) Stood down on May 23, 2007.

(7) Stood down on April 19, 2006.

(8) Stood down on August 31, 2006.

The Shareholders' Meeting of April 22, 2005, set the maximum amount of attendance fees payable to directors at 500,000 euros a year. In accordance with this decision, the Board of Directors decided on February 5, 2008, after consultation with the Compensation, Nominating and Governance Committee, to allocate 494,972 euros to all Members of the Board of Directors in respect of 2007. These attendance fees were paid in February 2008.

Pursuant to the rules concerning the distribution of attendance fees confirmed by the Board of Directors on February 5, 2008,

directors received a fixed amount of 10,000 euros a year and a variable amount based on their attendance at Board and committee meetings and the functions they serve within these committees.

With the exception of directors representing employees and employee shareholders who receive compensation as employees of the Company, and of the Chairman and Chief Executive Officer, directors did not receive any compensation or benefits other than attendance fees in 2007, nor do they benefit from any pension commitments from France Telecom.

9.1.3 Other compensation paid to employee directors

➤ GROSS AMOUNTS EXCLUDING EMPLOYER'S SOCIAL SECURITY CONTRIBUTIONS AND BENEFITS PAID IN RESPECT OF 2007 AND 2006

	Hélène Adam		René Bernardi		Jean Michel Gaveau		Stéphane Tierce	
(in euros)	2007	2006	2007	2006	2007	2006	2007	2006
Fixed	29,949	29,788	50,936	42,656	29,127	26,536	65,515	65,577
Variable ⁽¹⁾⁽²⁾	0	0	2,913	4,387	691	779	7,076	12,655
Incentive, employee profit-sharing and employer's contribution ⁽¹⁾⁽³⁾	-	3,970	-	5,631	-	3,138	-	8,583
Exceptional	2,696	744	19 871	8,442	0	27	73	0
Benefits in kind	232	232	349	349	232	232	0	0

(1) See Section 4.1.3 for calculation criteria.

(2) The variable amount for the second half of the 2007 fiscal year, which will be paid in 2008, was not known at the date of this document. As a result, the 2007 variable amount consists only of the variable for the first half of 2007. On the other hand, the 2006 amount is the amount paid in respect of the full 2006 year.

(3) Figures for incentive, profit sharing and employer's contribution in 2007 were not known at the date of the document. The 2006 amount is the amount paid in respect of 2006.

Stock-options

With the exception of the Chairman and Chief Executive Officer, directors did not receive any stock-options in 2007.

At January 31, 2008, Stéphane Tierce, a director representing employee shareholders, held 1,140 stock-options granted by the Board of Directors on October 26, 2005 (see Section 4.1.3).

Free share award plan

Within the framework of the free share award plan approved by the Board of Directors on April 25, 2007 (see Section 4.1.3), employee directors will be allocated the following on April 25, 2009, subject to the performance conditions of the plan:

Hélène Adam:	80 shares
René Bernardi:	120 shares
Jean Michel Gaveau:	120 shares
Stéphane Tierce:	200 shares

9.2 DIRECTORS TRANSACTIONS ON COMPANY'S SHARES

During 2007, Stéphane Tierce, an employee director, gave notice to the french *Autorité des Marchés Financiers* of two transactions for the sale of France Telecom shares for 9,424 shares in March, 2007, and for 4,100 shares in December, 2007.

9.3 DIRECTORSHIPS AND OFFICES HELD BY DIRECTORS AND CORPORATE OFFICERS IN 2007

	Directorships and offices within the France Telecom Group	Directorships and offices outside the France Telecom Group	Directorships and offices expiring in the last five years
Directors elected by the Shareholders' Meeting			
Didier Lombard	Chairman and Chief Executive Officer of France Telecom Chairman of the Board of Directors of Orange SA (until May 21, 2007) Chairman of the Strategy Committee	Director of: ■ Thomson ■ Thalès ■ Member of the Supervisory Board of: ■ STMicroelectronics NV ■ Radiall ■ Agence de l'Innovation Industrielle (until December 31, 2007)	None
Marcel Roulet	Director of France Telecom Chairman of the Compensation, Nominating and Governance Committee	Business consultant Director of: ■ Thomson ■ Thalès (permanent representative of TSA) ■ HSBC France (formerly CCF) ■ Chairman of the Supervisory Board of GIMAR Finance SCA ■ Member of the Supervisory Board of Eurazeo ■ Non-voting Director of Cap Gemini	Observer on the Board of Directors of the PagesJaunes Groupe
Bernard Dufau	Director of France Telecom Chairman of the Audit Committee	Director of: ■ Dassault Systèmes ■ KESA Electricals	Director of Team Partners Group
Claudie Haigneré (as of May 21, 2007)	Director of France Telecom Member of the Strategy Committee	Director of Cité des Sciences et de l'Industrie	None

III - report of the board of directors to the shareholders

INFORMATION ABOUT CORPORATE OFFICERS

Directorships and offices held at all companies by corporate officers in 2007

	Directorships and offices within the France Telecom Group	Directorships and offices outside the France Telecom Group	Directorships and offices expiring in the last five years
Directors elected by the Shareholders' Meeting			
Arnaud Lagardère	Director of France Telecom Member of the Compensation, Nominating and Governance Committee	General partner of Lagardère SCA Director of: ■ Lagardère Ressources (SAS) ■ Hachette Livre (SA) ■ Hachette Distribution Services (SA) ■ LVMH – Moët Hennessy Louis Vuitton (SA) Chairman and Chief Executive Officer of Hachette SA (Lagardère Media) Chairman of: ■ Lagardère (SAS) ■ Lagardère Active (SAS) and its subsidiaries ■ Lagardère Active Broadband (SAS) ■ Lagardère Capital et Management (SAS) ■ Hachette Filipacchi Medias (SAS) Deputy Chairman of Lagardère Active Broadcast (SA Monégasque) Chairman and Chief Executive Officer of Arjil Commanditée- Arco (SA) Member of the Supervisory Board of: ■ Lagardère Sports (SAS) ■ Virgin Stores (SA) ■ Le Monde ■ DaimlerChrysler AG ■ Chairman of the Board of: ■ Société European Aeronautic Defence and Space Company – EADS NV ■ Lagardère Active North America, Inc ■ EADS Participations BV Director of Lagardère Management, Inc Permanent representative of Lagardère Active Publicité on the Board of Directors of Lagardère Active Radio International	Director of LCM Expression (SA) Director of Multithématiques (SA) Joint manager of I.S.-9 Manager of Lagardère Active Publicité (SNC) Director of Société d'Agences et de Diffusion (SA) Manager of Nouvelles Messagerie de la Presse Parisienne – N.M.P.P. (SARL) Director of Canalsatellite (SA) Director of Lagardère –Sociétés (SAS) Director of Editions P. Amaury (SA) Chairman of Lagardère Images (SAS) Chairman and Chief Executive Officer of Lagardère Thématiques (SA) Manager of Lagardère ELEVAGE Vice-Chairman of the Supervisory Board of the Compagnie (SCA) Director of Fimalac (SA) Chairman of Lagardère Active (SAS) Director of Hachette Filipacchi Medias (SA) Permanent representative of Hachette SA on the Management Board of SEDI TV-TEVA (SNC) Deputy Chairman of Lagardère Active Broadcast (SA Monégasque)

III - report of the board of directors to the shareholders

INFORMATION ABOUT CORPORATE OFFICERS

Directorships and offices held at all companies by corporate officers in 2007

	Directorships and offices within the France Telecom Group	Directorships and offices outside the France Telecom Group	Directorships and offices expiring in the last five years
Directors elected by the Shareholders' Meeting			
Henri Martre	Director of France Telecom Member of the Strategy Committee (Vice-Chairman)	Director of: ■ Renault SA ■ SOGEPA ■ ON-X Chairman of the Supervisory Board of ESL Vice-Chairman of the Supervisory Board of KLM Member of the Board of Directors of SOFRADIR Member of: ■ Conseil Supérieur de l'Aviation Marchande ■ Board of CEPII ■ Consultative Committee of Banque de France ■ Conseil de l'Agence Française pour les Investissements Internationaux Manager of SOCOGIT (SARL)	Member of the Consultative Board of Ernst & Young
Jean Simonin	Director of France Telecom Member of the Compensation, Nominating and Governance Committee	None	None
Director elected by the Shareholders' Meeting upon proposal by employee shareholders			
Stéphane Tierce	Director of France Telecom Member of the Strategy Committee	Director of AFTAS	None
Directors representing the French government appointed by decree			
Bruno Bezard (as of March 9, 2007)	Director of France Telecom Member of the Audit Committee	Director representing the French government of: ■ Areva ■ EDF ■ La Poste ■ Air France – KLM ■ Thalès	Director of Renault
Jacques de Larosière	Director of France Telecom Member of the Audit Committee	Member of the Consultative Committee of AIG Chairman of the Strategy Board of EMP Chairman of the Observatoire de l'Epargne Européenne (trustee) (voluntary) Joint Chairman of Eurofi (voluntary)	Chairman (voluntary) of: ■ The Per Jacobsson Foundation ■ Reuters Founders Share Company Limited ■ BNP Paribas Hungaria Director of Power Corporation

	Directorships and offices within the France Telecom Group	Directorships and offices outside the France Telecom Group	Directorships and offices expiring in the last five years
Directors representing the French government appointed by decree			
Henri Serres	Director of France Telecom Member of the Compensation, Nominating and Governance Committee	Managing Director of Information Systems and Communications – French Ministry of Defense Government representative on the Board of Directors of: ■ Imprimerie Nationale (national printing office) ■ TSA	Central 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) Vice-Chairman of the General Council for Information Technologies, French Ministry of Finance Chairman of the Board of Directors of Groupe des Ecoles des Télécommunications Government representative on the Board of Directors of La Poste Group
Directors elected by employees			
Hélène Adam	Director of France Telecom Member of the Strategy Committee	None	None
René Bernardi	Director of France Telecom Member of the Audit Committee	None	None
Jean-Michel Gaveau	Director of France Telecom Member of the Strategy Committee	None	None
Former directors (directorships at the date they ceased to be directors of France Telecom)			
Stéphane Richard <i>Date ceased to be Director: May 23, 2007</i>	Director of France Telecom Member of the Audit Committee	Chief Executive Officer of Veolia Transport Deputy Chief Executive Officer of Veolia Environnement Member of the Supervisory Board of LBO France Director of: ■ NEXITY ■ UGC SA	Chairman of the Board of NEXITY Member of the Management Board of Vivendi Environnement Director of APRR
Jean-Pierre Jouyet <i>Date ceased to be Director: May 18, 2007</i>	Director of France Telecom Member of the Strategy Committee	Vice-Chairman of the Board of Directors of Institut Pasteur Director of Fondation Nationale des Sciences Politiques (not- for-profit foundation) Member of the office of the Board of Directors of the "Le Siècle" Association	Director of: ■ Crédit Lyonnais ■ France Télévisions ■ Air France Member of the Supervisory Board of Caisse des Dépôts et Consignations Member of the Board of Politique Monétaire

10. prior years' results

	2007	2006	2005	2004	2003
1. Share capital at year-end					
Share capital (in euros)	10,457,395,644	10,426,692,520	10,412,239,188	9,869,333,704	9,609,267,312
Number of ordinary shares outstanding	2,614,348,911	2,606,673,130	2,603,059,797	2,467,333,426	2,402,316,828
2. Operations and results for the year (in million euros)					
Revenues before tax	22,108	21,171	20,147	20,479	20,056
Income before tax, employee profit-sharing, depreciation, amortization and impairment	5,451	10,389	4,511	1,755	(13,077)
Income tax	(1,517)	(1,104)	(1,529)	(1,110)	(1)
Employee shareholding	290	264	249	154	13
Income after tax, employee profit-sharing, depreciation, amortization and impairment	7,331	4,404	5,511	6,619	(3,116)
Distributed income (including treasury shares)	(1)	3,117	2,602	1,184	617
3. Earnings per share (in euros)					
Income after tax and employee profit-sharing but before depreciation, amortization and impairment	2.55	4.31	2.22	1.10	(5.45)
Income after tax, employee profit-sharing, depreciation, amortization and impairment	2.80	1.69	2.12	2.68	(1.30)
Dividend per share (in euros)	(1)	1.20	1.00	0.48	0.25
4. Employees					
Average number of employees during the year (full-time equivalent)	95,857	100,601	102,234	106,875	111,038
Total wage bill for the year (in million euros)	4,325	4,396	4,225	4,184	4,140
Employee benefits paid (social security, company welfare schemes etc.)	2,350	2,278	2,167	2,098	2,053

(1) Submitted to the decision of the Annual Shareholders' Meeting on May 27, 2008.

11. allocation of income

The Board of Directors proposes to the Annual Shareholders' Meeting:

- to decide, out of income for the year of 7,330,505,340.29 euros, to allocate 3,070,312.40 euros to the legal reserve, bringing the total amount of the reserve to 1,045,739,564.40 euros;
- to note that distributable income for the year, after allocation to the legal reserve of 3,070,312.40 euros and taking account of retained earnings of 8,512,649,858.16 euros, comes to 15,840,084,886.05 euros; and
- to decide to pay shareholders a dividend of 1.30 euro per share and to allocate remaining distributable income to retained earnings.

The dividend will be paid on June 3, 2008.

The Annual Shareholders' Meeting shall grant full powers to the Board of Directors to determine the total dividend amount, on the basis of the number of shares held by the Company on the date the dividend is paid, it being noted that shares held by the Company on the date the dividend is paid will not give it the right to the payment of dividends, and consequently the amount of distributable income to be allocated to retained earnings.

The entire dividend is eligible for the 40% tax allowance mentioned in Article 158 of the French General Tax Code, benefiting individuals resident in France for tax purposes.

Dividends paid in respect of the last three years are as follows:

Year	Number of shares	Dividend per share	Share of dividend eligible for tax allowance
2004 ⁽¹⁾	2,467,276,676	€0.48	100%
2005 ⁽²⁾	2,603,059,797	€1.00	100%
2006 ⁽²⁾	2,597,251,003 ⁽³⁾	€1.20	100%

(1) Tax reduction of 50% in accordance with the French General Tax Code (concerning only 2004).

(2) Tax allowance of 40% in accordance with the French General Tax Code.

(3) Excluding treasury stock.

12. resolutions

The draft resolutions to be submitted to the May 27, 2008 Shareholders' Meeting are presented in a separate form.

appendix to the board of directors' Report

1. SUMMARY OF DELEGATIONS AND AUTHORIZATIONS GRANTED BY THE ANNUAL SHAREHOLDERS' MEETING TO THE BOARD OF DIRECTORS – 2007

In accordance with Article L. 225-100 of the French Commercial Code, it is the responsibility of the Board of Directors to attach to the report presented to the Annual Shareholders' Meeting the table summarizing valid delegations granted by the Annual Shareholders' Meeting to the Board of Directors concerning capital increases and showing how these delegations have been used over the year. With the exception of the share buyback

program, which is covered by a special report, in accordance with Article L. 225-209, Paragraph 2 of the French Commercial Code, the following table shows, in addition to delegations granted in respect of capital increases, all authorizations granted to the Board of Directors by the Annual Shareholders' Meeting in 2007.

DELEGATIONS GRANTED BY THE ANNUAL SHAREHOLDERS' MEETING	Date of the Annual Shareholders' Meeting granting delegation	Duration of delegation and expiry date	Total amount of delegation (in euros)	Use of delegation over the year	Balance
Delegation of authority to the Board of Directors to issue ordinary shares in the Company and marketable securities giving access to ordinary shares in France Telecom or one of its subsidiaries, maintaining shareholders' preferential subscription rights. (8 th resolution)	May 21, 2007	26 months July 20, 2009	4 billion ⁽²⁾	—	€4 billion
Delegation of authority to the Board of Directors to issue ordinary shares in the Company and marketable securities giving access to ordinary shares in France Telecom or one of its subsidiaries, without shareholders' preferential subscription rights. (9 th resolution)	May 21, 2007	26 months July 20, 2009	4 billion ⁽¹⁾⁽²⁾	—	€4 billion
Authorization granted to the Board of Directors to set the issue price in accordance with the terms set by the Annual Shareholders' Meeting, without preferential subscription rights to ordinary shares in the Company or marketable securities giving access to ordinary shares in France Telecom or one of its subsidiaries. (10 th resolution)	May 21, 2007	26 months July 20, 2009	10% of share capital at the date of the Annual Shareholders' Meeting, or €1,042,669,252 ⁽¹⁾⁽²⁾ per 12 month period	—	€1,042,669,252
Authorization granted to the Board of Directors to increase the number of shares to be issued in the event of a capital increase with or without preferential subscription rights. (11 th resolution)	May 21, 2007	26 months July 20, 2009	15% of initial issue ⁽²⁾	—	15% of initial issue

III - report of the board of directors to the shareholders

APPENDIX TO THE BOARD OF DIRECTORS' REPORT

Summary of delegations and authorizations granted by the Annual Shareholders' Meeting to the Board of Directors – 2007

DELEGATIONS GRANTED BY THE ANNUAL SHAREHOLDERS' MEETING	Date of the Annual Shareholders' Meeting granting delegation	Duration of delegation and expiry date	Total amount of delegation (in euros)	Use of delegation over the year	Balance
Delegation of authority to the Board of Directors to issue ordinary shares and marketable securities giving access to ordinary shares in the Company in the event of a public share exchange offer initiated by France Telecom. (12 th resolution)	May 21, 2007	26 months July 20, 2009	4 billion ⁽¹⁾⁽²⁾⁽³⁾	—	€4 billion
Delegation of authority to the Board of Directors to issue ordinary shares and marketable securities giving access to ordinary shares in the Company, in return for contributions in kind to France Telecom in the form of shares or marketable securities giving access to share capital. (13 th resolution)	May 21, 2007	26 months July 20, 2009	10% of share capital at the date of the Annual Shareholders' Meeting or €1,042,669,252 ⁽²⁾	—	€1,042,669,252
Delegation of authority to the Board of Directors to issue shares reserved for persons who have signed a liquidity agreement with the Company in their capacity as holders of shares or stock-options in Orange S.A. (15 th resolution)	May 21, 2007	18 months November 20, 2008	200,000,000 ⁽²⁾	5,259,304 France Telecom shares were issued, corresponding to a capital increase of €21,037,216	€178,962,784
Delegation of authority to the Board of Directors to issue free option-based liquidity instruments reserved for holders of Orange S.A. stock-options who have signed a liquidity agreement with the Company. (16 th resolution)	May 21, 2007	18 months November 20, 2008	10,000,000 ⁽²⁾	—	€10,000,000 ⁽⁴⁾
Delegation of authority to the Board of Directors to increase the Company's capital through the incorporation of reserves, profits or additional paid-in capital. (19 th resolution)	May 21, 2007	26 months July 20, 2009	2 billion	—	€2 billion
Authorization granted to the Board of Directors to allocate stock-options on ordinary shares of the Company to members of staff and corporate officers. (20 th resolution)	May 21, 2007	38 months July 20, 2010	2% of share capital as at May 21, 2007, or €208,533,850.40	⁽⁵⁾	2% of share capital as at May 21, 2007, or €208,533,850.40
Delegation of authority to the Board of Directors to proceed with capital increases reserved for members of the France Telecom group savings plan. (21 st resolution)	May 21, 2007	26 months July 20, 2009	1 billion	—	€1 billion
Authorization granted to the Board of Directors to reduce share capital by canceling ordinary shares. (22 nd resolution)	May 21, 2007	18 months November 20, 2008	10% of share capital per 24-month period, or €1,042,669,252	—	€1,042,669,252

III - report of the board of directors to the shareholders

APPENDIX TO THE BOARD OF DIRECTORS' REPORT

Information referred to in Article L. 225-100-3 of the French Commercial Code

DELEGATIONS GRANTED BY THE ANNUAL SHAREHOLDERS' MEETING	Date of the Annual Shareholders' Meeting granting delegation	Duration of delegation and expiry date	Total amount of delegation (in euros)	Use of delegation over the year	Balance
Authorization granted to the Board of Directors to acknowledge capital increases resulting from the exercise of Wanadoo's stock-options after assuming Wanadoo's commitments towards holders of options. (2 nd resolution)	September 1, 2004	Duration of validity of stock-option plans	Amount of stock-option plans up to €48,000,000	1,326,010 France Telecom shares were issued as a result of the exercise of options, resulting in a capital increase of €5,304,040	4,869,159 options can still be exercised entitling the holder to the same number of France Telecom shares with a face value of €4

(1) These amounts may not be accumulated.

(2) These amounts are within the overall limit for the maximum amount of capital increases, immediate and/or in the future, that may be carried out under these delegations, as set by the nineteenth resolution of the Annual Shareholders' Meeting of May 21, 2007, of 8 billion euros.

(3) Writing off of the total nominal amount of the capital increase against the maximum amount set by the ninth resolution of the Annual Shareholders' Meeting of May 21, 2007.

(4) In 2007, 6,258,131 France Telecom shares were issued as a result of the exercise of option-based liquidity instruments allocated in August 2005 on the foundation of the 32nd resolution voted by the Annual Shareholders' Meeting of April 22, 2005, resulting in a capital increase of 25,032,524 euros. In relation to this and given the number of remaining option-based liquidity instruments, 17,567,903 shares with a face value of 4 euros may still be issued.

(5) Allocation on May 21, 2007, in accordance with the fifth resolution voted by the Annual Shareholders' Meeting of September 1, 2004, of 10,093,300 stock-options representing 0.41% of the Company's share capital as at September 1, 2004. At the end of this new allocation and previous plans, the aforementioned delegation was used for 1.02% of the Company's share capital as at September 1, 2004. Following the early exercise of options on these plans by employees of Orange's mobile and Internet subsidiaries in the Netherlands sold on October 1, 2007, 91,640 France Telecom shares were issued, resulting in a capital increase of 366,560 euros.

2. INFORMATION WHICH COULD HAVE AN IMPACT IN CASE OF PUBLIC OFFER

In accordance with Article L. 225-100-3 of the French Commercial Code, to the Company's knowledge, the following information may have an impact in case of public offer:

■ *The company's capital structure:* stock-option plans implemented by the Company or taken over by France Telecom (Wanadoo plans) offer an early exercise facility for 50 to 100% (depending on the plans) of options allocated, in the event of a change of control as a result of a public cash offer or mixed public cash and exchange offer. The exercise of all options issued would represent around 1.08% of the Company's share capital as at December 31, 2007.

■ *Control mechanisms provided for in employee shareholding systems when rights of control are not exercised by employee shareholders:* regulations relating to the employee profit sharing funds (FCPE) of the Company (France Telecom Actions, France Telecom Actions 2004, France Telecom Actions 2005 and Orange Success 2007) require voting rights attached to shares held as fund assets to be exercised by the Supervisory Boards. In the absence of an express reference in the regulations to prior notice for holders, the Supervisory Boards are entitled to decide whether or not to tender shares held as fund assets to public cash or exchange offers, in accordance with Article L. 214-40 of the French Monetary

and Financial Code. FCPE represent around 3.45% of the Company's capital after settlement and delivery of the 2007 offering reserved for employees.

■ *Powers of the Board of Directors or Management Board, in particular the issuing or purchase of shares:* under the terms of the share buyback program approved by the Annual Shareholders' Meeting of May 21, 2007, shares may be purchased or transferred, including during a public offer provided that it is settled entirely in cash, subject to conditions and limits, particularly as regards volume and price, set out by regulations in force at the date of the operations in question.

■ *Agreements made by the Company subject to change or termination in the event of a change of control:* The shareholders' agreement which governs the relationship between France Telecom and Orascom within Mobinil Telecommunication SAE (a company owning 51% of the share capital of Egyptian Company for Mobile Services (ECMS)), provides that in the event of a change of control of one of the parties, that party shall have a put option over its shares and the other party shall have a call option over the shares. See, note 32.3 «commitments in respect of securities» to the consolidated financial statements.

IV - non consolidated documents



1. statutory Auditors' Report on the annual financial statements	202	2. financial statements	204
I. - OPINION ON THE FINANCIAL STATEMENTS	202	2.1 STATEMENT OF INCOME	204
II. - JUSTIFICATION OF OUR ASSESSMENTS	202	2.2 BALANCE SHEET	205
III. - SPECIFIC VERIFICATIONS AND DISCLOSURES	203	2.3 CASH FLOW STATEMENT	206
		2.4 PRIOR YEARS' RESULTS	207
		NOTES TO THE FINANCIAL STATEMENTS	208

1. report of the statutory auditors on the annual financial statements

Year ended December 31, 2007

To the Shareholders,

In compliance with the assignment entrusted to us by ministerial order, we hereby report to you, for the year ended December 31, 2007, on:

- the audit of the accompanying annual financial statements of France Telecom SA,
- the justification of our assessments,
- the specific verifications and disclosures required by law.

These annual financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. - OPINION ON THE FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the Company's financial position and the assets and liabilities as of December 31, 2007 and the results of its operations for the year then ended, in accordance with the accounting rules and principles applicable in France.

Without qualifying our opinion, we draw attention to the matter discussed in Note 6.3.1 to the financial statements which specifies that the request made by the European Commission enters into the category of contingent liabilities, as defined by article 212-4 of the General Accounting Plan (Plan Comptable Général).

II. - JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of article L. 823-9 of the French Commercial Code relating to the justification of our assessments, we draw your attention to the following matters:

As stipulated in Note 2.3 to the financial statements, the management of France Telecom makes assumptions and uses accounting estimates that may affect the amounts recorded in the financial statements as well as the accompanying notes. This note also states that the actual results may differ from these

estimates, depending on various assumptions or situations. In the context of our audit of the financial statements at December 31, 2007, we considered that among the accounts that are subject to significant accounting estimates for which our assessments may be explained are those relating to financial participations, intangible and tangible assets and provisions for contingencies.

We have notably:

- with respect to the abovementioned assets, assessed the data and the assumptions on which the estimates are based, and more specifically cash flow projections prepared by the company's operational management, reviewed the calculations made by the company and the sensitivity of the main values in use, compared accounting estimates made for prior periods with actual results, and reviewed the management approval procedures for these estimates,

- with respect to provisions for risks, assessed the basis upon which such provisions have been set up, reviewed the disclosures relating to these risks in the notes to the annual financial statements, and reviewed the management approval procedure for such estimates.

The assessments were made in the context of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. - SPECIFIC VERIFICATIONS AND DISCLOSURES

We have also performed the specific verifications required by law in accordance with professional standards applicable in France.

We have no matters to report regarding:

- the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to the shareholders with respect to the financial position and the financial statements,

- the fair presentation of the information provided in the management report of the Board of Directors in respect of remunerations and benefits granted to certain company officers and any other commitments made in their favour in connection with, or subsequent to, their appointment, termination or change in function.

Pursuant to the law, we have verified that the information relating to acquisitions of investments and controlling interests and the identity of and percentage interests and votes held by shareholders has been properly disclosed in the management report of the Board of Directors.

French original signed at Neuilly-sur-Seine and Paris-La Défense on 6th February 2008

The statutory auditors

DELOITTE & ASSOCIÉS

ERNST & YOUNG AUDIT

Étienne Jacquemin

Jean-Paul Picard

Christian Chiarasini

2. financial statements

2.1 STATEMENT OF INCOME

AMOUNTS (in millions of euros)	Year ended December 31, 2007	Year ended December 31, 2006
OPERATING INCOME		
Revenues	22,108	21,171
Capitalized cost	1,281	1,152
Other operating incomes	636	531
Operating provision reversals	1,211	1,410
TOTAL	25,236	24,264
OPERATING EXPENSE		
Consumption of goods & merchandises	(2,598)	(2,123)
Other external expenses	(6,714)	(6,661)
Taxes (other than income tax)	(926)	(1,011)
Labour expenses	(6,675)	(6,674)
Other operating expenses	(702)	(418)
Depreciation and amortization	(2,391)	(2,666)
TOTAL	(20,006)	(19,553)
Operating income	5,230	4,711
FINANCIAL INCOME		
Interest revenues	4,532	10,316
Financial provision reversals	4,169	357
TOTAL	8,701	10,673
FINANCIAL EXPENSE		
Interest expenses	(5,642)	(5,624)
Additional financial provisions	(2,074)	(5,683)
TOTAL	(7,716)	(11,307)
Financial income	985	(634)
Income before tax & exceptional items	6,215	4,077
EXCEPTIONAL REVENUES	797	4,970
EXCEPTIONAL EXPENSES	(908)	(5,483)
Exceptional income	(111)	(513)
Employee profit-sharing	(290)	(264)
Income tax	1,517	1,104
NET INCOME AFTER TAX	7,331	4,404

2.2 BALANCE SHEET

			At December 31, 2007	At December 31, 2006
ASSETS (in millions of euros)	Cost	Depreciation & Amortization	Net	Net
FIXED ASSETS				
Intangible assets	8,441	(2,929)	5,512	5,262
Property, plant and equipment	43,748	(34,067)	9,681	9,706
Financial assets	108,831	(18,742)	90,089	85,343
TOTAL 1	161,020	(55,738)	105,282	100,311
CURRENT ASSETS				
Inventories	327	(10)	317	245
Advance payments to suppliers	82		82	66
Trade receivables	3,382	(173)	3,209	2,817
Other receivables	2,033	(2)	2,031	1,478
Shares subscribed, called and unpaid	3		3	4
Marketable securities	3,320		3,320	2,995
Cash & cash equivalents	98		98	181
Prepaid expenses	1,738		1,738	1,850
TOTAL 2	10,983	(185)	10,798	9,636
Premium on bond refunding (Total 3)				
Unrealized foreign exchange loss (Total 4)	697		697	50
GRAND TOTAL (1+2+3+4)	172,700	(55,923)	116,777	109,997

	At December 31, 2007	At December 31, 2006
EQUITY AND LIABILITIES AMOUNTS (in millions of euros)		
SHAREHOLDERS' EQUITY		
Share capital	10,457	10,427
Additional paid-in capital	15,317	15,179
Statutory reserves	1,042	1,041
Retained earnings	8,513	7,227
Net income for the year	7,331	4,404
Capital expenditure grants	629	617
Tax provisions recorded as equity	334	423
TOTAL 1	43,623	39,318
Other equity instruments (Total 2)	3,878	4,261
Provision for risk and charges (Total 3)	3,178	3,541
Liabilities		
Debts	31,861	34,931
Advance payments received from customers	139	261
Trade payables	3,910	3,587
Other liabilities	24,551	19,372
Deferred income	2,175	2,365
TOTAL 4	62,636	60,514
Unrealized foreign exchange gain (Total 5)	3,462	2,363
GRAND TOTAL (1+2+3+4+5)	116,777	109,997

2.3 CASH FLOW STATEMENT

AMOUNTS (in millions of euros)	Year ended December 31, 2007	Year ended December 31, 2006
OPERATING ACTIVITIES		
Net income	7,331	4,404
<i>No cash items</i>		
Depreciation and amortization of fixed assets	2,207	3,347
Net loss/(gain) on sales of assets	(201)	(854)
Change in other provisions	(2,906)	4,347
Interest expense on TDIRA	(20)	(58)
Operating free cash flow	6,411	11,186
Decrease/(increase) in inventories	(71)	12
Decrease/(increase) in trade accounts receivable	(303)	(636)
Net impact of sales of commercial receivables	(75)	(42)
Decrease/(increase) in other receivables ⁽¹⁾	(987)	499
Increase/(decrease) in trade accounts payable	183	(218)
Increase/(decrease) in other payables	(658)	105
Changes in working capital	(1,911)	(280)
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES	4,500	10,906
INVESTING ACTIVITIES		
Purchase of fixed assets	(2,312)	(2,018)
Proceeds from sales of fixed assets	68	94
Subscribing to ATLAS SERVICES BELGIUM capital increase	0	(6,490)
Subscribing to Equant BV capital increase	0	(1,300)
Investments in affiliates	(417)	(124)
Proceeds from sale of PagesJaunes	0	3,295
Proceeds from sales of shares and affiliates	350	138
Purchase of treasury shares	(215)	0
Decrease/(increase) in receivables related to Wanadoo International Nederland	0	6,462
Decrease/(increase) in receivables related to FT Espana	(977)	0
Decrease/(increase) in receivables related to EGN BV	(410)	0
Decrease/(increase) in marketable securities and other long-term assets	(790)	583
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES	(4,703)	640
FINANCING ACTIVITIES		
Issuance of long-term debts	3,711	1,401
Repayment of long-term debts	(5,069)	(4,455)
Increase/(decrease) in bank overdrafts and short-term borrowings	(804)	(604)
Net decrease/(increase) in cash collateral	(251)	180
Non refundable funds and equivalents	(383)	(645)
Capital increase	0	61
Shareholders' contribution	169	0
Dividends paid	(3,117)	(2,602)
Changes in intercompany accounts	5,973	(4,209)
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES	229	(10,873)
Net change in cash & cash equivalents	26	673
Cash & cash equivalents at beginning of period	3,177	2,504
Cash & cash equivalents at end of period	3,203	3,177

(1) France Telecom allocated some tax receivables on VAT payments during May and June 2007, amounting to 178 million euros.

2.4 PRIOR YEARS' RESULTS

	2007	2006	2005	2004	2003
1. Share capital at year-end					
Share capital (in euros)	10,457,395,644	10,426,692,520	10,412,239,188	9,869,333,704	9,609,267,312
Number of ordinary shares outstanding	2,614,348,911	2,606,673,130	2,603,059,797	2,467,333,426	2,402,316,828
2. Operations and results for the year (in million euros)					
Revenues before tax	22,108	21,171	20,147	20,479	20,056
Income before tax, employee profit-sharing, depreciation, amortization and impairment	5,451	10,389	4,511	1,755	(13,077)
Income tax	(1,517)	(1,104)	(1,529)	(1,110)	(1)
Employee shareholding	290	264	249	154	13
Income after tax, employee profit-sharing, depreciation, amortization and impairment	7,331	4,404	5,511	6,619	(3,116)
Distributed income (including treasury shares)	⁽¹⁾	3,117	2,602	1,184	617
3. Earnings per share (in euros)					
Income after tax and employee profit-sharing but before depreciation, amortization and impairment	2.55	4.31	2.22	1.10	(5.45)
Income after tax, employee profit-sharing, depreciation, amortization and impairment	2.80	1.69	2.12	2.68	(1.30)
Dividend per share (in euros)	⁽¹⁾	1.20	1.00	0.48	0.25
4. Employees					
Average number of employees during the year (full-time equivalent)	95,857	100,601	102,234	106,875	111,038
Total wage bill for the year (in million euros)	4,325	4,396	4,225	4,184	4,140
Employee benefits paid (social security, company welfare schemes etc.)	2,350	2,278	2,167	2,098	2,053

(1) Submitted to the decision of the Annual Shareholders' Meeting on May 27, 2008.

NOTES TO THE FINANCIAL STATEMENTS

Disclaimer

This English language translation of the financial statements prepared in French has been prepared solely for the convenience of English speaking readers. Despite all the efforts devoted to this translation, certain errors, omissions or approximations may subsist. France Telecom, its representatives and employees decline all responsibility in this regard.

Years ended December 31, 2007 and 2006

The annual financial statements of France Telecom S.A. ("the financial statements") at December 31, 2007 were presented to the Board of Directors on February 5, 2008

notes' index

NOTE 1	Overview of the company and description of its activities	208	NOTE 4	Notes to the income statement	214
NOTE 2	Accounting policies	208	NOTE 5	Notes to the balance sheet	218
NOTE 3	Significant events of 2007	213	NOTE 6	Other information	235

NOTE 1

Overview of the company and description of its activities

France Telecom S.A. ("the Company") is the parent company of the France Telecom Group and is the main telecommunications operator in France and, via its subsidiaries, one of the top worldwide operators. France Telecom S.A. provides consumers, businesses and other telecommunications operators with a wide range of services including fixed telephony and mobile telecommunications, data transmission, Internet and multimedia, and other value-added services.

France Telecom S.A. is governed by French corporate law, subject to specific laws governing the company, particularly French law number 90-568 of July 2, 1990 relating to the organization of public postal and telecommunications services, as amended by French law number 96-660 of July 26, 1996

and by French law number 2003-1365 of December 31, 2003. France Telecom S.A. is also regulated by its by-laws.

The activities of the Company are governed by European Union directives and by the law on telecommunications regulation, which established the regulatory authority for the telecommunications industry (Service Universel and *Autorité de Régulation des Communications Electroniques et des Postes* – ARCEP).

France Telecom S.A. has been listed on Eurolist compartment A by Euronext Paris and on New York Stock Exchange ("NYSE") since 1997.

NOTE 2

Accounting policies

The financial statements of France Telecom S.A. have been prepared in accordance with generally accepted accounting principles in France and with the provisions of the French General Accounting Plan (*Plan Comptable Général*). The financial statements are presented in euros.

2.1 Application of new accounting standards

New accounting standards applicable as of 2007 had no impact on the France Telecom S.A.'s 2007 financial statements.

2.2 Other accounting policies

There were no changes of accounting method in 2007.

Transactions in foreign currencies

Monetary assets and liabilities in foreign currencies are translated at the year-end exchange rate. Losses or gains arising on the translation of receivables and payables at the year-end rate are recognized in the balance sheet respectively as unrealized foreign exchange losses on the asset side or unrealized foreign exchange gains on the liability side.

For financial transactions, unrealized gains or losses on all balance sheet and off-balance sheet positions are determined by currency and by year of due date. For commercial transactions, unrealized gains or losses are determined by currency. A provision is recorded for any net unrealized exchange losses.

Revenue recognition

The main revenues from France Telecom's activities are recognized as follows:

- revenue from fixed line contracts, other telephone contracts and Internet access is recognized on a straight-line basis over the service period;
- revenue from incoming and outgoing telephone communications is recognized when the service is provided;
- revenue related to data transmission is recognized on a straight line basis over the life of the contract;
- revenue from the sale of equipment and installation fees are recognized when delivered to the client, or when the line is activated;
- revenue related to the sale of transmission capacity on terrestrial and submarine cables (indefeasible rights of use – IRUs) is recognized on a straight-line basis over the life of the contract;
- revenue from Internet advertising is recognized over the period during which the advertisement appears;
- equipment lease revenue is recognized on a straight-line basis over the life of the lease agreement.

Research and development

Research and development projects are capitalized when all the following conditions are met:

- the technical feasibility of completing the project can be demonstrated;
- the company can demonstrate its intention and financial and technical ability to complete the project and use or sell it;
- expenditure attributable to the project during its development can be measured reliably;

- the project will generate future economic benefits for the company.

Prior research costs are expensed as incurred and expenditure incurred after completion of the project is expensed unless it is expected to generate additional future economic benefits and if the attributable costs can be measured reliably.

Customer acquisition costs

Customer acquisition costs are expensed as incurred.

Intangible assets

Intangible assets include leasehold rights, goodwill linked to technical merger losses on cancelled shares, licenses, internally developed software, patents and cable or transmission capacity usage rights.

Components of a technical merger loss on cancelled shares are subject to impairment testing in accordance with Article 322-5 of Rule no. 99-03 of the CRC (amended by Rule no. 2002-10).

Licenses, patents and indefeasible rights of use (IRUs) for submarine cables are recorded at cost and amortized on a straight-line basis over their useful lives, which is between two and 14 years depending on their nature. Internally developed software is recorded at cost and amortized on a straight-line basis over its useful life estimated at three or four years.

Indefeasible rights of use (IRUs) are rights to use cables or transmission capacities (terrestrial or submarine cables) for a specified period of time. They are capitalized and amortized over their estimated useful lives if France Telecom S.A. has a right to use a specified portion of the underlying assets. Otherwise they are accounted for as service agreements.

Leasehold rights are not amortized as they are considered to have an indefinite useful life. They are tested annually for impairment.

Property, plant and equipment

Assets transferred from the French State on January 1, 1991 upon the creation of France Telecom S.A. as a public sector operator were recorded at a net value in the opening balance sheet jointly approved by the French Post and Telecommunications Ministry and the French Economy and Finance Ministry.

Property, plant and equipment acquired subsequently are recorded at acquisition cost or production cost (direct and indirect costs). The cost of networks includes design and construction costs, as well as capacity improvement costs. Dismantling, removal and site restoration costs are included in the cost of the asset concerned.

Repair and maintenance costs are expensed as incurred, except when they contribute to increasing the productivity or useful life of an asset.

IV - non consolidated documents

FINANCIAL STATEMENTS

Notes to the financial statements

Property, plant & equipment are depreciated over their estimated useful lives as follows:

- buildings, fixtures and fittings: 10 to 30 years;
- infrastructure (civil engineering, cables, telephone poles): 15 to 30 years;
- network equipment including the inseparable underlying software (switching, transmission, local loop software, etc.): four to 20 years;
- computer hardware, handsets: three to five years;
- other: three to 10 years.

In 2007, France Telecom S.A. elected not to take advantage of fiscal regulations on accelerated depreciation.

Impairment of non-current assets

An impairment loss is recognized when the fair value of an asset falls sustainably below its carrying amount due to events or circumstances arising during the period (obsolescence, wear and tear, significant changes to the manner in which the asset is used, worse than expected economic performance, etc.). Fair value is the higher of recoverable amount and value in use.

Impairment tests are carried out on groups of assets and consist of comparing their recoverable amount to their carrying amount.

For assets which are to be held and used, fair value is usually determined on the basis of value in use, which is the present value of the future economic benefits expected to be derived from the use and disposal of the asset.

For assets which are due to be sold, fair value is determined on the basis of realizable value assessed by reference to market prices.

Financial assets

Equity interests are recorded at cost. Transaction costs are expensed as incurred.

An impairment loss is recognized when fair value falls below cost. Fair value is equal to value in use for strategic interests. However, when an interest is due to be sold, it is measured at market value.

Due to the short-term volatility of the stock market and the strategic nature of its equity interests, France Telecom S.A. uses discounted cash flows adjusted for net debt to assess value in use. Discounted cash flows are based on financial and regulatory assumptions, and assumptions relating to license renewal and operating conditions, forecast by France Telecom S.A. management as follows:

- cash flows are taken from business plans covering an appropriate timeframe of five to 10 years;

- beyond that timeframe, cash flows are extrapolated by applying a perpetual growth rate specific to each business activity;

- cash flows are discounted using rates appropriate for the type of business activity.

Market value is the best estimate of the amount obtainable from the sale of an asset in an arm's length transaction less costs to sell. This estimate is made on the basis of available market information, taking into account any specific circumstances.

Other criteria such as market price, development and profitability prospects, equity capital and materiality may also be taken into account depending on the specific nature of each investment.

Inventories

Inventories are measured at cost, which is equal to purchase cost (purchase price plus associated expenses such as transport, handling, etc.) or production cost, using the weighted average cost method. An impairment loss is recognized when the recoverable amount, which is equal to net realizable value, falls below cost.

Trade receivables

Due to its broad range of customers (consumers, large companies and small businesses), France Telecom S.A. does not consider itself to be exposed to a concentration of customer risk. Provisions are recognized according to the risk of non-recovery of the receivables. They are calculated either on an individual basis or on a statistical assessment of the risk.

Trade receivables sold under securitization programs to special purpose entities governed by the laws applicable to the country concerned are derecognized when:

- the receivables are the subject of a legally perfected sale;
- France Telecom S.A. has not given any guarantees;
- France Telecom S.A. has made no commitment to take back the receivables;
- France Telecom S.A. is neither partner nor shareholder in the securitization vehicle and has no decision-making or management power over its activity.

Any residual interests retained in the securitized receivables (subordinated units, deferred price, etc.) are recorded under "Financial assets". Any impairment of these interests, determined according to the risk of non-recovery of the securitized receivables, is deducted from "Financial assets" and any changes in impairment are recorded in operating income.

For a pool of securitized receivables, the deferred price corresponds to the portion of the sale price which is not payable by the securitization vehicle to France Telecom S.A. until a future date. It is designed to cover the risk of default by France Telecom S.A.'s customers. The deferred price is recognized as an asset as it is considered in principle to be a due and payable claim for France Telecom S.A.

Selling costs, fees and interest are recognized in finance costs.

Sales of future receivables

Sales of future receivables are recognized as financial liabilities.

Marketable securities

Marketable securities are stated at cost. An impairment loss is recognized for each line of securities of the same nature equal to the difference between their carrying amount and the average stock market price during the previous month or, in the case of unlisted securities, their probable trading value.

Share issuance costs

In line with the Opinion 2000-D of the CNC's *Comité d'Urgence*, external costs directly linked to a capital increase are deducted from the issue premium. Other costs are expensed as incurred.

Other shareholders' equity

When, based on the terms of the contract or the economic conditions at the time of issuance, an interest bearing-financial instrument is not redeemable at the lender's option or it is redeemable in equity instruments, it is recognized in *Other shareholders' equity*.

The perpetual bonds redeemable for shares (TDIRAs) issued by France Telecom on March 3, 2003 are included in this category.

Government grants

France Telecom may receive non-repayable government grants in the form of direct or indirect funding for capital projects, mainly provided by local and regional authorities. The grants are recognized as a liability and recycled to the income statement at the same rate and over the same period as the depreciation of the assets financed.

Bond issuance costs

Bond issuance costs are expensed as incurred. Redemption premiums are recognized in finance costs over the life of the bond.

Derivatives

France Telecom S.A. manages the market risks related to changes in interest and exchange rates using derivatives, and particularly interest rate swaps, caps and floors, futures contracts on organized markets, forward currency contracts, currency swaps, and currency options. These instruments are used for hedging purposes only.

Gain and losses arising on these derivatives are recorded in the income statement on a symmetrical basis with the losses and gains on the hedged items:

- differences in interest receivable or payable on swaps, caps and floors contracted for hedging purposes, and any premiums or discounts, are recorded in the income statement over the life of the contract as an adjustment to interest expense;
- initial differences between the negotiated forward rate and the spot rate on forward currency contracts and currency swaps designated as hedges are recognized in the income statement over the life of the contract as an adjustment to interest expense. Subsequent gains and losses generated on these contracts due to exchange rate fluctuations are recognized as adjustments to foreign exchange gains or losses arising on the hedged item;
- gains and losses arising on contracts designated as hedges of identifiable firm commitments or identifiable future transactions are deferred and recognized in the valuation of the transaction upon its occurrence.

Some transactions which comply with France Telecom S.A.'s hedging policy do not qualify for hedge accounting. These transactions are measured as follows:

- for transactions on organized markets, margin calls are recorded immediately in the income statement;
- net unrealized losses on over-the-counter instruments, calculated on an instrument by instrument basis, are fully provided for;
- unrealized gains on over-the-counter instruments are not recognized, in accordance with prudent accounting principles. Realized gains are recorded in the income statement when the transaction is unwound.

Provisions

A provision is recognized when, at the year end, France Telecom S.A. has a present obligation (legal, contractual or constructive) towards a third party and it is probable or certain that an outflow of resources embodying economic benefits will be required to settle the obligation.

The amount of the provision corresponds to the amount of resource outflow that will probably be required to settle the obligation. If the amount of the obligation cannot be measured reliably, no provision is recognized.

Contingent liabilities, which represent either obligations which are neither probable nor certain at the year-end, or probable obligations which are not expected to result in an outflow of resources, are not recognized. Information on contingent liabilities is disclosed in the notes to the financial statements.

Pensions and other long-term employee benefit obligations

Post-employment benefits

■ Pension plan for French civil servants

Civil servants employed by France Telecom S.A. are covered by the government-sponsored civil and military pension plan. France Telecom S.A.'s obligation under the plan is limited to the payment of annual contributions (law no. 96-660 dated July 26, 1996). Consequently, France Telecom S.A. has no obligation to fund future deficits of the pension plan covering its own civil servant employees or any other public sector plans.

■ Retirement bonuses and other similar benefits

In France, employees are legally entitled to lump-sum retirement bonuses either upon retirement or in installments, based on their length of service and end-of-career salary. The actuarial cost of this obligation is recognized in the income statement on an annual basis over the employees' working lives. The impact of changes in actuarial assumptions is recognized in the income statement over the employees' average remaining working lives.

■ Other pension plans

For defined benefit plans, the actuarial cost of the related obligation is recognized annually in the income statement over the employees' working lives. The impact of changes in actuarial assumptions is recognized in the income statement over the employees' average remaining working lives. Costs related to defined contribution plans are expensed as incurred.

■ Other post-employment benefits

France Telecom S.A. provides additional post-retirement benefits such as telephone equipment and various other benefits. The estimated actuarial cost of these benefits is recognized in the income statement over the working lives of the employees concerned. The impact of changes in actuarial assumptions is recognized in the income statement over the employees' average remaining working lives.

Employment termination benefits

■ Early retirement plan in France

From 1997 to 2006, in accordance with the law, France Telecom S.A. provided an early retirement plan for employees subject to age and length of service conditions.

This plan, which was historically classified as a defined benefit plan, has been reclassified as an employment termination benefit in compliance with new French accounting standards.

The amount of France Telecom S.A.'s liability under this plan has been calculated on the basis of actuarial assumptions. The impact of changes in actuarial assumptions is recognized in the income statement for the year in which the changes occur.

■ Other employment termination benefits

Any other termination benefits are also determined on an actuarial basis and covered by provisions. The impact of changes in actuarial assumptions is recognized in the income statement for the year in which the changes occur.

Other long-term benefits

Other long-term benefits granted by France Telecom mainly comprise long-term paid leave. The impact of changes in actuarial assumptions is recognized in the income statement for the year in which the changes occur.

Other employee benefits

Individual right to training for employees

In accordance with the provisions of *Comité d'Urgence* Opinion no. 2004-F of October 13, 2004, France Telecom S.A. does not provide for individual training rights at the year end. Rights that have not yet been claimed by employees are disclosed in Note 6.2.2.3.

Stock-option plans

Stock-options granted to employees are not recognized in the income statement.

Employee shareholding plan

The employer's contribution to the employee shareholding plan is recognized in personnel expenses.

Free share award plan

A provision is taken for the total amount of shares required for the free share award plan and classified as an exceptional item. The remaining shares to be acquired at the year-end are measured at the closing price.

2.3 Use of estimates

The financial position and results reported by France Telecom S.A. depend upon the accounting methods, assumptions, estimates and judgments underlying the preparation of its financial statements.

France Telecom S.A. management bases its estimates on past experience and various other assumptions deemed reasonable under the circumstances, and uses these estimates to determine the appropriate carrying amounts of assets and liabilities, and particularly provisions, intangible assets, equity interests and the liquidity position. Actual results may differ materially from these estimates should the underlying assumptions or circumstances change.

NOTE 3 Significant events of 2007**3.1 Main acquisitions and disposals of companies and changes in scope of consolidation**

The following significant events occurred in 2007.

Acquisition of Groupe Silicomp shares

During 2007, France Telecom S.A. acquired 96.1% of Groupe Silicomp, a company listed on Eurolist by Euronext, in successive stages for a total consideration of 101 million euros.

Disposal of shares in Tower Participations (TDF)

On January 31, 2007, France Telecom S.A.'s former co-shareholders in Tower Participations sold their shareholding in this company.

In accordance with the terms of the agreement to share net capital gains entered into by France Telecom S.A. and its former co-shareholders, France Telecom S.A. received an additional consideration of 254 million euros in January 2007.

In addition, the 53 million euros gain deferred in 2005 due to the risk of repayment was recognized in 2007 upon extinction of the risk.

Disposal of Bluebirds (Eutelsat)

Pursuant to the disposal by Bluebirds of its interest in Eutelsat Communications, France Telecom S.A. received 110 million euros in February 2007 and sold its entire interest in Bluebirds. The loss on disposal before tax amounted to 73 million euros. The overall result of this transaction for France Telecom S.A. in 2007 was 37 million euros.

Increased stake in Orange Participations

On April 2, 2007, France Telecom S.A. subscribed to a capital increase made by its subsidiary Orange Participations for an amount of 150 million euros.

Transfer of the assets and liabilities of Atrium3

On April 16, 2007, all the assets and liabilities of Atrium3 S.A., a wholly-owned subsidiary, were transferred to France Telecom S.A. and Atrium3 S.A. was wound up without liquidation.

The transaction did not generate any merger gain or loss after provision reversals as the net assets transferred from Atrium3 S.A. (885 million euros comprising exclusively intercompany advances from France Telecom S.A.) were equal to the net book value of the Atrium3 S.A. shares recorded in France Telecom S.A.'s books.

3.2 Other significant events during 2007**Free share awards**

France Telecom has set up a free share award plan covering 10.8 million shares, which represents 0.4% of the share capital. The plan covers approximately 113,000 employees of France Telecom S.A. and most of its majority-owned French subsidiaries.

The share awards will not vest until April 25, 2009, and are contingent upon:

- performance conditions: achievement of the cash flow set out in the NEXT plan in 2007 and 2008, and cost of the plan to be covered by additional cash flow generated over the same period; the cash flow performance condition was met in 2007;
- beneficiaries must be contractually employed by the Group at the end of the vesting period.

The shares awarded may not be sold for a period of two years after the vesting date, i.e. April 25, 2011.

The grant date is deemed to be date when the main terms of the plan were announced personally to the employees, i.e. June 19, 2007.

A provision of 159 million euros has been recognized in respect of this transaction.

France Telecom Group employee shareholding plan: Orange Success

Following the June 2007 sale by the French State of 130 million of its France Telecom shares, representing 5.0% of the share capital, the State launched a share offer for employees and former employees of the France Telecom Group. The share offer related to 14.4 million shares, representing 0.56% (undiluted) of the total number of shares making up the share capital of France Telecom S.A. at June 30, 2007.

The shares were offered at a unit price of 20.39 euros, which represents a discount of 4.31 euros to the share price on the grant date (24.70 euros).

The grant date is deemed to be the date on which the French Securities Regulator (AMF) approved the securities note, i.e. December 6, 2007. The number of shares purchased amounts to 14.4 million, which will be completed by a maximum of 0.6 million bonus shares offered by the State to employees holding the shares purchased during a three-year period.

IV - non consolidated documents

FINANCIAL STATEMENTS

Notes to the financial statements

The total amount expensed in 2007 was 37 million euros, corresponding to the employer's contribution granted to employees of the company.

The total cost of purchasing the shares from the State amounted to 294 million euros, which was financed by a bank (202 million euros), the employees (52 million euros) and the France Telecom Group (40 million euros).

NOTE 4 Notes to the income statement

4.1 Revenues

(in millions of euros)	December 31, 2007	December 31, 2006
Fixed line services	19,651	19,375
Subscriber fixed telephone lines	8,808	9,559
Internet services	2,212	1,741
Carrier services	3,501	3,137
Data transfer	3,202	3,145
Other fixed-line services	1,928	1,793
Other revenues	2,457	1,796
Sale of mobile equipment	261	378
Various other revenues	2,196	1,418
TOTAL	22,108	21,171

Fixed line service revenues include:

- subscriber lines (service access fees, basic and additional service packages, telephone communications, and online services – telephone and computer kiosks and information services);
- Internet access revenues (broadband and dial-up);
- carrier services (national interconnections, local loop unbundling and wholesale broadband access for French carriers and third-party ISPs, and services to international carriers);
- data transfer (leased lines and enterprise networks);

- other fixed line products and services (equipment rental and sales, public payphones and phone cards, and telecommunications network operations and maintenance for France Telecom subsidiaries).

The primary components of other revenues include:

- Mobicarte top-up sales for Orange France pay-as-you-go mobile phone customers, and sales of mobile handsets;
- France Telecom S.A. distribution network commissions paid by its subsidiaries, the benefits from R & D activities (software and license revenues), and other services billed to subsidiaries (primarily IT services under France Telecom information systems sharing arrangements, and premises rentals).

4.2 Other income

(in millions of euros)	December 31, 2007	December 31, 2006
Capitalized costs	1,281	1,152
Other income	636	531
Operating subsidies	307	154
Various other income	276	323
Expense transfers	53	54
TOTAL	1,917	1,683

4.3 Operating provision reversals

(in millions of euros)	December 31, 2007	December 31, 2006
Reversal of provisions for inventories	10	34
Reversal of provisions for trade receivables	25	46
Reversal of provisions for early retirement (civil servant employees)	853	932
Reversal of provisions for early retirement (contractual)	75	33
Other reversals	248	365
TOTAL	1,211	1,410

4.4 Taxes other than income tax

(in millions of euros)	December 31, 2007	December 31, 2006
Business tax	(740)	(817)
Other	(186)	(194)
TOTAL	(926)	(1,011)

4.5 Labour expenses

(in millions of euros)	December 31, 2007	December 31, 2006
Wages and salaries	(4,325)	(4,396)
Social security charges ⁽¹⁾	(1,885)	(1,906)
Other labour expenses	(465)	(372)
TOTAL	(6,675)	(6,674)

(1) The expense recognized in connection with the defined contribution plans totaled 1,162 million euros (1,173 million euros at December 31, 2006), and mainly relates to the flat-rate contribution to the pension plan covering France Telecom S.A.'s civil servant employees.

The employer's flat-rate contribution to the pension plan for civil servant employees was 36.20% in 2007, unchanged from the previous year.

Labour expenses shown in the income statement include payments relating to the early retirement plan, which are covered through a reversal of operating provisions (959 million euros at December 31, 2007 including 884 million euros for civil servants, versus 953 million euros at December 31, 2006 including 932 million euros for civil servants).

Other labour expenses mainly include:

- the employer's contribution to the employee shareholder plan (see Note 3.2) for an amount of 37 million euros;

- a provision for employee incentive bonuses for an amount of 194 million euros (157 million euros at December 31, 2006).

Under the incentive bonus agreement for 2006-2008, employees are entitled to payment if the annual operating performance indicator is met.

An amendment to the agreement was entered into on June 29, 2007 with the trade union signatories, setting the operating performance indicator for 2007 and additional customer service quality indicators defined by customer type.

IV - non consolidated documents

FINANCIAL STATEMENTS

Notes to the financial statements

4.6 Other operating expenses

(in millions of euros)	December 31, 2007	December 31, 2006
Royalties and patents	(171)	(156)
Other operating expenses	(531)	(262)
TOTAL	(702)	(418)

4.7 Depreciation, amortization and provisions

(in millions of euros)	December 31, 2007	December 31, 2006
Depreciation and amortization	(2,134)	(2,151)
Impairment provisions	(257)	(515)
Inventories	(9)	(26)
Trade receivables	(55)	(15)
Amortization of the actuarial gain/loss on the early retirement plan	(31)	(294)
Other provisions	(162)	(180)
TOTAL	(2,391)	(2,666)

4.8 Financial income and expense

(in millions of euros)	December 31, 2007	December 31, 2006
Dividends received	971	6,920
Orange S.A.	389	5,434
FTMI	100	969
TP S.A.	247	172
FCR	86	156
Revenue from marketable securities	173	53
Revenue from receivables related to equity interests and current accounts	732	599
Loan interest	(1,976)	(2,090)
Changes in the provision for interest costs on the early retirement plan	(69)	(70)
Changes in provisions for other interest costs	(22)	(25)
Interest paid on subsidiaries' current accounts	(787)	(543)
Interest on perpetual bonds redeemable for shares (TDIRAs)	(212)	(256)
Net foreign exchange gain or loss	(191)	(12)
Change in provision for equity interests and related receivables	2,460	(5,214)
Other income/expense	(94)	4
TOTAL	985	(634)

The line item "Change in provisions for equity interests and related receivables" amounting to 2,460 million euros at December 31, 2007 mainly includes:

■ a 3,375 million euros provision reversal for Orange S.A. shares;

■ a (593) million euros provision charge for Equant B.V. shares;

■ a (929) million euros provision charge for Atlas Services Belgium shares;

■ a 627 million euros provision reversal for TPSA shares.

4.9 Exceptional items

(in millions of euros)	December 31, 2007	December 31, 2006
Gain on asset disposals and retirements	203	(50)
Change in provisions and other exceptional items	(314)	(463)
TOTAL	(111)	(513)

The 203 million euros gain on asset disposals and retirements mainly comprises:

- a gain of 307 million euros on the disposal of TDF shares;
- a loss of (73) million euros on the disposal of Bluebirds shares;
- a loss of (68) million euros on the disposal of FT Services Nederland BV shares.

The line item "Change in provisions and other exceptional items" amounting to (314) million euros mainly includes:

- a 221 million euros provision reversal following the elimination of accelerated depreciation;
- a (159) million euros provision charge for free share awards made to employees;
- a (132) million euros provision charge for 2007 investment;

- a (116) million euros exceptional writedown of property, plant and equipment and intangible assets.

4.10 Employee profit-sharing

An employee profit-sharing plan was agreed on November 19, 1997 covering employees of France Telecom S.A. and all its direct and indirect French subsidiaries. On February 1, 2000, the agreement was amended to eliminate the impact on the profit-sharing plan of certain exceptional items not forming part of the company's ordinary business activities. A second amendment was signed on June 29, 2001.

The provision for the employee profit-sharing plan amounted to 290 million euros at December 31, 2007 (versus 264 million euros at December 31, 2006).

4.11 Corporate income tax

The following income taxes were recorded in the income statement:

(in millions of euros)	December 31, 2007	December 31, 2006
Corporate income tax net of benefits generated by group tax relief and tax loss carry-backs	1,517	1,104

France Telecom S.A. has elected for group tax relief with various subsidiaries. At December 31, 2007, the tax group comprised 50 companies (including France Telecom S.A.), compared to 51 companies at December 31, 2006.

At December 31, 2007, France Telecom S.A. recognized a net tax benefit of 1,517 million euros. This amount mainly comprises a 1,421 million euros benefit arising from group tax relief, which is definitively attributable to France Telecom S.A.

France Telecom S.A.'s net future tax relief (excluding tax loss carryforwards) was 1,204 million euros at December 31, 2007 (1,403 million euros at December 31, 2006), and is primarily linked to early retirement provisions. This relief will be applied mostly during the period from 2008 to 2011.

France Telecom S.A.'s tax expense without group tax relief would have been nil, taking into account tax loss carryforwards (amounting to 18,163 million euros at December 31, 2007 versus 24,466 million euros at December 31, 2006).

France Telecom S.A. has been subject to tax audits for the years 2000 to 2004 inclusive.

These audits have been completed and the tax adjustments which were accepted did not have a material impact on France Telecom S.A.'s 2007 financial statements. As regards the tax adjustments which were contested, the Company has made its comments and is awaiting a final decision by the tax authorities.

NOTE 5 Notes to the balance sheet

5.1 Assets

5.1.1 Property, plant and equipment and intangible assets

5.1.1.1 Cost

The following table shows the change in property, plant and equipment and intangible assets at cost during the year:

(in millions of euros)	Opening balance	Changes in scope and reclassifications	Additions	Disposals	Closing balance
Intangible assets	7,858	57	881	(355)	8,441
Land	517		1	(5)	513
Buildings	3,904	(1)	160	(225)	3,838
Plant, equipment and other	39,610	(31)	1,436	(1,618)	39,397
Property, plant and equipment	44,031	(32)	1,597	(1,848)	43,748
TOTAL	51,889	25	2,478	(2,203)	52,189

Intangible assets

Additions mainly comprise:

- research and development expenditure for an amount of 203 million euros;
- software expenditure for an amount of 609 million euros.

Disposals mainly comprise disposals or retirements of software for an amount of (306) million euros.

Property, plant and equipment

Additions mainly include expenditure on:

- complex installations for an amount of 536 million euros;

- information systems and handsets for an amount of 317 million euros;

- other network equipment for an amount of 166 million euros;
- buildings for an amount of 160 million euros.

Disposals mainly include:

- transmission equipment for an amount of (612) million euros;
- switching equipment for an amount of (317) million euros;
- buildings for an amount of (226) million euros;
- information systems and handsets for an amount of (189) million euros.

5.1.1.2 Depreciation, amortization and impairment

The following table shows the change in depreciation, amortization and impairment during the year:

(in millions of euros)	Opening balance	Changes in scope and reclassifications	Increases	Retired assets	Closing balance
Intangible assets	(2,596)	(107)	(582)	356	(2,929)
Amortization	(1,331)		(572)	346	(1,557)
Impairment	(1,265)	(107)	(10)	10	(1,372)
Property, plant and equipment	(34,325)	106	(1,676)	1,828	(34,067)
Depreciation	(33,869)	(1)	(1,676)	1,819	(33,727)
Land	(10)		(1)		(11)
Buildings	(2,938)		(155)	217	(2,876)
Plant, equipment and other	(30,921)	(1)	(1,520)	1,602	(30,840)
Impairment	(456)	107		9	(340)
TOTAL DEPRECIATION, AMORTIZATION AND IMPAIRMENT	(36,921)	(1)	(2,258)	2,184	(36,996)

5.1.2 Financial assets

The following table shows the change in financial assets at cost during the year:

(in millions of euros)	Opening balance	Changes in scope	Additions	Disposals	Closing balance
Equity interests	95,792	(1,127)	423	(181)	94,907
Notes issued by securitization vehicles	1,499		(51)		1,448
Cash collateral paid	459		251		710
Other financial assets	9,046	(402)	3,887	(765)	11,766
FINANCIAL ASSETS	106,796	(1,529)	4,510	(946)	108,831

The following table shows the change in provisions for impairment of financial assets during the period:

(in millions of euros)	Opening balance	Changes in scope and reclassifications	Increases	Decreases	Closing balance
Equity interests	(21,361)	241	(1,662)	4,121	(18,661)
Notes issued by securitization vehicles	(89)	10			(79)
Receivables related to equity interests	(3)	1			(2)
TOTAL	(21,453)	252	(1,662)	4,121	(18,742)

5.1.2.1 Equity interests

Cost

The change in scope of consolidation relates mainly to the elimination of Atrium3 shares for an amount of (1,127) million euros following the transfer of all its assets and liabilities to France Telecom S.A.

The increases in equity interests mainly comprise:

- subscription to the Orange Participations capital increase for 150 million euros;
- acquisition of Groupe Silicomp shares for 101 million euros;
- acquisition of Orange S.A. shares for 148 million euros under the liquidity contract.

The decreases in equity interests mainly comprise:

- disposal of Bluebirds shares with a value at cost of (73) million euros;
- disposal of FT Participation Nederland BV shares with a value at cost of (73) million euros.

Provisions for impairment

Changes in scope of consolidation mainly comprise:

- a 241 million euros reversal of provisions for Atrium shares following the transfer of all its assets and liabilities to France Telecom S.A.

The increases in this item mainly comprise:

- a (929) million euros impairment provision for ASB shares;
- a (593) million euros impairment provision for Equant BV shares;
- a (46) million euros impairment provision for FTMI shares.

The decreases in this item mainly comprise:

- a 3,375 million euros provision reversal for Orange S.A. shares;
- a 627 million euros provision reversal for TPSA shares.

IV - non consolidated documents

FINANCIAL STATEMENTS

Notes to the financial statements

The table below shows a detailed inventory of equity interests:

COMPANY DATA (in millions of euros)	Share capital	Other shareholders' equity*	Percentage interest	Book value of shares held at December 31, 2007		2007 revenue	2007 earnings	Dividends received in 2007	Receivables related to subsidiaries
				Cost	Net				
Subsidiaries (over 50% owned)									
Atlas Services Belgium	9,910	(1,481)	100.00%	20,671	7,480	1	167		
Equant BV		(888)	100.00%	1,300	67	2,061	(560)		573
EGT	3	(2)	100.00%	53	0	22	(2)		
FT Immo H	255	9	100.00%	255	255	69	23		
Nordnet		22	100.00%	90	90	56	17	10	
Orange S.A.	4,871	35,050	100.00%	62,904	60,945	80	3,038	389	
Orange Participations	184	(82)	100.00%	184	144	N/A	(50)		
Rimcom	140	40	100.00%	310	221	N/A	42	13	
FCR	763	128	100.00%	762	762	19	90	86	
FTCD	39	39	100.00%	64	64	N/A	0	5	
FTMI	22	119	100.00%	679	385	N/A	48	100	
FTP Us	312	(266)	100.00%	437	41	N/A	(17)		
GlobeCast Holding	7	(29)	100.00%	125	26	N/A	(6)		
Silicomp	1	21	96.06%	101	101	8	(1)		
Other				176	138			11	
Total subsidiaries				88,111	70,719			614	573
Minority interests (between 10% and 50% owned)									
TPSA	1,169	3,131	48.58%	6,335	5,485	2,871	294	247	278
Bull	10		10.07%	445	38				
Other				12	1				
Total minority interests				6,792	5,524			247	278
Other equity interests									
Other				4	3				
Total other equity interests				4	3				
TOTAL SUBSIDIARIES AND MINORITY INTERESTS				94,907	76,246			862	851

*Including net income at December 31, 2007.

5.1.2.2 Notes issued by securitization vehicles

France Telecom S.A. carries out securitization programs for its receivables related to fixed telephone line contracts with its business and domestic customers in mainland France. The receivables are sold to special purpose securitization vehicles on a non-recourse basis.

Notes issued by securitization vehicles (subordinated notes) represent the residual interests in the receivables retained by the vendor and are designed to cover the risk of non-recovery of the securitized receivables that have been derecognized by France Telecom S.A.

5.1.2.3 Cash collateral paid

France Telecom S.A. has negotiated cash collateral agreements which may result in monthly payments to various bank counterparties corresponding to the mark-to-market impact of all off-balance sheet transactions with these counterparties.

The cash collateral paid at the end of December 2007 was 710 million euros, versus 459 million euros at the end of December 2006.

5.1.2.4 Other financial assets

The following table shows the change in other financial assets at cost:

(in millions of euros)	Opening balance	Change in scope	Additions	Disposals	Closing balance
Receivables from Orange Plc.	4,914	(414)			4,500
Receivables from Orange Brand Services Ltd	1,532				1,532
Receivables from France Telecom España	2,200		978		3,178
Receivables from EGN BV	165		1,039	(628)	576
Other receivables related to equity interests	114	12	1,054	(97)	1,083
Loans, deposits and various receivables	121		816	(40)	897
OTHER FINANCIAL ASSETS	9,046	(402)	3,887	(765)	11,766

Changes in scope mainly include the revaluation of the GBP-denominated receivable from Orange Plc. for an amount of (414) million euros.

5.1.3 Trade receivables

This item amounted to 3,382 million euros at December 31, 2007 versus 2,950 million euros at December 31, 2006.

Due to the diversity of its customer base (consumers, large companies and small businesses) which covers different sectors, regions and countries, France Telecom does not consider itself to be exposed to a concentration of customer risk.

Trade receivables include 2,001 million euros in invoices not yet issued at December 31, 2007, versus 2,146 million euros at December 31, 2006.

They also include third-party receivables where France Telecom S.A. is responsible for their collection and receives a fee for its services. These third-party receivables totaled 515 million euros at December 31, 2007, versus 559 million euros at December 31, 2006.

Securitization of trade receivables

France Telecom S.A. has set up securitization programs for its trade receivables. The net amount of outstanding securitized receivables stood at 1,798 million euros at December 31, 2007, versus 1,945 million euros at December 31, 2006.

These programs cover receivables existing on the program inception date and those arising during the planned life of the program as and when the related services are provided. The vendors service these receivables on behalf of the purchasers.

The subordinated notes represent the residual interests retained in the receivables by the vendor, which are designed to cover the risk of non-recovery. Net residual interests totaled 1,369 million euros at December 31, 2007 and 1,410 million euros at December 31, 2006.

The impact of these securitization programs on cash flow (excluding fees and unrecoverable amounts) was (106) million euros in 2007 and 428 million euros cumulatively since inception of the programs.

IV - non consolidated documents

FINANCIAL STATEMENTS

Notes to the financial statements

5.1.4 Other receivables

This item totaled 2,033 million euros at December 31, 2007 (versus 1,480 million euros at December 31, 2006) and mainly includes:

- subsidiaries' current accounts for an amount of 1,064 million euros (versus 648 million euros at December 31, 2006);

- income tax due to France Telecom S.A. by its tax consolidated subsidiaries for an amount of 327 million euros (versus 21 million euros at December 31, 2006);

- VAT to be recovered for an amount of 482 million euros (versus 447 million at December 31, 2006).

5.1.5 Cash, cash equivalents and marketable securities

The inventory of cash, cash equivalents and marketable securities held at December 31, 2007 comprise:

(in millions of euros)	At December 31, 2007	At December 31, 2006
Loans	14	150
Certificates of deposit	2,642	1,229
Mutual funds (SICAVs)	20	486
Mutual funds (FCPs)	69	1,124
Treasury bills	343	0
Treasury shares	215	0
Accrued interest	17	6
Marketable securities	3,320	2,995
Cash	98	181
TOTAL CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES	3,418	3,176

The Ordinary and Extraordinary Shareholders' Meeting of April 21, 2006 authorized a share buyback program for up to 10% of France Telecom S.A.'s capital, valid until October 21, 2007. On May 21, 2007, it renewed this authorization until November 20, 2008. A description of the share buy back program was published on May 21, 2007. During 2007, France Telecom S.A. bought back 9,113,884 shares under the program.

In May 2007, France Telecom S.A. also entered into a liquidity contract for its ordinary shares with a financial

institution. An amount of 100 million euros has been allocated to the liquidity account for purposes of implementing the contract. At December 31, 2007 France Telecom S.A. held 1,415,000 treasury shares under the liquidity contract. The unused balance allocated to the liquidity account has been invested in money market funds.

At December 31, 2007, France Telecom S.A. held 10,528,884 treasury shares, versus none at December 31, 2006.

5.1.6 Impairment of current assets

(in millions of euros)	Opening balance	Change in scope and reclassifications	Increases	Decreases	Closing balance
Trade receivables	(133)	(10)	(55)	25	(173)
Other receivables	(2)				(2)
Inventories	(11)		(9)	10	(10)
Marketable securities					
TOTAL	(146)	(10)	(64)	35	(185)

5.1.7 Prepaid expenses

Prepaid expenses totaled 1,738 million euros at December 31, 2007, versus 1,850 million euros at December 31, 2006. They mainly include:

- prepayments under QTE leases for an amount of 980 million euros (versus 1,058 million euros at December 31, 2006);

- expenses related to financial instruments (mainly hedging instruments) for an amount of 551 million euros (versus 602 million euros at December 31, 2006).

5.2 Liabilities and shareholders' equity

5.2.1 Shareholders' equity

At December 31, 2007, France Telecom S.A.'s share capital amounted to 10,457,395,644 euros comprising 2,614,348,911 ordinary shares with a par value of 4 euros

each. For the year ended December 31, 2007, the weighted average number of ordinary shares outstanding amounted to 2,601,559,094, and the weighted average number of ordinary and dilutive shares amounted to 2,763,924,859.

At December 31, 2007, the French State owned 27.34% of France Telecom's share capital either directly or indirectly through ERAP and 27.45% of the voting rights.

5.2.1.1 Change in shareholders' equity

(in millions of euros)	Opening balance	Allocation of 2006 net income	Dividend distribution	2007 net income	Capital increase arising on exercise of stock-options and liquidity contracts	Other movements	Closing balance
Share capital	10,427				30		10,457
Issue premium	15,179				138		15,317
Legal reserve	1,041	1					1,042
Retained earnings	7,227	4,403	(3,117)				8,513
Net income	4,404	(4,404)		7,331			7,331
Government grants	617					12	629
Regulated provisions	423					(89)	334
TOTAL	39,318	-	(3,117)	7,331	168	(77)	43,623

During 2006, the change in shareholders' equity broke down as follows:

(in millions of euros)	Opening balance	Allocation of 2005 net income	Dividend distribution	2006 net income	Capital increase arising on exercise of stock-options and liquidity contracts	Transfer of Transpac assets and liabilities	Other movements	Opening balance
Share capital	10,412				15			10,427
Issue premium	15,131				48			15,179
Legal reserve	767	274						1,041
Other reserves	-							
Retained earnings	4,625	5,237	(2,602)			(37)	4	7,227
Net income	5,511	(5,511)		4,404				4,404
Government grants	596						21	617
Regulated provisions	506					37	(120)	423
TOTAL	37,548	0	(2,602)	4,404	63	0	(95)	39,318

5.2.1.2 Changes in share capital

In 2007, France Telecom S.A. issued 7,675,781 new shares including 1,326,010 shares underlying the subscription options for Wanadoo shares transferred to France Telecom, 6,258,131 shares underlying the options liquidity instruments held by Orange stock-option holders, and 91,640 shares underlying the subscription options for France Telecom S.A. shares (following accelerated exercise of the options due to the sale of the Dutch subsidiaries on October 1, 2007).

The resulting capital increase was noted by the Board of Directors on January 21, 2008.

5.2.1.3 Stock-option plan

1) France Telecom S.A. 2007 plan

At its meeting of May 21, 2007, the Board of Directors of France Telecom S.A. granted 10,093,300 stock-options to certain executive officers and employees of the Group. The options may be exercised during a period of ten years beginning on

IV - non consolidated documents

FINANCIAL STATEMENTS

Notes to the financial statements

May 21, 2010 and ending on May 21, 2017. The exercise price has been set at 21.61 euros.

The shares acquired upon exercise of the options are subject to a lock-up period of four years as of May 21, 2007. In addition, the options will not vest unless the beneficiaries have been employed by the Group for a period of at least three years as of May 21, 2007.

2) Plans set up before 2007

■ France Telecom – 2005 plan

The scope of the France Telecom S.A. 2005 stock-option plan was enlarged in 2006 following the consolidation of the Amena group. The weighted average exercise price is 23.46 euros.

If exercised, these options may be exchanged for new France Telecom shares over a period of ten years. The options vest in full after a three-year period.

■ France Telecom (formerly Wanadoo)

Following its purchase of the minority interests in Wanadoo in September 2004, France Telecom undertook to guarantee the liquidity of the Wanadoo stock-option plans by exchanging Wanadoo options for France Telecom S.A. options. These options, which are exercisable for a period of ten years from 2006, are equity-settled.

■ Orange

Orange stock-option plans, which are exercisable since 2006, can be broken down into four categories: International, France, USA and Sharesave.

When France Telecom bought out the minority interests in Orange, it offered holders of Orange stock-options a liquidity contract and then in September 2005 issued options liquidity instruments to facilitate the delivery of France Telecom S.A. shares.

PLAN	Number of options granted	Residual vesting period (in months)	End of vesting period
International	85,693,210	12 to 29	2006
France	45,983,363	31 to 61	2006
USA	3,621,755	4 to 28	2006
Sharesave UK Save – 5 years	4,037,379	-	2006
Sharesave UK Save – 3 years	5,839,507	-	2006
Sharesave Netherlands	232,186	-	2006

3) Movements in stock-option plans during the year

The following table summarizes the stock-option plans granted to France Telecom Group employees at December 31, 2007 and 2006:

	Period ended			
	December 31, 2007		December 31, 2006	
STOCK-OPTION PLAN	Number of options	Weighted average exercise price (euros)	Number of options	Weighted average exercise price (euros)
France Telecom plan (2005/2007)				
Options outstanding at the beginning of the year	14,551,905	23.46	14,516,445	23.46
Granted	10,093,300	21.61	536,930	23.46
Exercised	(91,640)	-	-	-
Cancelled, lapsed	(889,310)	22.68	(501,470)	23.46
Options outstanding at the end of the year	23,664,255	22.70	14,551,905	23.46
France Telecom plan (formerly Wanadoo)				
Options outstanding at the beginning of the year	6,880,597	21.82	8,431,102	20.55
Exercised	(1,326,010)	14.99	(1,333,712)	14.20
Cancelled, lapsed	(685,428)	45.43	(199,686)	19.45
Expired	-	-	(17,107)	16.47
Options outstanding at the end of the year	4,869,159	20.36	6,880,597	21.82
Orange plan⁽¹⁾				
Options outstanding at the beginning of the year	57,940,516	8.80	75,763,520	8.80
Granted			-	-
Exercised	(14,101,219)	8.12	(5,114,738)	6.59
Cancelled, lapsed	(4,000,321)	9.73	(12,708,266)	9.76
Options outstanding at the end of the year	39,838,976	8.94	57,940,516	8.80

(1) The exercise of these options gave rise to the issuance of France Telecom shares pursuant to the options liquidity instruments and France Telecom's decision to issue new shares.

4) Options exercisable at year-end

Options exercisable at year-end were as follows:

Year ended December 31, 2007				
PLAN	Number of unexercised options at year-end	Weighted average period remaining until maturity (months)	Range of exercise prices (euros)	Number of options exercisable at year-end
France Telecom plan	23,664,255	101	21.61 – 23.48	-
France Telecom plan (formerly Wanadoo)	4,869,159	51	13.84 – 48.70	4,869,159
Orange plan	39,838,976	35	4.30 – 10.00	39,838,976

Year ended December 31, 2006				
	Number of unexercised options at year-end	Weighted average period remaining until maturity (months)	Range of exercise prices (euros)	Number of options exercisable at year-end
France Telecom plan	14,551,905	106	23.46 – 23.48	-
France Telecom plan (formerly Wanadoo)	6,880,597	61	13.84 – 48.70	6,880,597
Orange plan	57,940,516	43	4.72 – 10.00	50,223,541

5.2.1.4 Dividend distributions

France Telecom S.A.'s Ordinary Shareholders' Meeting held on May 21, 2007 decided to pay shareholders a cash dividend of 1.20 euro per share in respect of 2006. The dividend was paid on June 7, 2007 in the total amount of 3,117 million euros.

5.2.1.5 Earnings per share

	Before dilution	After dilution
Number of shares	2,601,559,094	2,763,924,859
Earnings per share	2.82	2.65

5.2.1.6 Treasury shares

The Ordinary and Extraordinary Shareholders' Meeting of April 21, 2006 authorized a share buyback program for up to 10% of France Telecom S.A.'s capital, valid until October 21, 2007. On May 21, 2007, it renewed this authorization until November 20, 2008. A description of the share buy back program was published on May 21, 2007.

In May 2007, France Telecom also entered into a liquidity contract for its ordinary shares with a financial institution. An amount of 100 million euros has been allocated to the liquidity account for purposes of implementing the contract.

► SUMMARY OF PURCHASE AND SALES OF TREASURY SHARES IN 2007

PURPOSE	Number of shares bought	Weighted average gross price (€)	Number of shares sold	Weighted average gross price (€)	Number of shares held as at December 31, 2007
Coverage of obligations ⁽¹⁾	9,113,884	19.76	0	N/A	9,113,884
Liquidity contract ⁽²⁾	10,894,896	23.59	9,479,896	23.63	1,415,000
TOTAL					10,528,884

(1) Coverage of obligations relating to debt instruments giving access to share capital or stock option programs or any other form of allocation of shares to employees.

(2) Does not include transactions carried out in December 2007 for which shares were delivered in January 2008. Taking these transactions into account, France Telecom held 1,399,992 treasury shares within the context of the liquidity contract.

The 10,528,884 treasury shares held by the company as at December 31, 2007, are recognized as marketable securities.

5.2.1.7 Regulated provisions

In 2007, France Telecom S.A. elected not to take advantage of the tax regulations on accelerated depreciation. Accordingly, regulated provisions are now exclusively comprised of provisions for investment for an amount of 334 million euros.

5.2.2 Other shareholders' equity

On March 3, 2003, under the settlement relating to the UMTS investment in Germany in partnership with MobilCom Holding GmbH ("MobilCom"), in which it owned 28.3% of the capital, France Telecom issued 430,705 perpetual bonds redeemable for shares (TDIRA) with a nominal value of 14,100 euros each, representing a total amount of 6,073 million euros, of which 341,910 bonds were reserved for members of the banking syndicate (the "Bank Tranche") and 88,795 for MobilCom's suppliers (the "Supplier Tranche"). The TDIRAs are listed on Eurolist by Euronext Paris (international issues). The TDIRAs were the subject of a securities note approved by the *Commission des opérations de bourse* on February 24, 2003.

They are redeemable for new France Telecom ordinary shares at any time by the holders, or, under certain conditions described in the securities note, at France Telecom's initiative, based on a ratio of 405.4002 shares for one TDIRA for the Bank Tranche (i.e. a redemption price of 34.78 euros) and 360.4485 shares for one TDIRA for the Supplier Tranche (i.e. a redemption price of 349.12 euros). The initial ratio of 300 shares for one TDIRA has been adjusted several times to protect the rights of the holders according to applicable law. In addition, during the first seven years, the redemption rate for the Bank Tranche of the TDIRAs

will be adjusted to compensate for any dividend distribution, if these distributions are not otherwise taken into account through another adjustment.

Since January 1, 2006, as France Telecom has fulfilled the credit rating and share price conditions described in the securities note, the interest rate on the TDIRAs is 5.25% until December 31, 2009 inclusive and 3-month Euribor +2.5% thereafter. The interest is recorded on an annual basis in the statement of income. On January 2, 2008, France Telecom paid a coupon of 204 million euros.

If no dividend payment is voted in the Ordinary Shareholders' Meeting or no interim dividend payment is paid by the Board of Directors during the 12 months preceding the coupon payment, France Telecom can delay payment of the coupon. The amount of interest due will itself bear interest at the Euribor 12-month rate until the deferred payments are made. This deferred interest must be paid in full – including the related accrued interest – at the date of payment of the coupon following any decision to pay a dividend or interim dividend and before redemption of the TDIRAs. The interest is recorded on an annual basis in the statement of income. When payment is deferred, identified interest and/or capitalized interest amounts will be included in liabilities in the "Accrued interest payable" line.

In 2007, France Telecom redeemed 27,153 TDIRAs from the Bank Tranche for a nominal amount of 383 million euros. Taking account of redemptions made since their issue, 275,019 TDIRAs remained outstanding at December 31, 2007, including 187,997 for the Bank Tranche and 87,022 for the Supplier Tranche, for a total nominal amount of 3,878 million euros.

5.2.3 Provisions

Provisions break down as follows:

(in millions of euros)	Opening balance	Increases	Reversals (utilizations)	Reversals (releases)	Discounting expense	Change in scope and reclassification	Closing balance
Early retirement plan – civil servants	2,152		(834)	(19)	63		1,362
Early retirement plan – contractual	175		(72)	(3)	6		106
Sub-total termination benefits⁽¹⁾	2,327		(906)	(22)	69	0	1,468
Benefits other than pensions for retirees	32	3	(2)				33
Retirement premium – civil servants	56	12	(10)				58
Unemployment risk	4		(2)				2
Retirement bonuses and other similar benefits	106	27	(27)				106
Sub-total post-employment benefits	198	42	(41)	0		0	199
Long-term benefits	165	26	(8)				183
Total employee benefit obligations	2,690	68	(955)	(22)	69	0	1,850
Contributions to the Works' Committee in respect of early retirement plans	54		(20)				34
Incentive for secondment within the public sector	20	5					25
Free share awards		159					159
Foreign exchange losses	53	305					358
Provisions for claims and litigation	150	71	(48)	(25)			148
Dismantling and restoring sites and treatment of waste electrical and electronic equipment ⁽²⁾	212	11	(9)			25	239
Other provisions	362	167	(115)	(49)			365
TOTAL	3,541	786	(1,147)	(96)	69	25	3,178

(1) The (843) million euros decrease in the early retirement plan obligation is due to the payment of benefits in 2007 for an amount of (893) million euros and the recognition of a (19) million euros actuarial gain offset by a rise in the discount rate from 3.75% at December 31, 2006 to 4.75% at December 31, 2007 for an amount of 69 million euros.

(2) The discount rate is 4.8% for dismantling telephone poles and 4.6% for handsets, decoders, Liveboxes and waste electrical and electronic equipment.

The analysis of the net increases and reversals is as follows:

(in millions of euros)	Increases	Reversals	Total
Operating income – by nature	192	(1,176)	(984)
Finance costs, net – by nature	397	(45)	352
Exceptional items – by nature	289	(45)	244
TOTAL	878	(1,266)	(388)

IV - non consolidated documents

FINANCIAL STATEMENTS

Notes to the financial statements

5.2.3.1 Employee benefits

	Termination benefits		Post-employment benefits				
	Early retirement plan	Other employment termination benefits	Annuity-based plans	Capital-based plans	Other post-employment benefits	Long-term benefits	
(in millions of euros)							TOTAL
Change in the value of the obligation							
Benefit obligations at the beginning of the year	2,309	20	112	158	49	165	2,813
Service cost			6	9	1	26	42
Interest cost	69		4	6	2		81
Employee contributions							
Amendments							
Curtailments/settlements							
Actuarial (gains) or losses	(19)	(4)	(5)	24	(4)		(8)
Benefits paid	(893)	(13)	(8)	(15)	(4)	(9)	(942)
Changes in scope							
Acquisitions/disposals							
Other (exchange differences)							
Benefit obligations at the end of the year: A	1,466	3	109	182	44	182	1,986
in respect of employee benefits plans that are wholly or partly funded			109				109
in respect of employee benefit plans that are wholly unfunded	1,466	3		182	44	182	1,877
Change in plan assets							
Fair value of plan assets at the beginning of the year			19				19
Actuarial return on plan assets							
Gains (losses) on plan assets			(2)				(2)
Employer contributions			22				22
Employee contributions							
Curtailments/settlements							
Benefits paid			(8)				(8)
Changes in scope							
Acquisitions/disposals							
Other			1				1
Fair value of plan assets at the end of the year: B			32				32
Plan assets							
Net funded status (A) – (B)	1,466	3	77	182	44	182	1,954
Unrecognized actuarial gains or (losses)			(35)	(32)	(7)		(74)
Unrecognized prior service cost				(27)	(3)		(30)
Asset ceiling adjustment							
Provision/(asset)	1,466	3	42	123	34	182	1,850
Current provision (asset)	669	1		9	2	37	718
Non-current provision (asset)	797	2	42	114	32	145	1,132
Net periodic pension cost							
Service cost			6	9	1	26	42
Interest cost	69		4	6	2		81
Expected return on plan assets			(1)				(1)
Amortization of actuarial (gains) or losses	(19)	(4)	8				(15)
Amortization of unrecognized prior service cost				6			6
Impact of curtailments/settlements							
Asset ceiling adjustment							
Net periodic pension cost	50	(4)	17	21	3	26	113

	Termination benefits		Post-employment benefits				
	Early retirement plan	Other employment termination benefits	Annuity-based plans	Capital-based plans	Other post-employment benefits	Long-term benefits	TOTAL
(in millions of euros)							
Change in provision (asset)							
Provision/(asset) at the beginning of the year	2,309	20	47	121	35	165	2,697
Net periodic pension cost	50	(4)	17	21	3	26	113
Employer contributions			(22)				(22)
Benefits directly paid by the employer	(893)	(13)		(15)	(4)	(9)	(934)
Changes in scope: acquisitions/disposals							
Other (exchange differences)				(4)			(4)
Provision/(asset) at end of the year	1,466	3	42	123	34	182	1,850

The assumptions used to measure the year-end obligation are as follows:

- a long-term discount rate of 5.0% and a medium-term discount rate of 4.75% to 5.0%;
- inflation rate of 2%;
- average expected long-term increase in salaries of 2% to 4%;
- expected return on plan assets of 5.0% (for the specific retirement plan).

5.2.3.2 Provisions for dismantling and restoring sites and recycling waste electrical and electronic equipment (WE & EE)

These provisions cover the dismantling of telephone poles, public telephones, handsets and Liveboxes and of recycling WE & EE.

These obligations are measured on the basis of annual cost forecasts. Dismantling costs are calculated on the basis of the identified costs for the current financial year, extrapolated for future years using the best estimate of future trends in prices, inflation, etc, and are discounted at a risk-free rate.

The obligation amounted to 239 million euros at December 31, 2007.

IV - non consolidated documents

FINANCIAL STATEMENTS

Notes to the financial statements

5.2.4 Financial liabilities

5.2.4.1 Schedule of gross financial debt, cash, cash equivalents and marketable securities by maturity

The table below provides a breakdown of total gross financial debt, cash, cash equivalents and marketable securities, by category and contractual maturity date (taking account of any changes in maturity after the year-end):

(in millions of euros)	Note	31/12 2006	31/12 2007	01/08 to 12/08	01/09 to 12/09	01/10 to 12/10	01/11 to 12/11	01/12 to 12/12	Beyond
Long and medium-term financial liabilities	5.2.4.1								
Bonds convertible, exchangeable or redeemable for shares ⁽¹⁾	5.2.4.1	1,150	1,150		1,150				
Other bonds	5.2.4.1	28,413	27,541	3,980	2,729	2,857	3,270	2,673	12,032
Other long-term loans ⁽²⁾	5.2.4.1	3,171	1,880	751	96	300	132	1	600
Total		32,734	30,571	4,731	3,975	3,157	3,402	2,674	12,632
Other current financial liabilities									
Bank loans		-							
Treasury bills		977	100	100		-	-	-	-
Bank overdrafts		81	49	49		-	-	-	-
Other current loans		73	94	94		-	-	-	-
Accrued interest		1,066	1,047	1,047		-	-	-	-
Total⁽³⁾		2,197	1,290	1,290		-	-	-	-
TOTAL GROSS FINANCIAL LIABILITIES	A	34,931	31,861	6,021	3,975	3,157	3,402	2,674	12,632
Marketable securities	5.1.5	2,995	3,320	3,320		-	-	-	-
Cash and cash equivalents	5.1.5	181	98	98		-	-	-	-
TOTAL CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES	B	3,176	3,418	3,418		-	-	-	-
NET FINANCIAL DEBT	A-B	31,755	28,443	2,603	3,975	3,157	3,402	2,674	12,632

(in millions of euros)	Total	2007	2008	2009	2010	2011	2012 and beyond
Schedule of net financial debt at December 31, 2007 by maturity	31,755	3,802	4,997	3,975	3,157	3,744	12,080

(1) Interest rate of 1.60%.

Bond with a face value of 2,581 euros and with an option for conversion into and/or exchange for new or existing France Telecom shares (OCEANE) as of October 20, 2004 at a ratio of 100.297 France Telecom S.A. shares per bond and a conversion price of 25.73 euros per share (the conversion price and parity were adjusted following the capital increase in September 2005).

(2) Mainly bank loans which were long-term or medium-term at inception.

(3) The interest rates on the short-term loans granted to France Telecom S.A. are mostly linked to French and foreign money market rates (essentially US).

The covenants on the Group's borrowings and credit lines are presented in Note 5.2.5.

5.2.4.2 Gross financial debt by currency

The table below provides a breakdown of France Telecom S.A.'s gross financial debt less cash, cash equivalents and marketable securities by currency after swaps.

➤ BREAKDOWN OF GROSS FINANCIAL DEBT LESS CASH & CASH EQUIVALENTS AND MARKETABLE SECURITIES, OWING TO THIRD PARTIES

EQUIVALENT VALUE IN EUROS AT THE YEAR-END CLOSING RATE	December 31, 2007	December 31, 2006
EUR	24,541	27,947
USD	177	92
GBP	3,529	3,509
PLN	279	96
Other currencies	264	(104)
TOTAL AFTER SWAPS	28,790	31,540
Accrued interest	1,047	1,066
Impact of currency swaps	(1,394)	(852)
TOTAL BEFORE SWAPS	28,443	31,754

5.2.4.3 Long and medium-term financial liabilities

In 2007, France Telecom S.A. redeemed bonds for a total amount of 3,123 million euros and issued new bonds for an amount of 3 million euros.

France Telecom S.A.'s bonds at December 31, 2007 are repayable at maturity, and no specific guarantees have been given in relation to their issuance.

In addition, no guarantees have been given in respect of France Telecom S.A.'s long-term loans outstanding on December 31, 2007. Certain loans may be repaid in advance, at the request of the borrower. In 2007, France Telecom contracted 600 million

euros of bank borrowings and repaid 1,639 million euros of bank borrowings including 125 million euros in respect of its credit line.

5.2.5 Exposure to market risks and financial instruments

5.2.5.1 Interest rate risk management

France Telecom S.A. seeks to balance its fixed-rate/variable-rate exposure in euros so as to minimize interest costs by using interest rate derivative instruments such as swaps, futures, caps and floors within limits established by France Telecom S.A. management.

Derivative financial instruments

Derivative financial instruments outstanding at December 31, 2007, included in the calculation of the average spot interest rate, are analyzed as follows:

(millions of euros)	Under one year	One to five years	Over five years	Notional
Instruments designated as hedges of non-current liabilities				
Fixed-rate payer and floating-rate receiver swaps		350		350
Floating-rate payer and fixed-rate receiver swaps	749	1,447		2,196
Floating-rate payer and floating-rate receiver swaps		229		229
Swaps designated as hedges of structured issues against floating rate payment	109			109
Caps				
Instruments designated as hedges of current liabilities				
Instruments that meet the criteria for France Telecom S.A.'s hedging policy but do not qualify for hedge accounting				
Swaps designated as hedges of non-current liabilities	750	1,907	650	3,307
Short-term swaps	510			510
Sale of futures contracts				
Swaptions			341	341
Caps	70	2,070		2,140

IV - non consolidated documents

FINANCIAL STATEMENTS

Notes to the financial statements

Analysis of gross financial liabilities by interest rate range

The table below shows an analysis of gross financial liabilities by interest rate range after the impact of interest rate and currency swaps:

DATA AFTER SWAPS (in millions of euros)	December 31, 2007	December 31, 2006
BONDS AND BANK LOANS⁽¹⁾		
Rate less than or equal to 5%	7,321	4,820
Between 5% and 7%	9,069	10,670
Between 7% and 9%	9,566	9,831
Over 9%		
Total fixed-rate (Weighted average spot interest rate: 6.12% at December 31, 2007; 6.28% at December 31, 2006)	25,956	25,321
Total floating-rate (Weighted average spot interest rate: 6.21% at December 31, 2007; 4.63% at December 31, 2006)	5,996	8,271
TOTAL BANK LOANS AND BONDS (Weighted average spot interest rate: 6.14% at December 31, 2007 and 5.87% at December 31, 2006)	31,952	33,592
TOTAL NON-CURRENT FINANCIAL LIABILITIES	31,952	33,592
o/w impact of currency swaps ⁽²⁾	(1,380)	858
Current financial liabilities (Weighted average spot interest rate: 4.62% at December 31, 2007; 3.66% at December 31, 2006)	1,303	2,190
o/w impact of currency swaps ⁽²⁾	(14)	(6)
TOTAL GROSS FINANCIAL LIABILITIES AFTER SWAPS	33,255	35,782
o/w impact of currency swaps ⁽²⁾	(1,394)	(852)
TOTAL GROSS FINANCIAL LIABILITIES BEFORE SWAPS	31,861	34,931

(1) Non-current financial liabilities including bonds convertible, exchangeable or redeemable for shares.

(2) Impact on financial liabilities converted at the hedging rate. This amount excludes foreign exchange gains or losses on short-term derivatives designated as hedges of non-current financial liabilities, which were recognized in prepaid expenses for an amount of 551 million euros at December 31, 2006.

Management of fixed-rate/variable-rate debt

The fixed-rate portion of France Telecom S.A.'s net financial debt after swaps rose from 93.75% at December 31, 2006 to 97.24% at December 31, 2007.

5.2.5.2 Currency risk management

France Telecom S.A.'s foreign operations are carried out by subsidiaries that operate in their own country. Their operational exposure to currency risk is therefore limited. France Telecom S.A. generally hedges its foreign currency issuance with derivatives or with assets in the same currency.

The table below shows the notional amounts of currencies to be delivered and received under off-balance-sheet currency instruments (currency swaps, forward currency transactions and currency options) held by France Telecom S.A. The issues in American dollars, Japanese yen and pounds sterling have mostly been converted into euros:

(in millions of euros)	In currencies ⁽¹⁾					Other currencies in euro equivalent value
	EUR	USD	JPY	GBP	PLN	
Cross-currency swap lender legs	-	6,382	22,000	250	-	553
Cross-currency swap borrower legs	(6,743)	-	-	-	-	-
Currencies receivable under forward currency contracts	1,559	70	-	684	-	163
Currencies payable under forward currency contracts	(1,167)	(218)	(280)	(648)	(1,000)	(237)
Currency collar receivable	-	-	-	-	-	-
Currency collar payable	-	-	-	-	-	-
TOTAL	(6,351)	6,234	21,720	286	(1,000)	479
Translated into euros at the year-end closing rate⁽²⁾	(6,351)	4,235	132	390	(278)	479

(1) The positive amounts represent currencies receivable and negative amounts represent currencies deliverable.

(2) In euro equivalent value.

5.2.5.3 Management of liquidity risk

France Telecom S.A. optimizes its liquidity management through:

- smoothing debt maturities;
- liquidity of investments;
- diversifying its sources of financing.

France Telecom S.A. has an undrawn syndicated credit line of eight billion euros, maturing in June 2012, as follows:

AMOUNT (in euros)	Maturity	Fee on undrawn amounts		Margin
8 billion	6 years	4.25 basis points from 1 to 5 years 5 basis points beyond 5 years	14.5 basis points from 1 to 5 years 17 basis points beyond 5 years	

(in millions of euros)	December 31, 2007	December 31, 2006
Amount available on the syndicated credit line ⁽¹⁾	8,000	8,000
Amount available on the bilateral credit lines	0	0
Authorized overdrafts	150	150
FT S.A. credit facilities not utilized at the end of the financial year	8,150	8,150
Marketable securities and cash	3,418	3,177
Bank overdrafts	(49)	(81)
TOTAL LIQUIDITY POSITION AT THE YEAR END	11,519	11,246

(1) The 8 billion euro multi-currency syndicated credit line was obtained by France Telecom S.A. on June 20, 2005. It is not subject to any specific covenants in terms of financial ratios.

France Telecom S.A.'s credit ratings at December 31, 2007 were as follows:

	Standard & Poor's	Moody's	Fitch IBCA
Non-current debt	A-	A3	A-
Outlook	Stable	Stable	Stable
Current debt	A2	P2	F1

A portion of the debt (8.1 billion euros of the outstanding balance at December 31, 2007) is subject to step-up clauses. These clauses are triggered if the credit ratings assigned to France Telecom S.A. by Moody's and Standard and Poor's change. As France Telecom S.A.'s ratings did not change during 2007, the step-up clauses were not triggered. This amount does not include the perpetual bonds redeemable for shares (TDIRAs).

5.2.5.4 Management of covenants

Covenants with regard to financial ratios

At December 31, 2007, France Telecom S.A. had no further credit lines or loans subject to specific covenants with regard to financial ratios.

Covenants with regard to events of default or material adverse changes

Most financing contracts do not contain any cross default or acceleration clauses in case of material adverse change.

As regards structured financing contracts, several repayment scenarios are possible for France Telecom S.A.'s receivables securitization programs:

- standard repayment on the contractual maturity date of the programs at December 31, 2007 (renewable maturities);
- accelerated payment, notably in the event of a downgrading of France Telecom's long-term rating to BB-. In the event of accelerated repayment, the securitization conduits stop participating in the financing of new receivables, and cash received on previously divested receivables serves to repay holders of beneficial interests progressively.

IV - non consolidated documents

FINANCIAL STATEMENTS

Notes to the financial statements

5.2.5.5 Credit risk management

France Telecom S.A. considers that it has an extremely limited exposure to credit risk with respect to its investments and other assets due to their diversity and the company's prudent investment policy.

5.2.5.6 Notional amount of derivative financial instruments

The notional contracts or amounts do not represent the amounts to be paid or received and consequently do not represent the

risk incurred by France Telecom S.A. associated with the use of derivative financial instruments.

The fair value of the currency swaps and interest-rate swaps is estimated by discounting future expected cash flows using the year-end market exchange rates and interest rates for the remaining term of the contracts.

The fair value of over-the-counter options is estimated using generally accepted market measurement models.

(in millions of euros)	Period ended December 31, 2007			Period ended December 31, 2006		
	Notional amount	Book value	Fair value	Notional amount	Book value	Fair value
Off-balance-sheet financial instruments						
Interest rate caps	2,140	17	38	4,140	19	35
Interest rate collars	-	-	-	-	-	-
Interest rate swaps ⁽¹⁾	7,859	61	56	8,996	2	(19)
Currency swaps	6,743	15	(1,117)	6,064	15	(914)
Forward currency contracts and currency swaps	2,716	(16)	(13)	2,459	-	6
Currency options	-	-	-	39	-	-
Futures	-	-	-	600	-	-
Swaptions	341	(16)	(12)	271	-	-
TOTAL	19,799	61	(1,048)	22,569	36	(892)

(1) Including 1,159 million euros with a forward inception date at December 31, 2007 (1,266 million euros at December 31, 2006).

The book value of off-balance-sheet derivative instruments includes accrued interest, equalization payments, premiums paid or received, and provisions for interest-rate risks relating to instruments that do not qualify for hedge accounting. The difference between book value and market value mostly comprises the unrealized deferred gains or losses on off-balance-sheet financial instruments.

5.2.6 Trade payables

This item amounted to 3,910 million euros on December 31, 2007 versus 3,587 million euros on December 31, 2006. It includes 2,747 million euros of invoices not yet received at December 31, 2007 versus 2,265 million euros at December 31, 2006.

5.2.7 Other current liabilities

(in millions of euros)	December 31, 2007	December 31, 2006
Subsidiaries' cash current accounts	22,709	17,200
Orange S.A.	11,355	8,448
Orange France S.A.	3,650	2,317
FTMI	0	108
ASB	1,948	1,032
OPCS	797	1,429
Subsidiaries' group tax relief current accounts	62	369
Orange S.A.	0	270
Tax and social security liabilities	1,608	1,608
Other	172	195
TOTAL	24,551	19,372

5.2.8 Deferred income

Deferred income amounting to 2,175 million euros (2,365 million euros at 31 December 2006) mainly related to:

- prepayments received under QTE leases (see Note 6.2) for 980 million euros (1,058 million euros at December 2006);
- the deferral over 20 years of billing for civil engineering services with respect to the contribution of cabled networks for 439 million euros (471 million euros at December 31, 2006);
- deferred revenue such as telephone service access fees, leased lines, telephone cards and miscellaneous revenue for 612 million euros (671 million euros at December 31, 2006).

5.2.9 Maturity of non-financial receivables and payables

Non-financial receivables and payables are mostly due in under one year.

5.2.10 Foreign exchange gains

This item represents unrealized gains arising on the translation of loans and borrowings in foreign currencies. Most of this amount comprises unrealized gains generated by the depreciation of the dollar.

NOTE 6 Other information

6.1 Employees

The average number of employees in 2007 was 95,857 (2006: 100,601), 73% of whom had civil servant status, versus 75% in 2006.

They are classified as follows:

- senior management and management 37% (versus 33% at December 31, 2006);
- employees, technicians and supervisory staff 63% (versus 67% at December 31, 2006).

6.2 Contractual obligations and off-balance sheet commitments

6.2.1 Contractual obligations recognized on the balance sheet

(in millions of euros)	Note	Payments due at December 31, 2006		Payments due by maturity at December 31, 2007			
		Total	Total	Before end-December 2008	From January 2009 to December 2010	From January 2011 to December 2012	After January 2013
Current financial liabilities	5.2.4	2,197	1,290	1,290			
Non-current financial liabilities	5.2.4	32,734	30,571	4,731	7,132	6,076	12,632
Equity component of bonds convertible, exchangeable or redeemable for shares ⁽¹⁾		1,150	1,150		1,150		
Total gross financial liabilities	5.2.4	34,931	31,861	6,021	7,132	6,076	12,632
Early retirement plan	5.2.3	2,327	1,468				

(1) Maximum amounts assuming no conversion or exchange.

IV - non consolidated documents

FINANCIAL STATEMENTS

Notes to the financial statements

6.2.2 Off-balance sheet contractual obligations and commitments

Management believes that, to the best of its knowledge, there were no outstanding commitments at December 31, 2007, other than those described below, likely to have a material impact on the current or future financial position of France Telecom S.A.

6.2.2.1 Investment, purchase and leasing commitments

(in millions of euros)	Payments due at December 31, 2006	Payments due by maturity at December 31, 2007				
	Total	Total	Before end-December 2008	From January 2009 to December 2010	From January 2011 to December 2012	From January 2013
OPERATING LEASE COMMITMENTS						
Real estate	2,854	2,342	518	1,005	443	376
Other	91	119	43	58	18	
TOTAL	2,945	2,461	561	1,063	461	376
LEASING	13	12	1	3	3	5
PURCHASE COMMITMENTS⁽¹⁾:						
Property, plant and equipment	1,003	182	163	19		
Other goods and services	1,507	1,463	697	373	181	212
TOTAL	2,510	1,645	860	392	181	212

(1) Off-balance sheet commitments related to equity interests are not included in this table (see Note 6.2.2.2).

Leasing commitments

As part of the divestment of a portion of its real estate assets in 2001, 2002 and 2003, France Telecom S.A. undertook to re-lease these buildings under commercial leases, except for certain assets to be vacated in the short-term. France Telecom S.A. may choose whether or not to renew the leases upon expiry or replace them by other leases with renegotiated terms and conditions.

Lease payments in respect of operating leases, except for those entered into with FT Immo H, amounted to 434 million euros at December 31, 2007 (443 millions at December 31, 2006).

Lease payments include 272 million euros in respect of the buildings sold under the 2001 and 2002 real estate divestment plan and 55 million euros in respect of the buildings sold under the 2003 real estate divestment plan.

The table below shows minimum future lease payments under non-cancelable real estate operating leases at December 31, 2007:

(in millions of euros)	Operating leases except for those with FT Immo H	Operating leases with FT Immo H	Total operating leases
From January 2008 to December 2008	449	69	518
From January 2009 to December 2009	432	70	502
From January 2010 to December 2010	429	73	502
From January 2011 to December 2011	238	48	286
From January 2012 to December 2012	118	40	158
After January 2013	323	53	376
TOTAL MINIMUM FUTURE LEASE PAYMENTS	1,989	353	2,342

Investment commitments

In connection with the awarding of licenses, concession contracts or the acquisition of businesses, the Group may be subject to certain obligations imposed by governmental and/or regulatory authorities relating to network coverage, number of subscribers, quality of service and tariffs. Compliance with these obligations requires significant investments in future years, not included in the table above, as part of network development plans in countries where a license was granted, particularly as regards the rollout and enhancement of 2G and 3G European networks. Non-compliance with these obligations could result in fines and other sanctions ultimately including the withdrawal of licenses awarded. Management believes that the Group has the ability to fulfill its obligations imposed by governmental and/or regulatory authorities. The Group may also be required to pay further fixed or variable user fees on expiry of these licenses.

As part of the acquisition of TP Group, France Telecom undertook to the Polish Treasury to vote in favor of a multi-annual investment program of 27 billion zlotys covering the period from January 1, 2001 to December 31, 2007.

At December 31, 2007, the total amount of investments made by TP Group, including the purchase by TP S.A. from FTMI of its 34% holding in PTK Centertel and the purchase by TP S.A. of the minority interests in Wirtualna Polska, amounted to 33 billion zlotys.

This undertaking has been fulfilled and it is no longer included in off-balance sheet commitments at December 2007.

Commitments to purchase or lease goods and services

In the ordinary course of its activities, France Telecom S.A. enters into purchase contracts with network equipment manufacturers, suppliers of handsets and other equipment, as well as various contracts with telecommunications operators. These purchases may form part of several-year contracts.

The most significant commitments at December 31, 2007 relate to the purchase of transmission capacity and IP connectivity from some of its subsidiaries, particularly in the USA and Germany:

- lease of satellite transmission capacity for an overall amount of 517 million euros, including 465 million euros on behalf of GlobeCast (585 million euros including 443 million euros on behalf of GlobeCast at December 31, 2006), with various contractual maturities up to 2015;
- maintaining submarine cables for which France Telecom S.A. has joint ownership or user rights, for an estimated overall amount of 178 million euros (244 millions euros at December 31, 2006).

6.2.2.2 Other off-balance sheet commitments

a) Guarantees

(in millions of euros)	Payments due at December 31, 2006		Payments due by maturity at December 31, 2007			
	Total	Total	Before end- December 2008	From January 2009 to December 2010	From January 2011 to December 2012	From January 2013
Guarantees given to third parties by France Telecom S.A.						
in the ordinary course of business	1,313	1,178	346	545	31	256
in relation to disposals ⁽¹⁾	1,752	1,578	281	897	260	140
QTE leases ⁽²⁾	1,521	1,347	41	15		1,291

(1) Capped guarantees.

(2) As part of cross-leasing transactions ("QTE" leases) with various third parties, France Telecom S.A. has given to investors, and then leased back, certain items of telecommunications equipment. Under the terms of these leases, France Telecom S.A. has guaranteed the aforementioned investors future lease payments, and has provided counter-guarantees to banks that have granted them letters of credit.

Guarantees given in the ordinary course of business

France Telecom S.A.'s main commitments relating to borrowings are set out in Notes 5.2.4. and 5.2.5.

France Telecom S.A. provides certain guarantees to third parties (financial institutions, customers, partners and government agencies) to ensure the fulfillment of contractual obligations by France Telecom S.A. in the ordinary course of their business.

These guarantees are not shown in the table above as they do not increase the commitments. No material guarantees have been granted by France Telecom S.A. to cover the contractual obligations of consolidated subsidiaries in which there are significant minority interests.

Likewise, under the real estate divestment plan implemented by France Telecom S.A. and its subsidiaries, France Telecom S.A. has jointly and severally guaranteed the payment of rents on the

IV - non consolidated documents

FINANCIAL STATEMENTS

Notes to the financial statements

leased buildings. The total amount of residual rent commitments is 229 million euros at December 31, 2007 (248 million euros at December 31, 2006).

When France Telecom grants guarantees to ensure the fulfillment of its own obligations, they are not summarized in the table below because they do not increase the company's commitment (see Note 6.2.3 "Assets covered by commitments" for guarantees that consist of collateral).

Asset and liability warranties granted in the context of disposals

As part of the agreements between Group companies and the acquirers of certain assets, subsidiaries or investments, France Telecom S.A. is subject to standard warranty clauses relating to assets and liabilities. All material sale agreements provide for ceilings on these warranties.

Management believes that the risk of these warranties being called upon is unlikely or that the potential consequences of their being called upon are not material with regard to France Telecom S.A.'s results and financial position.

The following table sets out the terms and ceilings applicable to the main guarantees granted:

		Ceilings by maturity					
		At December 31, 2006	At December 31, 2007				
(in millions of euros)	Beneficiary	Total	Total	Before end- December 2008	From January 2009 to December 2010	From January 2011 to December 2012	From January 2013
Asset/investment sold							
TDF ⁽¹⁾	Tower Participations and subsidiaries	641	631	-	631		
PagesJaunes Groupe ⁽²⁾	Médiannuaire Holding	450	0				
Cable activities	Ypso	76	0				
Casema	Cable acquisitions	250	250	250			
Estell LLC (CTE SALVADOR) ⁽³⁾	America Movil	37	0				
Dutch businesses ⁽⁴⁾	Deutsche Telekom	0	400				400

(1) Since December 13, 2004, the only specific warranties outstanding were given in relation to taxation, environmental law and competition law (expiring at end 2009).

(2) On the disposal of PagesJaunes Groupe to Médiannuaire, France Telecom undertook to compensate Médiannuaire in the event of failure to comply with the warranties, within a maximum limit of 450 million euros. This commitment expired during 2007 without being called upon.

(3) Fiscal warranties.

(4) The 4 million euros ceiling only applies to warranties concerning taxes. Other warranties are capped at 260 million euros and expire in 2009.

Sale of receivables

Under the provisions of Article 95 of the French Finance Law for 2004 (law no. 2003-1311 of December 30, 2003), France Telecom was liable for an exceptional withholding of 25% in respect of the dividends paid on June 3, 2005, representing an amount of 223 million euros. This withholding constitutes a receivable from the French State, repayment of which will take place in three installments in 2006, 2007 and 2008. Upon its sale of this receivable, France Telecom S.A. gave a customary warranty regarding the existence of the receivable expiring on repayment of the third and final installment in 2008.

Amena price guarantee

At the time of the acquisition by France Telecom S.A., on November 8, 2005, of Auna Operadores de Telecomunicaciones S.A., which owns Retevision Movil S.A. (Amena), those shareholders holding the residual interest in Auna undertook not to sell their shares for a period of three years except in the event of a transfer to a Spanish entity that is not a competitor of France Telecom.

At the end of this three-year period, and for an initial period of one month, the minority shareholders may approach France Telecom S.A. in order to determine whether it is interested in

buying their shares, in which case discussions could begin. After this one-month period, and for a period of six months, certain minority shareholders may decide to sell all of their shares provided that they have received from a third party a "Bona Fide Offer", defined as an offer at least equal to a floor valuation of the shares as established by two investment banks. After receiving the "Bona Fide Offer", the minority shareholders are required to notify France Telecom S.A., which may decide to acquire the shares or not.

If France Telecom S.A. decides to acquire the shares, it undertakes to pay a price per share at least equal to 90% of the price it paid for the Auna shares in 2005 plus capitalized annual interest of 4.5% (the "Guaranteed Price"). If it decides not to acquire the shares, France Telecom S.A. undertakes to indemnify the minority shareholders, if they actually sell their shares, for any negative difference between the price of the "Bona Fide Offer" and the "Guaranteed Price". This price guarantee given to minority shareholders has been accounted for as a "synthetic" derivative and measured at fair value at December 31, 2007 for an amount of 516 million euros.

After the six months, minority shareholders may ask for their shares to be listed. The value of the shares must then be established by two investment banks. At any moment up to the date a prospectus is filed with the relevant stock exchange authorities, France Telecom S.A. can exercise its preemption right on the shares held by the minority shareholders, at a price at least equal to the Guaranteed Price per share.

As from three years and seven months after November 8, 2005 and until the fifth anniversary of the acquisition date, France Telecom S.A. holds a call option on the shares held by the minority shareholders, that may be exercised at a price equal to the higher of:

- the fair value of the shares; and
- the Guaranteed Price.

b) Commitments to purchase or sell securities

At December 31, 2007, France Telecom had no material commitment to unconditionally acquire, subscribe to or sell any securities.

6.2.2.3 Commitments relating to employees other than pensions and other post-employment benefits

a) Commitments relating to the public service secondment plan

Article 29-3 of the law of July 2, 1990, set up by law 2003-1365 of December 31, 2003 and the related enabling decrees, respectively set out the principles and terms and conditions applicable to the secondment of France Telecom S.A. civil servants to the public sector up to December 31, 2009, and

the financial measures and assistance to be granted by France Telecom S.A., i.e. France Telecom S.A. is responsible for:

- paying the costs for the provision of the recruiting body's services for a four-month period;
- paying an additional lump-sum indemnity to the employee concerned if the index he or she obtains in his or her new department is lower than that which he or she held at France Telecom S.A.;
- reimbursing the new employer for any additional employer social security taxes due further to the secondment; and
- paying the new employer an amount equal to four months' salary of the seconded employee.

France Telecom S.A. is also required to pay:

- any training costs;
- an indemnity – paid at the time of the employee's secondment – intended to compensate over a two-year period for any difference between total remuneration received at France Telecom and that received in the new position, when the latter is lower than the former (capped at 60% of the previous total annual base salary); and
- a bonus, paid at the time of the employee's integration into the new public service position, equivalent to four months' remuneration. Similar provisions are applied for private sector employees moving to the public sector.

The impact of these provisions depends on:

- the number of volunteers;
- the volume and type of positions offered by the various public services; and
- the decisions made by the body responsible for the organization of integrations at the end of the secondment period.

Therefore, the associated costs are provisioned when it is probable or certain that these staff transfers will result in an outflow of resources without an inflow of at least an equivalent amount and the amount concerned can be measured reliably. The provision is recorded when the secondment of a volunteer to a specific position is accepted by the public service where the seconded employee will work.

If the volume of secondments through December 31, 2009 (the expiry date for secondments under the December 31, 2003 law) remained consistent with the volume of secondments in 2007, and based on the financial measures provided for under the agreement, the present value of future costs would amount to approximately 144 million euros, of which 22 million euros is covered by a provision at December 31, 2007.

IV - non consolidated documents

FINANCIAL STATEMENTS

Notes to the financial statements

b) Individual right to training for employees

Statutory training rights acquired but not yet used by employees who are not civil servants and who are employed on a permanent contract with France Telecom S.A. totaled approximately 1.7 million hours at December 31, 2007.

In accordance with the accounting policies set out in Note 2, at December 31, 2007 no provisions were recognized relating to statutory training rights in France Telecom S.A.'s financial statements.

6.2.3 Assets covered by commitments

The table below demonstrates France Telecom's ability to freely use its assets at December 31, 2007.

(in millions of euros)	Note	Total at December 31, 2007	Total at December 31, 2006
Guarantee deposits associated with swap contracts	5.1.2.3	710	459
Outstanding sold receivables	5.1.3	1,369	1,410
Other guarantee deposits	6.3.1	779	20

At December 31, 2007, France Telecom S.A. had not granted any significant pledges or mortgages over its assets.

6.2.4 Off-balance sheet commitments received

(in millions of euros)	Total at December 31, 2007
Operating lease commitments	457
Commitments related to the purchase of goods and services	932
Other commitments and guarantees received	6
TOTAL	1,395

Operating lease commitments comprise commitments received from subsidiaries in respect of rent reinvoicing.

Commitments related to the purchase of goods and services mainly comprise:

- commitments received from GlobeCast under satellite capacity availability agreements;
- commitments received from Orange France under transmission capacity availability contracts.

events arising during the course of legal proceedings may require a reassessment of this risk.

At December 31, 2007, provisions totaling 148 million euros (compared with 150 million euros at December 31, 2006) were recorded in France Telecom S.A.'s accounts to cover all of the litigation proceedings in which it is involved. France Telecom S.A. does not provide details of the provisions, as it considers that their disclosure on a case-by-case basis could seriously harm the Company.

The litigation and claims that could have a significant effect on France Telecom S.A.'s financial position are described below:

6.3 Litigation and claims

In the ordinary course of business, France Telecom is involved in a number of legal and arbitration proceedings and administrative actions.

The costs associated with these proceedings are only accrued when it is probable that a liability will be incurred and the amount of the liability can be quantified, or estimated within a reasonable range. The amount of the provisions recorded is based on a case-by-case assessment of the risk level, and

6.3.1 Litigation related to competition law

A number of claims have been issued by the competitors of France Telecom S.A. for alleged anti-competitive behavior, for which they are generally seeking a cease order together with financial penalties in case of non-compliance. If the claims are upheld, France Telecom S.A. may be ordered to pay fines. Competitors may also claim damages in civil or commercial proceedings for harm caused by these practices.

European Commission procedures and requests for information

- In January 2003, the European Commission opened an inquiry into possible State aid in favor of France Telecom. The formal investigation procedure focused in particular on the special French business tax (*taxe professionnelle*) regime resulting from France Telecom's historical legal status established by the French law of July 2, 1990, to which it was subject from 1991 to 2002.

In its August 2, 2004 decision the European Commission stated that this regime was incompatible with the European Union Treaty and ordered the French State to recover from France Telecom an amount of aid that it estimated to be between 798 million euros and 1.140 billion euros plus interest, pending a more precise calculation. The precise quantification of the alleged aid has been the subject of extensive but inconclusive discussions between the French government and the European Commission, with the French authorities contesting the relevance of the method and reliability of the indicative figures proposed by the Commission.

In January 2005, France Telecom lodged an appeal against this decision with the European Court of First Instance. For its part, the French State had filed an equivalent appeal in October 2004. In October 2006, the European Commission asked the European Court of Justice to rule that the French authorities had failed to execute its decision.

On October 18, 2007, the European Court of Justice concluded that the French authorities had failed to respect their obligation to execute this decision within the prescribed time limits. Following the October 18 ruling, France Telecom placed in an escrow account, pending the final decision on the substance of the matter, the amount of 757 million euros corresponding to the net estimate of the supposed State aid on the basis of valuations provided by the State to the European Commission in July 2004 (gross amount of 798 million euros), and after taking account of the impact of corporation tax applicable between 1994 and 2002, and of late interest charges calculated pursuant to the Commission regulation of April 21, 2004.

The amount in escrow will be transferred to the French State if the appeal of the August 2, 2004 Commission decision should be dismissed by the European Court of First instance. In the contrary event, it will be returned to the full possession of France Telecom.

Subsequent to the setting up of the escrow account, the French authorities and the Commission held discussions aimed at establishing the methodology applicable to the calculation of late interest charges imposed by the Commission regulation of April 21, 2004. On the basis of the 798 million euros gross amount related to the supposed State aid, the amount to be placed in escrow was ultimately fixed at 813 million euros as at February 6, 2008. The discussions between the French authorities and the Commission

services also concern the relevance of referring to the amount of 798 million euros for purposes of this calculation.

In its October 18, 2007 non-execution ruling, the European Court of Justice did not of course express any opinion on the validity of the underlying Commission decision of August 2, 2004. Under these circumstances, the assessment of the risk in this litigation is unchanged and the risk continues to be classified as a contingent liability as defined by Article 212-4 of the General Accounting Plan (*Plan Comptable Général*).

- In December 2001, following a sector inquiry on the conditions for unbundling the local loop and providing access to broadband services in the European Union member states, the European Commission notified Wanadoo of claims arising from the company's tariffs for the broadband Internet services Wanadoo ADSL and Pack eXtense. In July 2003, the European Commission ordered Wanadoo to pay a fine of 10.4 million euros for abuse of dominant position between March 2001 and October 2002. On January 30, 2007, the European Court of First Instance upheld this decision. France Telecom has filed an appeal with the European Court of Justice.

Litigation related to competition law

- In July 2004, Bouygues Telecom Caraïbes filed a complaint with the Competition Council along with a claim for around twenty injunctions against Orange Caraïbes and France Telecom in relation to the Group's practices in the Caribbean mobile telephony market. On December 9, 2004, the Competition Council issued four injunctions against Orange Caraïbes, pending its decision on the substance of the case. Further to an appeal against this decision lodged by Orange Caraïbes, on January 28, 2005 the Paris Court of Appeal confirmed the principles behind these injunctions, while extending the timeframe for implementing two of them. An investigation into the substance of the case was opened in December 2005. In May 2007, the Competition Council joined this proceeding with a June 2005 claim by Outre-mer Telecom.
- On August 14, 2007, France Telecom was informed that Free had filed a complaint with the Competition Council against France Telecom concerning the rollout of fiber optic networks. This complaint includes a claim for injunctive relief to require France Telecom to provide access to its civil engineering facilities for purposes of implementing very high bandwidth services, and to do so at cost-oriented tariffs, while prohibiting France Telecom from marketing its own retail service offering or rolling out its own facilities outside Paris until such time as these measures are taken. A decision on the injunction is expected in February 2008. At this stage of the proceedings, France Telecom is not in a position to assess the risk involved.

6.3.2 Civil proceedings

- Three proceedings are currently pending before German courts, all relating to the UMTS investment undertaken

IV - non consolidated documents

FINANCIAL STATEMENTS

Notes to the financial statements

in Germany in 2000 in partnership with MobilCom. This investment was agreed to on March 23, 2000 under the aegis of the contract known as the "Cooperation Framework Agreement" (CFA), and subsequently was brought to an end on November 20, 2002 by a negotiated settlement, known as the "MobilCom Settlement Agreement" (MCSA). Under the terms of this settlement, France Telecom purchased the MobilCom receivables held by the bank syndicate members and suppliers at their face value and wrote-off the receivables as well as the repayment of shareholders' advances made to MobilCom during the previous two years for a total settlement payment of approximately 7 billion euros. These judicial proceedings have been initiated either by the court-appointed liquidator in the personal bankruptcy of the former MobilCom CEO Gerhardt Schmid, or by minority shareholders of MobilCom related to Mr Schmid. The parties are claiming very significant amounts on the basis of the alleged improper enforcement of the CFA and/or violation of German law on the protection of minority interests. The plaintiffs accuse France Telecom in substance of having undertaken the UMTS project and then terminated it, and of having imposed these decisions on MobilCom and its then CEO by means of a supposed "hidden" or "de facto" domination.

The first action was brought in December 2003 before the Kiel Court by Millenium, a minority shareholder of MobilCom owned by Ms. Schmid-Sindram. In December 2005, Millenium raised its claim to 5.41 billion euros excluding interest in respect of the losses suffered by it and by MobilCom as a result of the so-called de facto domination (see below). On January 30, 2008, the Court held that it was competent; it will set out the subsequent steps in the proceedings at a later date.

The second action, launched in December 2003, is currently pending before the Schleswig-Holstein Court of Appeal after the plaintiffs' claims were rejected as unfounded by the Flensburg Court on August 12, 2005. The claimants in this action are Ms. Schmid-Sindram and Mr Marek, another MobilCom minority shareholder. They are also claiming compensation for loss suffered due to the alleged dominant relationship, which they evaluate at a theoretical supplement to the share price multiplied by the number of shares held by the plaintiffs or possibly by all the shareholders. In its September 14, 2007 hearing, the Chairman of the Court of Appeal found that no dominant relationship existed in this case; he also permitted the claimants to further develop their arguments.

The third pending action was brought before the Frankfurt Court in December 2004 by the court-appointed liquidator in Gerhardt Schmid's personal bankruptcy. The claim disregards all waivers of rights to legal recourse stipulated in the MCSA, which he claims are null and void, alleging improper enforcement of the CFA as well as de facto domination. In December 2005, the claim was increased to 7.22 billion euros excluding interest, on the basis of a fictitious reconstruction

of MobilCom's value had the UMTS project been successful. On January 16, 2008, the Court dismissed the claim.

Although the outcome of this case cannot be determined with certainty, France Telecom considers that all these actions are unfounded and in bad faith.

- In December 2006, Free brought action against France Telecom before the Paris Commercial Court, claiming compensation for the loss it believes it has suffered due to France Telecom's anti-competitive practices in the broadband access market between 1999 and 2005. Free accuses France Telecom of having implemented a strategy that, between 2000 and 2002, prevented it from deploying ADSL and recruiting potential new customers to its dial-up customer base, and which, from 2003 to 2005, hampered its development in this market. Free has asked the court to order France Telecom to pay a provisional sum of 500 million euros subject to valuation, and to appoint a board of three experts to determine the number of subscribers lost by Free. Although the outcome of this case cannot be determined with certainty, France Telecom considers that Free's claims are unfounded, since Free was in a position to benefit fully from the growing and buoyant broadband market in France.
- The lawsuit by Lectiel (formerly Filetech) for anti-competitive practices and free provision of its directory database dates back to 1991. On January 5, 1994, the Paris Commercial Court dismissed its claim: it is this decision which is currently pending before the Paris Court of Appeal. A number of other proceedings have been initiated alongside this main claim, including the claim by Lectiel before the Competition Council which, on September 29, 1998, ordered France Telecom to pay a 1.52 million euro fine and to grant access to the directory data upon request using a cost-oriented tariff. The Paris Court upheld this decision on June 1999. In parallel, the «looting» by Lectiel of France Telecom's database resulted in Lectiel being convicted on criminal charges. Before the Paris Court, and following the principles of its June 13, 2001 preliminary judgement, the lawsuit turns on the legal protection for directory databases, their cost and the observance by France Telecom of the rules governing their provision. In December 2006, Lectiel raised its claims to 376 million euros and also asked the Court to order France Telecom to provide its directory databases free of charge as well as daily updates, or otherwise pay a fine of 1.5 million euros a day. Although the outcome of this dispute is still uncertain, France Telecom considers that Lectiel's claims are unfounded.
- At the end of January 2004, Nerim issued proceedings against Wanadoo France and Transpac (since absorbed into France Telecom S.A.) before the Paris Commercial Court, following a claim against Nerim for unpaid invoices. Nerim claims not to owe any amounts to Transpac and is claiming that on the contrary Transpac and Wanadoo engaged in anti-competitive behavior, warranting damages of 57 million euros. Although the outcome of this dispute is still uncertain, France Telecom considers that the claims are unfounded.

6.3.3 Administrative litigation

- In November 2000, the SNCF lodged a claim with the Paris Administrative Court (*Tribunal administratif de Paris*), for 135.2 million euros in damages against France Telecom relating to its use of SNCF railway infrastructure between 1992 and the end of 1996. France Telecom does not contest the fact that payment is due for the period since July 29, 1996, but considers that the action is unfounded

for the period prior to that date. France Telecom has already set aside a provision for an amount sufficient to cover the expenses for the period since July 29, 1996. On March 11, 2004, the Paris Administrative Court held that the SNCF's claims were inadmissible, a decision upheld by the Paris Court of Administrative Appeal on May 24, 2007. The SNCF has lodged an appeal against the decision with the Administrative Supreme Court (*Conseil d'Etat*).

There are no other governmental, legal or arbitration proceedings, including any proceedings that are pending or threatened of which France Telecom S.A. is aware, which may have or have had in the last twelve months a material impact on the Company's financial position or profitability.

6.4 Related party transactions

The table below shows transactions and balances with related parties in excess of 100 million euros. They include transactions carried out in the ordinary course of business and intercompany loans and borrowings.

(in millions of euros)	Receivables	Payables	Expense	Revenue	Financial expense	Financial income
Related parties						
Atlas Services Belgium		1,948				
Atlas Services Denmark	272					
Atrium3						
Equant BV	281	176	(448)	139	(543)	
EGN BV						
FCR		646				
FT España		101				233
FTMI						100
Orange S.A.	146	11,405			(2,416)	3,765
Orange France S.A.	2,364	4,138	(1,215)	3,287	(119)	
Orange Personal Com Serv Ltd	115	817		152		125
Orange A/S Holding Denmark		202				
Orange Global Ltd		211				
OCH		314				
Orange Group Headquarters (OLTD)		214				328
TPSA						1,040
Wanadoo Broadband Servicios Internet	250					
Wirefree Services Belgium		3,002				

6.5 Subsequent events

No events other than those described above have occurred since the year end.

6.6 Compensation paid to members of France Telecom S.A.'s Board of Directors and Group Management Committee by France Telecom S.A. and companies controlled by it

The total gross amount of all compensation (gross salaries, bonuses, benefits and directors' fees, excluding employer's social security contributions), paid by France Telecom S.A. and companies it controls to persons who were members of France Telecom S.A.'s Board of Directors or Group Management Committee at December 31, 2007 or during the financial year 2007 amounted to 7,815,281 euros in 2007 together with 146,977 euros of incentive bonuses, profit-sharing and employer's contributions paid during 2007, for a total of 7,962,258 euros.

The amount for variable compensations relating to the second half of 2007, as well as incentive bonuses, profit-sharing and

employer's contributions relating to 2007, which will be paid during 2008, were not determined on the date of publication. As a result, the above amount corresponds to all compensation paid during the course of 2007 and not in respect of 2007. Moreover, this amount does not include termination benefits made in 2007 for an amount of 4,691,381 euros.

The amount of total compensation paid in respect of 2006 (including variable compensations relating to the second half of 2006) amounted to 8,078,292 euros, together with 146,977 euros for incentive bonuses, profit-sharing and employer's contributions paid in respect of 2006, for a total of 8,225,269 euros.

V - fees paid to auditors



audit committee pre-approval policies
and procedures 246

V - fees paid to auditors

AUDIT COMMITTEE PRE-APPROVAL POLICIES AND PROCEDURES

Pursuant to article 222-8 of the AMF General Rules, the table below shows the fee amounts paid by France Telecom to each of the Statutory Auditors of the Group, distinguishing the fees for, on the one hand, the legal mission and the diligences directly related to them, and, on the other hand, for other services. In conformity with AMF instruction No. 2006-10 of December 19, 2006, only the fees paid by the fully consolidated subsidiaries and excluding those paid by proportionately consolidated companies or equity associates are indicated.

	Deloitte				Ernst & Young			
	Amount (pretax)		%		Amount (pretax)		%	
	2007	2006	2007	2006	2007	2006	2007	2006
AUDIT								
Statutory auditor, certification, examination of financial statements	17.7	24.1	98%	99%	19.9	26.3	94%	94%
<i>Issuer</i>	8.5	10.9	47%	45%	8.4	10.7	40%	38%
<i>Fully integrated subsidiaries</i>	9.2	13.2	51%	54%	11.5	15.6	54%	56%
Other diligences and services directly-related to the statutory auditor's mission	0.3	0.3	2%	1%	1.1	1.7	5%	6%
<i>Issuer</i>	0.3	0.0	2%	0%	0.4	0.1	2%	0%
<i>Fully integrated subsidiaries</i>	0.0	0.3	0%	1%	0.7	1.6	3%	6%
Sub-total	18.0	24.4	99%	100%	21.0	28.0	99%	100%
OTHER SERVICES RENDERED BY THE NETWORKS TO THE FULLY INTEGRATED SUBSIDIARIES								
Legal, tax, corporate fees	0.0	0.0	0%	0%	0.2	0.1	1%	0%
Other	0.1	0.0	1%	0%	0.0	0.0	0%	0%
Sub-total	0.1	0.0	1%	0%	0.2	0.1	1%	0%
TOTAL	18.1	24.4	100%	100%	21.2	28.1	100%	100%

audit committee pre-approval policies and procedures

France Telecom's Audit Committee establishes and oversees the procedures for selecting external auditors, and makes a recommendation to the Board of Directors regarding their appointment and the terms of their compensation. The Audit Committee also reviews principles and rules to ensure that auditor independence is not compromised. The Audit Committee examines the work plan and the scope of their audit activities.

With a view to safeguarding the independence and objectivity of external auditors, and in accordance with relevant European Union and US regulations, France Telecom has implemented policies for pre-approval of audit and non-audit services. In December 2003, the Audit Committee adopted the "France Telecom Group Audit and Non-Audit Services Pre-Approval Policy". It provides that all permitted audit and non-audit

services must be pre-approved by the Audit Committee. Such pre-approval takes the form either of a general pre-approval for a list of specified services, or pre-approval on a case-by-case basis for all services not on the list. The pre-approval policy sets limits measured in percentage of audit fees on the audit-related, tax and other non-audit services which can be subject to general pre-approval. Non-audit services beyond these limits must be specifically pre-approved. Finally, the policy includes a list of non-audit services which are prohibited in view of the threat they represent to auditor independence.

All services performed by the external auditors in 2006 and 2007 were authorized pursuant to the Audit Committee's pre-approval policy, and the Audit Committee was regularly informed about the services provided and the fees incurred.

VI - chairman's report on corporate governance and internal control



1. corporate governance	248	3. synthesis of work on internal control implemented as part of section 404 of the Sarbanes-Oxley Act	261
1.1 CONDITIONS OF PREPARATION AND ORGANIZATION OF THE WORK OF THE BOARD OF DIRECTORS	248	WORK IN 2007	262
1.1.1 Organization and operations of the Board	248	WORK IN 2008	262
1.1.2 Organization and operations of the Board Committees	250		
1.2 RULES FOR DETERMINING COMPENSATION OF DIRECTORS AND CORPORATE OFFICERS	251	4. appendix to the report of the Chairman of the Board of Directors on the conditions of preparation and organization of the work of the Board of Directors and the internal control procedures	262
1.2.1 Attendance fees	251	INTERNAL GUIDELINES OF THE BOARD OF DIRECTORS AND ITS COMMITTEES	262
1.2.2 Compensation for the Chairman and Chief Executive Officer	251		
1.3 LIMITS ON THE POWERS OF THE CHIEF EXECUTIVE OFFICER	252		
2. internal control procedures	252		
2.1 CONTROL ENVIRONMENT	253		
2.1.1 Values, corporate governance and mobilization of expertise	253		
2.1.2 The Internal Audit team	254		
2.1.3 Other elements of internal control	255		
2.2 INTERNAL CONTROL PROCEDURES FOR THE PREPARATION AND PROCESSING OF ACCOUNTING AND FINANCIAL INFORMATION	257		
2.2.1 Internal control of accounting and financial information	257		
2.2.2 The development of common skills	260		
2.2.3 Continuous improvement	260		

Pursuant to the provisions of Article L. 225-37 of the French Commercial Code, the Chairman of your Board of Directors presents in this report the conditions relating to the preparation and organization of the work of the Board, rules for determining compensation of corporate officers, limits set by the Board of Directors on the powers of the Chief Executive Officer and the internal control procedures implemented by your Company and within the Group.

The Chairman has tasked the Finance Department of the Group with this report, the preparatory work and the diligence required. The Auditors have been informed of this work and due diligence. This report, which has been submitted for the approval of the Group's Financial Disclosure Committee, is also presented to the Audit Committee.

In accounting and finance matters, the France Telecom group has implemented a process of internal controls based on the internationally-recognized methodology of the COSO system of standards (see introduction to section 2 of this report).

In order to guarantee the quality and reliability of the financial information provided, a process to ensure ongoing improvement of internal controls is in place within the Group.

1. corporate governance

1.1 CONDITIONS OF PREPARATION AND ORGANIZATION OF THE WORK OF THE BOARD OF DIRECTORS

France Telecom observes the principles of corporate governance for listed companies set forth in the Afep/Medef Report of October 2003 and has endeavored to implement the recommendations of that report, notably through the adoption by the Board of Directors of Internal Guidelines setting the guiding principles for its operation and the terms under which it performs its duties. These Internal Guidelines were adopted on July 17, 2003 and amended at the meetings of June 28, 2005 and June 6, 2006; they are attached to this report.

1.1.1 Organization and operations of the Board

Board Structure

Pursuant to Article 13 of the Bylaws, the Board of Directors consists of a minimum of twelve and a maximum of twenty-two members. In accordance with French law no. 86-912 dated August 6, 1986 relating to the privatization of France Telecom, it consists of at least two members representing the employees and one member representing the employee shareholders if the board has less than 15 members, or three members representing the employees and one member representing the employee shareholders if the board has 15 or more members.

In addition, pursuant to the French decree-law of October 30, 1935, the Board of Directors must include representatives of the French government in proportion to the latter's shareholding in France Telecom. The board members representing the French government are appointed by ministerial order.

As at December 31, 2007, the Board of Directors is composed of 14 members, as follows:

- seven directors elected by the Shareholders' Meeting;
- three representatives of the French government;
- three directors representing the employees;
- one director representing the employee shareholders.

The directors' term of office is five years.

Details of the composition of the Board of Directors and the list of terms of office held by the directors are in the France Telecom 2007 Registration Document filed with the French stock market regulatory authority (*Autorité des Marchés Financiers* - AMF).

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 the issues affecting it.

At its meeting of January 31, 2007 the Board of Directors confirmed its assessment that five directors may be considered independent according to the criteria of the Afep/Medef Report of October 2003 on corporate governance for listed companies. As at December 31, 2007, this number remains at five, taking into account the departure of Stéphane Richard and the appointment of Claudie Haigneré at the Shareholders' Meeting on May 31, 2007, as the Board considered that the latter also met said criteria of independence.

The other directors are either representatives of the French government or employees or former employees within the past five years of France Telecom S.A. and, as such, may not be considered independent in terms of the Afep/Medef Report criteria.

France Telecom does not entirely comply with the recommendations in the Afep/Medef Report concerning the proportion of independent board members in the Audit and Compensation, Nominating and Governance Committees. This is due to the particular legal rules mentioned above that govern the composition of its Board of Directors reflected in the fact that as at December 31, 2007, eight Board members (the Chairman and Chief Executive Officer, three representatives of the French government and four employee representatives) cannot, by definition, meet the criteria for independence set forth in the Afep/Medef Report.

Duties and operations of the Board

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 Board of Directors met 11 times in 2007. On average, 12 directors attended each Board meeting during this financial year. The average Board meeting lasted three hours. Usually, one or more Board Committees met prior to the meeting to prepare its deliberations (see below).

The Board's main activities were as follows:

Review of the financial statements and results

The Board of Directors approved the annual and half-yearly consolidated and unconsolidated financial statements, management reports and related-party agreements. It reviewed the 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 reviewed the 2007 budget.

Review and approval of strategic operations

In particular, the Board of Directors considered or was given information regarding the following investments, acquisitions or disposals: disposal of the Group's fixed-line, Internet and mobile businesses in the Netherlands, acquisition of Ya.com in Spain, acquisition of Telkom Kenya, acquisition of the mobile operator One in Austria, acquisition of shares in Orange Moldavia held

by minority shareholders, response to the competitive bidding process as part of the privatizations of Algérie Télécom and Ghana Telecom.

Strategic issues

Four Strategy Committees open to all Members were held during 2007 (cf. see "Strategy Committee" below.).

Corporate governance

During its meeting on January 31, 2007, the Board of Directors noted the preliminary results of the 4th quarter of 2006 and authorized the company to disclose them. It also reviewed and approved the 2007 budget.

During the meeting of March 5, 2007, the Board unanimously approved the consolidated and unconsolidated financial statements for the business year 2006 and the related management reports, as well as the report on the conditions of preparation and organization of the work of the Board of Directors and the procedures for internal control. Moreover, the majority of Board members approved the proposal to distribute a dividend of 1.2 Euros per share in respect of the year 2006 and the policy to use cash for 2007.

At its meeting on April 4, 2007, the Board of Directors approved the principle of awarding free shares to employees, as authorized by the Shareholders' Meeting on April 21, 2006.

The freeshare award plan for employees based in France, which is subject to performance conditions, was adopted by the Board at its meeting on April 25, 2007. The Board approved the general regulation of the plan and the list of beneficiaries.

During the same meeting, the Board of Directors approved the general regulation of a new stock subscription plan, its list of beneficiaries and the number of options to be granted. For timing reasons, the decision on setting the price allowing the options to be definitively granted was held over until the meeting of May 21, 2007.

On April 25, the Board also reviewed the results and the lessons to be learned from the second assessment of the operation of the Board and its Committees. It noted the report from the Chairman of the Compensation, Nominating and Governance Committee about the activity of the Group's Ethics Committee in 2006 and the plan of action for 2007.

On August 1, 2007, the Board of Directors unanimously approved the 2007 half-year financial statements. On the same day, following the Board assessment carried out in 2007, it approved the proposals from the Compensation, Nominating and Governance Committee regarding the operation of the latter, aimed at refining the respective role of the Board and its Committees as regards internal control, risk management and fraud prevention.

Finally the Board of Directors appointed Claudie Haigneré to the Strategy Committee, which from then on comprised five members.

VI - chairman's report on corporate governance and internal control

CORPORATE GOVERNANCE

Conditions of preparation and organization of the work of the Board of Directors

Following its decision in principle made on April 4, 2007, the Board of Directors adopted a plan on December 4, 2007 for awarding free shares to employees of the Group based outside France. The Board approved the general regulation of the plan and the list of beneficiaries.

1.1.2 Organization and operations of the Board Committees

Pursuant to the guidelines set out in the Afep/Medef Report, the Board of Directors created the following three specialized committees: the Audit Committee; the Compensation, Nominating and Governance Committee; and the Strategy Committee, to assist in preparing its decisions. Their respective areas of responsibility are set by the Internal Guidelines of the Board of Directors. The details of the composition of the Committees are in the France Telecom 2007 Registration Document filed with the AMF.

The Committees report to the Board on their work and comments and, if applicable, submit their opinions, proposals and recommendations.

Audit Committee

The Audit Committee comprises at least three members appointed for an indefinite term by the Board of Directors on the recommendation of the Compensation, Nominating and Governance Committee. The Chairman of the Audit Committee is chosen from the independent Directors.

Aside from the financial and/or accounting expertise required of all its members, the Audit Committee must also include among its members at least one person who qualifies as a "financial expert", i.e. a person who has held a position at least equivalent to chief financial officer, comptroller or auditor of a company comparable to France Telecom.

Following the departure of Stéphane Richard in 2007, the Board of Directors appointed Charles-Henri Filippi to the Audit Committee as a financial expert at the Board meeting on February 5, 2008.

The responsibilities of the Audit Committee are detailed in Article 7 of the Board's Internal Guidelines.

The Audit Committee met seven times in 2007. It met regularly with France Telecom's executive officers and main managers of the Group's Finance Department, as well as the Director of Internal Audit and Risk Control and the statutory auditors, in order to examine their respective action plans and the work that had been accomplished.

The Audit Committee notably reviewed the following:

- 2007 Budget;
- 2006 consolidated and unconsolidated financial statements and Management Report;
- report on the Board of Directors' activities and internal audit for 2006;

- report from the statutory auditors on the finalization of the financial statements for 2006;
- half-year 2006 consolidated and unconsolidated financial statements and Management Report;
- revenues and principal income for the first and third quarters of 2007;
- distribution of a dividend of 1.20 euro per share to the shareholders in respect of financial year 2006;
- account reconciliation notes comparing the financial statements prepared in accordance with U.S. GAAP with those prepared in accordance with IFRS for the annual (report on Form 20-F) and half-year accounts 2006;
- cash use policy;
- review of off-balance sheet commitments and litigation for 2007;
- update on the proceedings and investigations of the European Commission;
- 2006 report on the internal audit and risk mapping;
- Internal Audit program for 2007;
- progress of the work implemented to satisfy the U.S. Sarbanes-Oxley Act;
- proposed acquisitions as per the approval of strategic operations (see para. 1.1.1);
- allocation of CAPEX;
- refinancing of Group debt;
- fees of the statutory auditors;
- information presented at the Investor Day on December 05, 2007.

Compensation, Nominating and Governance Committee

The Compensation, Nominating and Governance Committee comprises at least three members appointed by the Board of Directors on the recommendation of its Chairman.

Article 8 of the Board's Internal Guidelines details the responsibilities of the Committee.

The Committee met seven times in 2007.

In particular, it considered the following matters:

- definition of the objectives and procedures for calculating the bonus of the Chairman for each six-month period, and the terms of his retirement;
- report from the Group's Ethics Committee;
- consideration of the situation of directors with regard to the Afep/Medef Report criteria;

- study of the principle and implementation of a plan for additional compensation aimed at involving all employees in the success of the "NExT" plan with both a free share award plan and a stock option plan;
- consideration of the terms of the offering reserved for employees and former employees to buy France Telecom shares, following the June 2007 sale by the French government of 5% of the company's capital.

Strategy Committee

The Strategy Committee comprises at least three members appointed by the Board of Directors on the recommendation of its Chairman. The latter chairs the Committee. The Chairman

of the Audit Committee attends meetings of the Strategy Committee.

Article 6 of the Board's Internal Guidelines details the responsibilities of the Committee.

The Committee met four times in 2007. All directors were invited to attend. The Committee especially examined the project to dispose of the Group's fixed-line, Internet and mobile businesses in the Netherlands, quality development of the Group's products and services, the situation of networks and their development, and the European Commission's proposal to separate network functions. It then proceeded to review the Group's assets on the African continent.

1.2 RULES FOR DETERMINING COMPENSATION OF DIRECTORS AND CORPORATE OFFICERS

The criteria used to determine the compensation of board members and the circumstances by virtue of which such compensation was established are as follows:

1.2.1 Attendance fees

In accordance with the law, the maximum amount of attendance fees that can be paid annually to directors is set by the Shareholder's Meeting. The Meeting's resolution remains valid until a new resolution is adopted.

Up to the maximum amount set by the Meeting, and after consulting the Compensation, Nominating and Governance Committee, the Board of Directors decides at the beginning of each year the precise amount of attendance fees that shall be paid to board members in respect of the financial year ended and the rules for distributing them.

Since 2006, directors receive a fixed amount and also a variable amount based on attendance at board and committee meetings and duties performed within such committees.

Except for the directors representing the employees and employee shareholders who receive compensation as Company employees and for the Chairman and CEO, in 2007 the directors received no compensation other than attendance fees and no other benefits from France Telecom.

1.2.2 Compensation for the Chairman and Chief Executive Officer

The compensation of the Chairman and Chief Executive Officer is set by the Board of Directors on the recommendation of the Compensation, Nominating and Governance Committee.

Fixed compensation

The fixed part of the Chairman's compensation was decided by the Board of Directors at its meeting on February 27, 2005 and did not change in 2007.

Bonus

Every six months, the Compensation, Nominating and Governance Committee examines and proposes to the Board of Directors the parameters for calculating the variable amount of the compensation (bonus) of the Chairman and Chief Executive Officer for the following six-month period and proposes the amount of the bonus for the past six-month period based directly on France Telecom's financial results.

The Chairman is eligible for a bonus whose target rate is 50% of his base compensation. In the event that these objectives are exceeded, this bonus may reach a maximum of 66.6% of the base salary. In 2007, the semi-annual variable portion of the Chairman and CEO was based on an overall financial objective calculated on the scope of France Telecom Group and consisting of the weighted average growth rate on a comparable basis of the revenues and the Organic Cash flow indicator.

Pension Plan

The Chairman and Chief Executive Officer is not a beneficiary of any specific pension arrangements. He is covered by the France Telecom supplemental retirement system and shall continue to benefit for the rest of his term of office from the supplemental pension system created for employees classified as "off-grid", in view of his being placed off-grid before the age of 55. This pension will be paid to him at the liquidation of his other pension plans provided that he is still at that time with the Company. The end-of-career salary used to calculate the supplemental pension is equal to the best annual average of the gross compensation for 36 months "off-grid" or as a corporate officer.

Other benefits

The Chairman and Chief Executive Officer receives some limited benefits in kind (a company car, a telephone line package and assistance from private firms providing personal legal assistance related to his position).

In the event his duties with the company are terminated by decision of the Board of Directors, and should such decision also involve the premature termination of his employment contract, (which was suspended upon his appointment as a company officer), he would receive a payment equivalent to 21 months of his latest total annual compensation (including the

contractual severance package), after a decision by the Board of Directors.

The amount of compensation paid to the Chairman and Chief Executive Officer, directors and members of the Group Management Committee are disclosed in the Report of the Board of Directors and the notes to the financial statements of France Telecom S.A.

1.3 LIMITS ON THE POWERS OF THE CHIEF EXECUTIVE OFFICER

At its meeting on January 26, 2006, the Board of Directors chose between the two methods of exercising general management set out in Article L. 225-51-1 of the French Commercial Code. The Board confirmed its choice of combining the offices of Chairman and Chief Executive Officer, performed by Didier Lombard, without any restrictions on powers other than those set forth in applicable laws and those 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 Euros per transaction, when such transactions are acquisitions or disposals. In addition, any investment involving amounts

in excess of 20 million Euros that does not fall within France Telecom's strategic plans must first be approved by the Board of Directors.

In July 2006, the Chairman and Chief Executive Officer implemented a series of power and signatory delegations to the members of the Group Management Committee and to the members of the management team who are under its direct supervision. Each member of the Group Management Committee may further delegate such authority within his or her own area of responsibility. This procedure was updated in 2007 to take into account the appointments made to the aforesaid Committee or to the management team over the year.

2. internal control procedures

The methodology adopted by France Telecom is based on standards of the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Under the COSO standards, internal control is a process implemented by the Board of Directors, the management and the employees, which is intended to provide reasonable assurance concerning the achievement of objectives in the following categories:

- completion 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 (parent company and consolidated companies), are designed to provide reasonable assurance that risks will be controlled and that the objectives defined will be met. The procedures are described in an internal control charter.

As from 2005, a permanent structure, the Internal Control Department, attached to the Finance Department, was implemented. The principal mission of this unit is to provide overall direction for financial internal control procedures in order

to measure the quality of the internal control system. To do so, the Internal Control Department is responsible for conducting the ongoing program to improve the financial internal control processes.

2.1 CONTROL ENVIRONMENT

A set of organizational rules, policies, procedures, and oversight and control mechanisms and committees contribute to effective internal control within the France Telecom group.

2.1.1 Values, corporate governance and mobilization of expertise

2.1.1.1 The Group's values and principles of action and conduct

The France Telecom Board of Directors adopted a Group Code of Ethics at its meeting on December 3, 2003 (available on the website at www.orange.com). 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. It also contains a number of principles of individual behavior that each employee, director and manager must respect.

The Code of Ethics adopted by the Board on December 3, 2003 was published in 2005 in hard copy with a message from the Chairman. This edition was reviewed and presented to the Board of Directors in April 2007 in order to take into account the Group values arising from the NEXt rebranding.

All the managers conducted sessions with their teams to inform them about the principles for action and individual conduct in order to reinforce the implementation of those principles.

The principles and rules relating to market ethics are set forth in a special document, which is an integral part of the Code of Ethics. This document is intended to remind employees and directors of the Group's companies of the current regulations and principles in this area and the need to comply completely with them, as well as certain preventive measures (in particular, the period during which "permanent insiders" are prohibited from trading in securities of the Group).

The Ethics Committee met three times in 2007 to consider in particular:

- proper reconstruction of the network of ethics correspondents, following the reorganization of the Group;
- the chosen method for the control environment aimed at targeting the professions and responsibilities that are at risk pursuant to the Sarbanes Oxley Act;

- re-launching communications upon publication of the new edition of the Code of Ethics Charter, accompanied by a relaunch of the e-learning module on ethics;

- proposed program of sensitization to the prevention of corruption, allowing it to be rolled out differently depending on the country after an initial test;

- developing the e-learning module to make it more modular and to add new situations, particularly on the theme of conflicts of interest.

All these actions are taken by the divisions, entities and countries, who shall ensure the assimilation of the ethics initiative and the principles of action and behavior contained in the Code of Ethics.

2.1.1.2 Group governance

Operating 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 Management Committee directs and coordinates the implementation of these strategies. It oversees the achievement of the objectives implementing its operational decisions and allocation of the necessary resources. The Executive Committee meets once a week.

A number of specialized committees report to the Group's Executive Committee.

The main Committees that the Group's governance relied upon in 2007 were the following: the Investments Committee, the Cash and Financing Committee, the Tax Committee, the Commitments Committee, the Risks Committee and the Disclosure Committee (cf. *infra* 2.2.1.1). These Committees operate independently and are responsible for overseeing and implementing the Group's directives for achieving general economic objectives. They also are responsible for monitoring risk management with regard to financial liabilities, thereby limiting the Group's overall exposure.

The Group's Investment Committee is a research and advisory committee. It operates under the authority of France Telecom's Chairman. Presided over by delegation by the Senior Executive Vice-President in charge of Finance and Operations in Spain, it is also composed of the Group General Secretary, the Deputy

Finance Director, the director in charge of Regulatory Matters, and the Group General Inspector. Its role is to advise the Group Management Committee or subsidiaries. The Committee approves decisions to acquire or sell securities, the principal outsourcing and commercial contracts, and investment programs greater than 15 million Euros that are not included in the budget. This Committee meets as often as it deems necessary, as requested by one of the members of the Group Management Committee, and in general once per week.

The Cash and Financing Committee is chaired by the Group Deputy Finance Director. It meets quarterly and defines the framework for managing the Group's debt, in particular liquidity risks, interest rates and exchange rates for the coming months, and reviews past management (completed transactions and financial results). The Cash and Financing Committee met four times in 2007.

The Tax Committee is placed under the authority of the Senior Executive Vice-President in charge of Finance and Operations in Spain, and is chaired by delegation by the Group Deputy Finance Director. Its role is to review the major tax issues in order to assess the quality of internal control, which ensures the soundness of the tax options proposed (or taken) and to determine their accounting consequences, if any. The materiality threshold for tax matters that must be submitted to the Tax Committee is 10 million Euros.

This Committee meets twice a year. However, the Committee may convene special meetings to assess and approve the tax options to be taken on issues that are particularly important for the France Telecom Group. The Tax Committee met three times in 2007.

The role of **the Commitments Committee**, chaired by the Senior Executive Vice-President and Group General Secretary, is to ensure the correct recording of legal risks as provisions or off-balance sheet commitments in the Group's accounts. For this purpose, the Committee reviews the most significant litigation matters and off-balance sheet commitments. The Committee was created in June 2004 and met four times in 2007 as part of the process to close the annual and half-year accounts. An internal audit was conducted on its operations. Internal Guidelines adopted on December 8, 2006 specify its composition, its duties and its operating rules.

The Group Risks Committee is placed under the authority of France Telecom's Chairman and chaired, by delegation, by the Group Senior Executive Vice-President in charge of Finance and Operations in Spain. It reviews and validates the Group's annual program of internal auditing and its half-yearly updates on the basis of a plan prepared with the members of the Executive Committee and their teams. It oversees implementation of the auditing program, audit recommendations and plans for corrective action.

In 2007, the Committee met three times.

2.1.1.3 Mobilizing expertise

As part of the "NExT" Program for the transformation of the Group over three years (2006 – 2008), France Telecom is implementing the ACT program as a way to mobilize skills: Anticipation and Expertise for Transformation.

The new three-year plan currently being prepared will also include a sizeable section dealing with human resources.

ACT includes various programs for training, skills development and assistance with mobility. It is based on implementing new, more integrated structures, affirming the Group's values, and signing a world-wide agreement with the *Alliance Syndicale Mondiale-UNI* on fundamental rights.

These programs are monitored, on the one hand, by the ACT Steering Committee and, on the other hand, by the Deployment Committee, both of which are chaired by the Executive Director in charge of Human Resources and Poland. Their role is to control outside recruitment, while increasing internal redeployment and internal and external transfers, so as to have the required skills and anticipate future changes.

From a long-term vision of needs and a common methodology for analysis, the France Telecom Group has implemented a policy that aims to promote mobility and improve careers and skills guidance worldwide.

A key tool for the initiative, the jobs reference system, was extended to all companies in the Group and is now used as a common language to describe the generic positions that use the same expertise worldwide.

While at the same time focusing on productivity through a policy encouraging transfers to other priority business sectors, the France Telecom Group has established systems facilitating professional development for all employees internally or externally on the basis of appropriate and advanced skills and aptitudes.

2.1.2 The Internal Audit team

The Group's Internal Audit team 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 United Kingdom, Poland, the United States, and in Africa. The Director of the group internal audit reports to the Group's Deputy Manager of Finances.

The Group's internal auditors adhere to the norms of the Institute of Internal Auditors (IIA) and are bound by its professional Ethics Code and certification requirements.

France Telecom's internal audit has been certified under the professional standards for internal audit (RPAI) since June 2005 with IFACI Certification, excluding the following elements: North America/Asia audit, Spain audit and Africa audit; general risk control functions, risk management (except for the mapping process) and development of internal control. IFACI Certification

was extended in 2006 to the Bristol (United Kingdom) and Poland audit teams.

Beyond the supervision provided by the France Telecom administrative bodies (Board of Directors, Board Committees, Group Executive Committee and specialized Committees), it is ultimately the responsibility of the Internal Audit team to ensure compliance with audit procedures and bring sensitive issues to the Executive Committee's attention.

The Internal Audit team assists the Group in maintaining appropriate audit control procedures by evaluating the effectiveness and efficiency of procedures and encouraging continued improvement. On the basis of the results of risk evaluation, the Internal Audit team evaluates the relevance and effectiveness of internal audit procedures by assessing, in particular, the quality of the control environment within the Group, the quality of the operations of internal 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 to determine if the results correspond to established goals, if the transactions and projects have been implemented or completed as planned, and if they are consistent with the values of the France Telecom Group.

The statutory auditors ensure that the audit work is appropriately coordinated. Early in 2004, the Internal Audit team was charged with monitoring all recommendations made by the External Auditors as well as its own recommendations.

The duties of the Internal Audit team (152 assignments completed in 2007) are systematically monitored, particularly action plans drawn up and implemented by divisions and subsidiaries of the Group. These duties also include:

- operational effectiveness tests of the internal control, which are defined by the program for continued improvement in the financial internal control processes in the most important sectors of the Group;
- the tests of effectiveness of the internal control environment, that covered eight Group areas and the 25 most important entities of the Group;
- cyclical internal control audits conducted in the operational entities in France (sales units, response units, network units etc.) – 16 audits in 2007;
- cyclical internal control audits conducted in the less significant subsidiaries – 14 Audits in 2007.

Each publicly traded subsidiary harmonizes its own local procedures for monitoring recommendations with Internal Audit procedures and in coordination with its Executive Committee.

2.1.3 Other elements of internal control

2.1.3.1 Risk management (also see chapter 4 of the Group's 2007 Registration Document)

Risk management has been implemented in the France Telecom Group and rolled out in each Operations Department of the new organization. Risk management consists of identifying and analyzing impact factors and the probability of events that could affect the achievement of the Group's objectives. The risk factors are discussed in a special chapter (Chapter 4) in the 2007 Registration Document.

The identification of risks and their prioritization is an ongoing process that takes into account new risks and parameters related to the Group environment. This procedure is based on an approach by the Operations Department with the involvement of the main Group Functions. It leads to the identification of risk holders and the way they handle risks. All Operations Departments of the France Telecom Group have now appointed a Risk Manager who has implemented risk mapping and identification of risk holders, and who submits this mapping to his Executive Committee for approval.

To manage crises and incidents that may occur in its operator businesses (Network, Information Systems), France Telecom integrates crisis management procedures and communication management in the event of a serious crisis. France Telecom updates these crisis management procedures based on the new technologies used and changes in the Group's scope.

In addition, France Telecom has developed an insurance plan to cover the major risks with the leading players in the insurance and reinsurance market. This insurance plan is established at Group level and specifically covers the following areas of risk:

- damage to assets and operating losses;
- civil liability;
- automobile insurance;
- business assignments and travel.

The insurance coverage takes into account changes in the company and is regularly renewed in the market in order to maintain an optimal ratio between the quality of the coverage and its cost.

2.1.3.2 The development of internal control self-assessment

Self-assessment is a process initiated by the Executive Directors, supported by the divisions and implemented and used by operating agents to evaluate the internal quality control of their activities. The main objectives of internal control self-assessment are to put in place a formalized and standardized process that allows management to identify, under its responsibility, the improvements to be made in internal controls and to perform the corrective actions.

Internal control environment

The main components of the internal control environment are the work sites under the responsibility of the divisions concerned that provide for the proper use of their standards by means of self-assessment questionnaires. This method of reporting is used by each Division to evaluate the efficiency of its internal control environment by means of an annual report. This process has been used in the Group's divisions and large subsidiaries since 2006. Similarly, a simplified questionnaire on the risks in accounting, finance, fraud and information systems has been used in 32 subsidiaries posing lesser risks.

Process in operating units

One of the tools developed by the Internal Audit department to guide executives and promote the deployment of internal control in operating units, self-assessment of the effectiveness of the internal control procedures is a process established in a uniform manner and progressively implemented within the Group. It has been used in the operational entities of France Telecom S.A. since 2000, and in the operational units of TP Group since 2004. The deployment of this process, as stipulated in the internal control charter, continues, initially in the largest operating subsidiaries.

The tools (guide and questionnaire) have been co-developed by the divisions (applications management) and internal auditing, and provided to operators. They have the three classes of objectives and the five components of internal control standards used by the Group: the COSO standards. This approach envisages that the Management Committee of each operating entity of France Telecom S.A. or TP Group shall conduct a self-assessment of its entity once a year. Cyclical audits of entities ensure that this procedure and the resulting action plans are actually being implemented.

2.1.3.3 Internal control reviews

The process of informing divisions about the progress, coordination and strengthening of internal control is based on internal control review meetings (Business Control Group) attended by the Executive Director of each Division, Internal Audit, Risk Management and the Internal Control Manager.

Their role is to ensure that the Executive Director regularly reviews the following aspects of internal control in the respective Division:

- the progress of the internal audit program in the current year;
- the findings made by internal audit during the period under review;
- the findings made by the Auditors relating to internal control;
- compliance with the main internal and external audit recommendations;
- the definition and assessment of the Division's risks.

As of December 31, 2007, seven internal control reviews had been carried out during the year for the Group's main business lines and functions.

2.1.3.4 Preventing, detecting and handling fraud

Fraud prevention is implemented by a work program established at Group level by a dedicated team and rolled out within the entities. This work program should allow entities to identify, in the exercise of their respective operations, the risk areas that might promote the occurrence of fraud that could have a major impact on the accounts.

Detecting cases of fraud is the responsibility of management, assisted by tools that detect anomalies for the highest risks. The criteria for these risks are based on the Group's risk mapping methodology (particularly financial, legal and media).

An ethical alert system, provided for under the Sarbanes Oxley Act, was implemented in January 2005. Its deployment in 2006 took into account the recommendations issued by CNIL and limited its scope to the areas of accounting, internal control, and audit. This system allows any employee to report, via a dedicated email address, any actions that may constitute infractions or fraud in the areas of accounting, internal control and audit. The defined procedure ensures that such alerts are handled confidentially, independently, and in such a way as to guarantee the protection of the employees.

Where suspicions of fraud are sufficiently strong, investigations are usually entrusted to specialist services. General Control conducts investigations into cases that may have an impact on the Group at the request of members of the Group Management Committee or their Executive Committee. It conducts around 30 missions a year. Investigations with less impact are conducted at the "country" level by investigators who are in most cases dedicated only to this task. The investigators network was organized in 2006 in France by the creation of four regional centers that allow coverage of the entire territory. Investigative structures also exist in the main countries: Poland, the United Kingdom, Spain and Senegal.

Results from investigations have indicated three priority areas for implementing actions to prevent fraud: contracts, financial flows and possible management failures.

Generally, the investigative departments are responsible for establishing the facts. For cases within the company, sanctions are decided by management within the guidelines of a disciplinary policy.

In all cases found, the legal, civil or criminal consequences are considered after an opinion from the company's legal department.

2.2 INTERNAL CONTROL PROCEDURES FOR THE PREPARATION AND PROCESSING OF ACCOUNTING AND FINANCIAL INFORMATION

The accuracy of published accounting and financial information is reinforced by (1) a mechanism for internal control of accounting and financial information; and (2) a policy for managing expertise; and (3) ongoing improvement in procedures.

2.2.1 Internal control of accounting and financial information

Internal control of accounting and financial information is organized on the following bases:

- the Disclosure Committee;
- the Group's accounting and controlling function;
- unified accounting and management reporting;
- the accounting standards and methods common to the entire Group.

2.2.1.1 The Disclosure Committee

The mission of the Disclosure Committee is to ensure integrity, accuracy, compliance with applicable laws and regulations and recognized practices. It also ensures the consistency and quality of financial information within and throughout the entire France Telecom Group. It reviews the financial information distributed by the Group. This review also includes press releases containing financial information, the management report and the Registration Document. The Committee is placed under the authority of the Senior Executive Vice-President in charge of Finance and Operations in Spain. It is chaired, by delegation, by the Group's Deputy Finance Director and includes the Executive Director for Brands and Communications and the relevant directors within the accounting, legal, internal audit, controlling and investor relations departments. The Committee met 19 times in 2007.

The Committee is involved in the procedures for preparing and validating financial information as defined by the Group. These procedures ensure that the Group's Finance Department is informed of the financial data published by the traded subsidiaries, as required by their obligations.

2.2.1.2 Accounting and controlling

2.2.1.2.1 Duties

Under the authority of the Executive Director for Finance and Operations in Spain, the Group Controlling and Accounting Departments are responsible for the following essential duties:

- producing the Group's consolidated financial statements, France Telecom S.A.'s statements and those of certain French subsidiaries within the time frames meeting the requirements of the financial markets and legal requirements while guaranteeing that the statements provide accurate

data about the company in compliance with the accounting principles adopted by the Group;

- steering the weekly, monthly and quarterly reporting cycle, allowing management to measure the performance of the Group on a regular basis;
- producing the necessary documentation for publishing financial results and the summary of management reporting for the Group Management Committee;
- developing and implementing methods, procedures and accounting and management standards for the Group;
- identifying and carrying out the necessary changes to the Group's accounting and management information systems.

Moreover, management of the strategic plan, which is also placed under the authority of the Executive Director for Finance and Operations in Spain, steers and ensures the consistency and production of all components of the management cycle, composed of short- and long-term planning (three-year strategic plan, budget and updating of forecasts).

2.2.1.2.2 Organization

The accounting operations of France Telecom Group SA are organized as follows:

- the Group Accounting Department leads the accounting community so as to provide high-quality consolidated and statutory financial data within the required time frames. It includes:
 - the consolidation department, which steers the returns of financial data and adherence to the Group calendar. It establishes the schedules for closing the Group's consolidated accounts, consolidation procedures and instructions for guaranteeing the consistency of reports. It also produces the Group's consolidated accounts for all phases of the management cycle (plan, budget, monthly reports, half-yearly and annual financial statements),
 - the financial information system department, which develops and maintains the accounting information system, the consolidation system and leads restructuring projects,
 - the accounting policies department, which has the objective of defining and disseminating the Group's accounting policies under the relevant standards;
- locally, the companies in the Group have their own accounting departments, while the main ones have their own autonomous finance departments. The role of accounting departments is to produce monthly financial data (reporting and key indicators), tax declarations and consolidated financial statements for their entities. They also provide the consolidation packages necessary to produce the consolidated financial statements.

VI - chairman's report on corporate governance and internal control

INTERNAL CONTROL PROCEDURES

Internal control procedures for the preparation and processing of accounting and financial information

The Controlling Department is represented and organized at each level of the Group's managerial organization by country (operational unit, country/Division) and business line (Home, Personal, Contents, Health and Online Advertising). These Management Control Departments are jointly steered by the Divisions and by the Group Controller, effectively contributing to the economic performance objectives of the Group.

2.2.1.3 Unified accounting and management reporting

All of the Group's entities participate in the Group's management and steering cycle, which is composed of four basic components:

- the process of developing the Group's three-year strategic plan ("NExT" Strategic Financial Plan);
- the budget process and the half-year and annual re-projections;
- the process of producing financial and management information upon monthly accounting closures;
- the process of reporting and management of performance management; resulting in production of reports (weekly, monthly and quarterly), analyses and steering reviews that lead to development of action plans.

2.2.1.3.1 Three-year plan ("NExT" Strategic Financial Plan)

Each year, a three-year plan is developed for the Group. It provides an overall view of the progress of the Group's business model and is developed on the basis of the Group's strategic choices set by the Group Management Committee. It takes into account all changes in the markets. It provides for consistency between these strategic objectives, the action plans and the resources "assignable" to the Divisions for the duration of the plan. It allows an analysis of the strengths, weaknesses, opportunities and threats in regard to the progress of technologies, competition and markets.

It is a shared process that engages the managers of the Divisions/countries and the transversal functions. It leads to estimating the organic cash flow generated and justifying the asset depreciation tests and tests of deferred tax assets.

2.2.1.3.2 The budget process and the periodic re-projections

The Group's budget process insists on the necessity of regular re-projections and on management's commitment. It is broken down for all countries and Divisions, business units and subsidiaries of the Group.

The budget should reflect the Group's goals at each organizational level and includes the following:

- an annual goal based on the first year of the strategic plan which identifies the risks and opportunities facing the Countries and Divisions, and which is broken down into half-yearly objectives. At the end of the budget process, each entity commits to its validated objectives for the coming half-year;

- reforecasts:

- an end-of-year forecast prepared in May including the updated goal for the second half. This end-of-year forecast replaces the annual goal budgeted in December and becomes the new end-of-year objective,
- updating of the end-of-second-half forecast created at the end of October that should enable the final situation for the year in question to be specified.

The budget dossier is composed of:

- packages of financial data (including the Cash flow Statement), along with adequate summary comments on major actions;
- detailed CAPEX project investments;
- analysis of risks and opportunities.

As part of the budget process, the Divisions establish and analyze performance indicators. The budget and the reforecasts are established on a monthly basis to be used as a reference for the Group's monthly reporting.

2.2.1.3.3 Process of the production of corporate accounts and the Group's consolidated financial statements

The France Telecom Group has launched a program to formalize and schedule closing procedures. This program is based on:

- the creation of accounting pre-closures in May and November;
- anticipating the treatment of complex accounting operations and estimates;
- a more formalized closing process.

For this, the Finance Department described the processes leading to the production of financial information from the entry of consolidation packets in the Magnitude tool. This documentation is shared and is a common reference for all contributors, thus strengthening the internal control of the control function.

Instructions from Controlling and Accounting Departments explaining the process and calendar for each closing are distributed within the Group. France Telecom S.A. and its subsidiaries roll out these processes and calendars within their organization.

Consolidation packages are created monthly by the Group's entities according to the IFRS principles and entered in the Group's consolidation and reporting tool Magnitude.

In the event that principles inconsistent with those of the Group are applied in the company's statements and have a significant impact on the understanding of the results and the assets, the entity shall reprocess the packages for consistency.

The Group's principles shall be preferred where they are compatible with the local rules applicable to corporate statements in order to restrict subsequent reprocessing.

Each entity is responsible for regularly identifying, measuring and comparing corporate statements and accounts with the Group's standards for differences in accounting methods.

Following the SEC's decision in November 2007, France Telecom is no longer obliged to produce a specific note reconciling IFRS statements with US GAAP, as of the end of the financial year 2007.

As part of their legal duties, the statutory auditors intervene at the end of the first half-year, by conducting a limited examination of the Group and for the annual closure, by a review of the pre-closure followed by an audit of corporate and consolidated accounts. Thus they provide an audit reference, in addition to the internal evaluation. The Internal Audit unit monitors the implementation of their recommendations.

2.2.1.3.4 Management reporting process

The reporting process is a major element in the control and financial information process. It is a major tool for monitoring, control and direction for the Group's management.

The reconciliation of the 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 the controlling and accounting units, is repeated in all entities of the Group and at each level of the organization (business unit, Division and Group).

The definition of Group report contents and media that are used to track the attainment of group objectives is established on a regular and homogenous basis. The financial data in reporting come primarily from Magnitude, the Group consolidation and reporting tool, and the reporting formats are standardized. The reports are validated by the management control directors of the countries and of the Enterprise Communication Services (ECS) Division.

This reporting is used to track the Group's management and performance indicators and is articulated around the following:

- the CEO Weekly Operational Dashboard (WDB) implemented in January 2006. Its mission is to provide to the Chairman and to the Executive Committee: Key Performance Indicators (KPIs) for the Group and the major events of the week;
- monthly reporting:
 - "FT Group Flash Highlights": includes key figures (primary indicators of the operating income statement) created for the Group, publication Segments and Countries, as well as the main KPIs of the business,
 - "Group Progress Dashboard": includes key financial and operational indicators monitoring strategic and operational priorities at Group level, business lines (Home and Personal), countries and ECS. It is sent to the Executive Committee,
 - "FT Group Organic Cash flow Report": implemented in 2006, the organic cash flow is one of the Group's main performance indicators sent to the financial markets. Information that is used to build this indicator originates

directly from the statement of cash flows, and is compared to the data from the Cash and Financing Department.

GMC (General Management Committee) Business Reviews are organized by financial management and conducted by country or by Division. Their objective is to steer operations, track the advancement of "NExT" plans, and review the end-of year re-projections. They bring together each month the financial management, the manager of the Division/country or its representative, the controller of the country or Division and the Finance Director. The Chairman participates in the quarterly reviews. These reviews are based on a formalized report structure.

Gathering of information for these reports is organized for each country according to the Group's reporting instructions.

At the end of these meetings, a summary of the decisions is sent to the country or Division manager and to the controller of the country or Division.

2.2.1.4 The common reference system and accounting standards and methods within the Group

In order to prepare the projected and actual consolidated statements, the Group has adopted the unified principle, which implies:

- a homogenous reference system, accounting standards and methods, and consolidation rules;
- standardization of recovery formats; and
- use of a common consolidation and reporting application within the Group (Magnitude).

The Group has a single reference system that standardizes all items in the consolidated reporting, including off-balance sheet commitments. This reference system is the responsibility of the Group's Accounting Department. All of the Group's consolidated companies have adopted this system.

Within the Group's Accounting Department, the accounting policies department is responsible for defining and disseminating the Group's accounting policies under IFRS standards so that the consolidated financial statements can be produced. The objectives pursued should lead to:

- implementing a standards oversight process;
- formalizing the Group's IFRS accounting standards in a systematic and structured manner through the Group's accounting guide, instructions for closing and information meetings.

This mechanism is completed by implementing relevant standards in the countries and divisions. Through this network, the difficulties of (1) disseminating the Group's accounting policies in the divisions/countries/entities and accounting departments, and (2) taking account of the training needs of people in charge of properly applying the Group's accounting policies, can be identified.

2.2.2 The development of common skills

The Group's organization for internal control of accounting and financial information includes:

- a program for the development and management of skills based on the training of the accounting, controlling and "corporate finance" personnel of the Group;
- the development of a professional network common to the Group;
- the implementation of central process standards.

The main measures taken were as follows:

- the organization within a network by business or specialty to allow consistent and homogenous management of resources: for key positions which require either special financial expertise or management responsibility, the choice of the employee and the positions for the main financial managers are now decided by the Executive Director of the Group Finance Department or his deputy;
- the introduction of training programs by Group Finance in partnership with Human Resources, and the development of training tools and resources (specific training plan and the ARGOS program);
- more specifically within France Telecom S.A., developing the mutualization of means and staff, through accounting units throughout national territory. The purpose of these units is to progressively encourage accounting for the subsidiaries according to French and IFRS standards. An expanded shared service center in France was set up as of January 1, 2006.

2.2.3 Continuous improvement

ISO 9001 quality certification for the Accounting Department

In the area of Quality Management, France Telecom S.A. has held ISO 9001 V2000 quality certification from AFAQ for all services in the Accounting Department since 2001.

The approach relies henceforth on the processes and allows each of them to seek improvement, simplification, and adopt the best practices. It also allows them to produce the accounts within the time frames and with a quality level that meets the company's expectations.

The objective of accounting process management is to roll out the quality process of accounting management, whose major focuses are the following:

- to improve the performance and quality of the services provided;
- to consolidate the confidence of its partners;
- to increase the professionalism of its actors.

3. synthesis of work on internal control implemented as part of section 404 of the *Sarbanes-Oxley Act*

Because it is listed on the New York Stock Exchange, France Telecom is subject to the provisions of the American Sarbanes-Oxley Act. In conformity with the provisions of Article 404 of the law, the Chairman & Chief Executive Officer and the Chief Financial Officer must prepare a report, in which they make a declaration on the effectiveness of internal control of the production of the Group's financial statements, established according to IFRS standards and presented in the annual financial statements (Form 20-F), that is filed with the Securities and Exchange Commission (SEC) in the United States. The statutory auditors proceed to make their own assessment of internal control. The opinion of management and the statutory auditors appears annually in Form 20-F.

To better respond primarily to Article 404 of the law, a program to strengthen the depth of the culture of internal control was begun in 2003 in the entire Group, under the supervision of internal control, to prepare the evaluation of the internal control structure created by the Group for its financial statements.

This program covers the following two areas:

- the policies and procedures of the Group, the control environment in the broader sense, covering in practice four layers of the COSO standards: the control environment, risk assessment, monitoring, and information/communication;
- Operational Control, fifth layer of COSO (control operations), enacting this control environment.

For the more significant entities of the Group, both the control environment and the operational control were evaluated as part of the work. For the entities of secondary importance, the control environment and the operations of centralization of financial data and the production of accounts were evaluated. For the entities of lesser importance, a review of self-assessment of financial risks was conducted, for those appearing more significant in terms of risk; limited reviews are performed at regular intervals both by management and by internal audit, on this latter group of entities.

As part of the control environment, Group governance was evaluated focusing on the primary Management Committees, notably the:

- Group Management Committee;
- Investments Committee;
- Cash and Financing Committee;

- Tax Committee;
- Commitments Committee;
- Disclosure Committee.

The following areas were also evaluated:

- controlling;
- fraud prevention and management;
- delegation of power and signature authority;
- ethics;
- human resources;
- networks;
- data security;
- information systems.

Each of these areas is steered by a functional entity that is responsible for the Group policies in the area, and is rolled out within the Group entities.

As part of operational control, the large flows covering the Group's primary financial data were addressed. The information concerning these flows was documented in a central Group tool.

Internal control teams, within the Group's primary entities, ensure that the program defined by the management of the Group internal control is followed and fulfill the function on behalf of the managers in charge of such teams.

The steering structure of the program is made up of a monthly Steering Committee chaired by the Deputy Finance Director, and monthly progress meetings with each significant entity. Information round-ups have also been conducted at the level of the Group Management Committee.

Reports were also distributed to allow each entity to measure its progress and compare itself to the other entities. A weekly newsletter is used to communicate the necessary or useful information on the progress of work at the same time as current information, completed by a weekly press review. The main information on the project (newsletter, report, procedures) is published on a dedicated intranet portal of France Telecom.

All these actions are scheduled over the year.

WORK IN 2007

In pursuing the actions conducted in 2006 and earlier, France Telecom has been keen to ensure that the internal control structure is made permanent. Moreover, particular efforts have been put forth on the process of assessing this structure, on the basis of the new principles disseminated by the SEC.

The 2007 assessment did not reveal any major weaknesses. The Chairman & Chief Executive Officer and the Senior Executive Vice-President in charge of Finance and Operations in Spain have therefore concluded that the internal control structure implemented in relation to producing financial statements is working effectively.

WORK IN 2008

As part of the new principles mentioned above, in 2008 France Telecom intends to improve its internal control structure further, basing its approach on a more structured analysis of business

risks. This approach will also allow the company to rationalize both the internal control structure and its assessment.

4. appendix to the report of the Chairman of the Board of Directors on the conditions of preparation and organization of the work of the Board of Directors and the internal control procedures

INTERNAL GUIDELINES OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

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 gives its opinion on all decisions relating to the company's major strategic, economic, social, financial or technological policies and supervises the implementation of these policies by senior management.

The medium-term business policies for the Group are defined in a strategic plan. The proposed plan is drawn up and submitted by the Chairman and approved by the Board of Directors. This proposal includes a forecast of changes in the group's principal operational and financial indicators. The Chairman of the Board presents a proposed annual budget in line with these policies.

The Chairman first submits the plan to the Strategy Committee and the Policy Committee for study and advice.

The Chairman is responsible for implementing the policies contained in the strategic plan.

The Chairman must 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, must first be approved by the Board of Directors.

The Chairman informs 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 is provided with documents that allow him or her to adopt an informed position based on 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 a France Telecom facility or place of business in order to obtain the 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 Control by the Board of Directors

The Chairman of the Board or the Chairman of the Audit Committee may request any control or verification from the Board of Directors. In any case, the Board of Directors deliberates 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 a control in a resolution, and either conducts the control itself or entrusts it to one of its committees, one of its members, or a third party.

When the Board of Directors decides that the control or verification will be performed by one of its members or by a third party, the mission is defined under the conditions stipulated by Article 4.

The Chairman defines the conditions for the performance of the control 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 ensures that useful information for the control or verification is provided to the person carrying it out.

Any person performing such a control or verification is not authorized to interfere with the management of the business.

On completion of the control or verification, the findings are reported to the Board of Directors. The Board determines 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 or parties, with an assignment, it will define 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 participate in the vote.

On the basis of such a resolution, a draft assignment letter is drawn up at the Chairman's initiative, which:

- defines the precise purpose of the assignment;
- defines the form that the assignment report is required to take;
- sets the duration of the assignment;

- determines, where appropriate, the wage due to the person performing the assignment and the terms of payment;
- if necessary, sets a ceiling for reimbursement of travel and accommodation expenses and for any other expenses that may be incurred by the person performing the assignment.

If appropriate, the Chairman submits the draft assignment letter for opinion to the Compensation, Nominating and Governance Committee and to the other interested Board Committees and delivers the signed assignment letter to the Chairmen of these committees.

The report is delivered by the Chairman to the directors of the Company.

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 the responsibilities of each committee in these Internal Guidelines. Within its scope of responsibilities, each committee formulates proposals, recommendations or opinions as applicable. For this purpose, it may decide to conduct any study that might assist the Board in making informed decisions.

The Board of Directors appoints the Chairman and members of each committee. Committee members personally attend their meetings, 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 approves a provisional annual schedule for its own meetings. Committee meetings are held at the company's registered offices or any other location selected by its Chairman.

The Chairman of each committee draws up an agenda for committee meetings and informs 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 and, as needed, any person of his choice to committee meetings. He informs the Chairman of the Board of Directors which executives he expects to attend a meeting.

Each committee is assigned responsibilities on the following basis:

- it considers any matter that falls within its area of expertise as defined in these Internal Guidelines, and defines 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.

The Board of Directors and its Chairman may refer other matters within the scope of its expertise to any committee at any time.

The Secretary to the Board of Directors acts as secretary to each committee.

The Chairman of the Board of Directors ensures that all the information required for the committees to conduct their work is available to them. He will also ensure that each committee is kept regularly informed of any changes in the legislation and regulations relevant to its area of expertise.

The proposals, recommendations and opinions given by the committees will be set out in reports, submitted by the committee Chairmen to the Chairman of the Board of Directors for transmission to Board members.

ARTICLE 6 Strategy Committee

Each year, the Chairman of the Board of Directors refers the proposal for updating the strategic plan provided for in Article 1 of these Internal Guidelines to the Strategy Committee.

Other than in emergencies, the Strategy Committee considers the facts and issues referred to in Article 1 of these Internal Guidelines.

The Strategy Committee is consulted on projects related to the Group's development, changes in industrial partnerships and proposed strategic alliances. It then reports and makes recommendations for each project to the Board of Directors.

The Committee reviews proposed:

- strategic plans;

- annual budgets;

- strategic agreements, partnerships and technological and industrial cooperation;

- significant acquisitions and disposals of assets.

The matters submitted to the Committee for its consideration are accompanied by relevant information allowing it to assess the risks involved in the aforementioned transactions.

In view of the potential impact of these risks on the company's financial position, the Chairman of the Audit Committee attends the Strategy Committee meetings.

ARTICLE 7 Audit Committee

On behalf of the Board of Directors, the Audit Committee:

- ensures compliance with accounting standards adopted for the preparation of individual and consolidated financial statements;
- verifies that internal information gathering and control procedures are properly applied;
- ensures the quality and relevance of information provided to the shareholders.

On behalf of the Board of Directors, the Audit Committee:

- reviews the preliminary corporate 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;
- reviews drafts of interim management reports, activity and income statements, and all financial statements prepared for the purposes of specific transactions (spin-offs, mergers, payment of interim dividends, etc.) before they are disclosed;
- studies any changes to the accounting standards applied in preparing financial statements and any possible violation of those standards;
- ensures that the procedures comply adequately with the relevant financial and stock exchange regulations.

On behalf of the Board of Directors, the Audit Committee:

- organizes the procedure for selecting the company's statutory auditors. This appointment is subject to open market competition at the end of each term. The Audit Committee makes a recommendation to the Board of Directors regarding the choice of statutory auditors and their conditions of payment;
- studies, on a yearly basis, with the statutory auditors and the Director of Audit and Risk Control, their respective working plans, their conclusions, recommendations and the resulting action to be taken; in particular, the Committee reviews the internal audit report for the previous year and the schedule of internal audit assignments for the current year;
- examines on a yearly basis the management report on the Group's risk exposure, particularly financial and litigation risks, and material off-balance sheet commitments;
- assesses the methods and results of internal audits and verifies that the procedures used ensure that the corporate and consolidated financial statements fairly and accurately represent the actual situation of the company and the Group and comply with the accounting rules;
- ensures that the systems and procedures used to prepare the financial statements are reliable and that the methods of handling material transactions are valid;
- is notified of any accounting or audit irregularities;
- ensures that procedures are in place to detect and handle notifications of infractions or fraud which protect employees;
- analyzes the company's financial communication policy and approves the main disclosures before they are published;

VI - chairman's report on corporate governance and internal control

APPENDIX TO THE REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS ON THE CONDITIONS OF PREPARATION AND ORGANIZATION OF THE WORK OF THE BOARD OF DIRECTORS AND THE INTERNAL CONTROL PROCEDURES

Article 9 - Meetings of the Board of Directors

- reviews any disagreements between Management and the statutory auditors relating to any aspect of their mission and issues proposal regulations to be submitted to the Board of Directors.

The Chairman of the Board of Directors or the statutory auditors refers any event that may expose the Group to significant risk to the Audit Committee.

The Audit Committee may interview, outside the presence of Management, the Chief Financial Officer, the Director of Accounting and Management Control, the Treasurer or the Director of Internal Audit and Risk Control.

The Audit Committee may request that an internal or external audit be conducted on any matter that it believes falls within the scope of its responsibilities.

The Chairman of the committee informs the Board of Directors of any such action.

The Company finances the missions of the Audit Committee, particularly the studies and audits performed.

The members of the Audit Committee must have the 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, Nominating and Governance Committee

The Compensation, Nominating and Governance Committee submits recommendations to the Board of Directors relating to the appointment 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 informs the Compensation, Nominating and Governance Committee of all nominations to the Group's Executive Committee.

The Committee submits proposals to the Board of Directors relating to compensation levels for corporate officers.

At the request of the Chairman of the Board of Directors, the Committee may issue an opinion on the methods used to

determine compensation of executive officers (fixed portion, variable portion, method of calculation, indexing, stock options).

It also provides an opinion in the case of a request for interpretation or amendment of share option plans in effect within the France Telecom Group.

The Committee ensures the existence of a succession plan for the members of the management team. It prepares, in close collaboration with the Chairman, the Board's decisions on the appointment of corporate officers.

The Committee makes proposals for improving the work of the Board of Directors and the regular update of its Internal Guidelines. For this purpose, it organizes the procedure for evaluating the work of the Board and its Committees.

ARTICLE 9

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 (first and third quarter revenues; results for the first half-year; meeting prior to the Annual Shareholders' Meeting, etc.) and on a provisional basis that may be revised, the dates to be reserved by 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 using all appropriate means.

The documents that allow the directors to make a fully informed decision on the items 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, the Board of Directors may, at any meeting, in emergencies and on the Chairman's recommendation, deliberate issues not included on the agenda transmitted to the Board.

The Board of Directors regularly conducts an overall evaluation of its work and the work of its committees, particularly the Audit Committee. It reviews the recommendations made in this area by the Compensation, Nominating and Governance Committee.

ARTICLE 10

Attendance at meetings of the Board of Directors via videoconferencing and other telecommunications methods

The Chairman ensures that a videoconference or other telecommunications system providing continuous retransmission of Board proceedings 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 participate in Board meetings.

Where members are called to a Board meeting elsewhere than at the Company's registered office, the Chairman takes the necessary measures to allow directors who are unable to be physically present may do so via the means described above.

Directors attending a Board meeting via a videoconference or other telecommunications system are deemed present for the calculation of the quorum and voting majority.

The videoconference or other telecommunications system used must meet technical standards that guarantee effective participation of all attending the Board meetings. The deliberations must be retransmitted continuously. The necessary

measures must be taken to ensure the identification of each person participating and allow the verification of the quorum. Failing that, the Board meeting will be adjourned.

The attendance sheet for meetings of the Board of Directors must stipulate directors' attendance by video or other previously-mentioned means, if applicable.

The minutes of the Board meeting must specify the names of those directors taking part in the meeting via a videoconference or other telecommunications system. The minutes must also mention any technical incident regarding the videoconference or other means of telecommunication that disrupted the meeting.

The preceding provisions are not applicable for adoption of decisions intended in Articles L. 232-1 and L. 233-16 of the Commercial Code, relating respectively to the creation of the Group's annual and consolidated financial statements and the management report.

ARTICLE 11

Directors' duty of 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 any information presented at the meetings.

In general, the members of the Board of Directors are required not to disclose any information to anyone outside the Board, particularly the press.

The Chairman informs 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, will report to the Board on any actions, including legal actions, that he intends to take as a result of this breach of confidentiality.

ARTICLE 12

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 consults the Compensation, Nominating and Governance Committee on any such question.

At the end of this procedure, the director concerned will act accordingly pursuant to applicable legislation.

The members of the Board of Directors register any 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.

The members of the Board of Directors inform the Chairman and the AMF of the transactions they have performed on the securities of the Company.

VI - chairman's report on corporate governance and internal control

APPENDIX TO THE REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS ON THE CONDITIONS OF PREPARATION AND ORGANIZATION OF THE WORK OF THE BOARD OF DIRECTORS AND THE INTERNAL CONTROL PROCEDURES

Article 13 - Directors' duty of diligence

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;
- directly or indirectly engaging in short sales with respect to such securities.

The first ban 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 sets or confirms the start and end dates of blackout periods and notifies 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 13 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;
- to request any additional information he or she deems useful;
- to ensure that these Internal 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 so; and

- to formulate any proposals intended to improve the working conditions of the Board and its Committees.

The Board of Directors continually works to improve the information provided to the shareholders.

Each director, particularly through his or her contribution to the work of the Board Committees, must work to achieve this objective.

Each director undertakes to resign his position on the Board when he believes in good faith that he is no longer able to fully assume the duties and obligations of the position.

VII - report of the statutory auditors on the report of the chairman of the board of directors



Report of the statutory auditors, prepared in accordance with Article L.225-235 of the French Commercial Code on the report prepared by the Chairman of the Board of France Telecom on the internal control procedures relating to the preparation and processing of accounting and financial information

To the Shareholders,

In our capacity as statutory auditors of France Telecom and in accordance with Article L.225-235 of the French Commercial Code, we hereby report 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 ending December 31, 2007.

It is the Chairman's responsibility to describe in his report the preparation and organization of the Board's work and the internal control procedures implemented by the Company.

It is our responsibility to report on the information contained in the Chairman's report on the internal control procedures relating to the preparation and processing of the accounting and financial information.

We conducted our work in accordance with the relevant French professional standard. This standard requires that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report on the internal control procedures relating to the preparation and processing of the accounting and financial information. These procedures consisted mainly in:

- obtaining an understanding of the internal control procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report and existing documentation are based;
- obtaining an understanding of the work involved in the preparation of this information and existing documentation;
- obtaining an understanding of the process of evaluation applied and appreciating the quality of the documentation, and whether it is sufficient, with regard to the information concerning the evaluation of internal control procedures;
- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the Chairman's report.

On the basis of our work, we have nothing to report on the information in respect of the Company's internal control procedures relating to the preparation and processing of accounting and financial information contained in the report prepared by the Chairman of the Board in accordance with Article L.225-37 of the French Commercial Code .

French original signed at Neuilly-sur-Seine and Paris-La Défense on February 6, 2008

The statutory auditors

DELOITTE & ASSOCIÉS

Étienne Jacquemin

Jean-Paul Picard

ERNST & YOUNG Audit

Christian Chiarasini

