



## Cautionary Statement



This presentation contains forward-looking statements relating to France Telecom's objectives, in particular for 2005. Although France Telecom believes its objectives are based on reasonable assumptions, these forward-looking statements are subject to numerous risks and uncertainties and should not be regarded as a representation that anticipated events will occur or that stated objectives will be achieved. Important factors that could cause actual results or performance to differ materially from the objectives mentioned in these forward-looking statements include the success of the FT 2005 plan, including the TOP LINE and TOP programmes, the NExt programme and France Telecom's other strategic initiatives based on the integrated operator model as well as other financial and operating initiatives, changes in the competitive environment and the telecom market regulatory environment, and risks and uncertainties attendant upon exchange rate fluctuations, technological trends, business activity and international operations. The forward-looking statements contained in this presentation speak only as of the date of this presentation and France Telecom does not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

All information relating to France Telecom's figures, including historical information, is presented in accordance with International Financial Reporting Standards (IFRS) and is subject to additional specific risks and uncertainties relating to the possibility of changes in IFRS standards prior to December 31, 2005.

More detailed information on the potential risks that could affect France Telecom's financial results is found in the *Document de Référence* filed with the AMF and Form 20-F filed with the U.S. Securities and Exchange Commission.

# Agenda



NExT: a solid strategic framework to answer industry changes

NExT: leverage every growth opportunity

NExT footprint

NExT use of cash policy

# NExT:

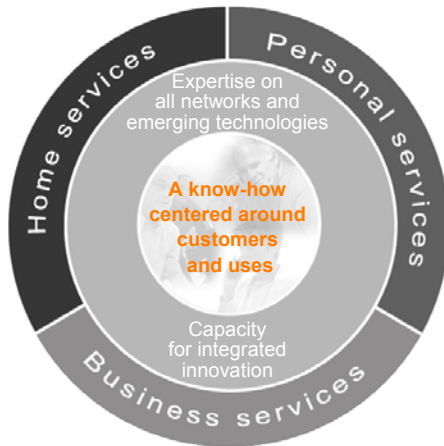


... to answer the industry changes and  
new entrants plans

... to anticipate new usage patterns

**A solid strategic framework**

# NEXT is about integration for our customers



State of the art IT & networks to anticipate new usage

A genuine integrated strategy

- cc. 80% of revenues are made in « integrated countries »

A focus on innovation

→ 1.5% of revenues in 2005

A rebranding on its way

An integrated, customer oriented and innovative strategy

5

# NEXT is about new usages



## New customer needs

## France Telecom answers

Growing role of content and entertainment

Aggregate & distribute all major digital contents / Develop TV, music & games on all platforms.

More multiplay and "all you can eat" offers

Converged offers & Livebox at the heart of our Broadband strategy / Over 7m multiplay customers in 08 / over 12m mobile broadband customers by the end of 08

Communication suite versus plain voice

Build an integrated customer experience / Best in class for customer care / A full range of services for every day's life

Customisation & services

Major initiative for multi-access portal & Communication Suite (Livecom), bringing together mobile broadband and Internet

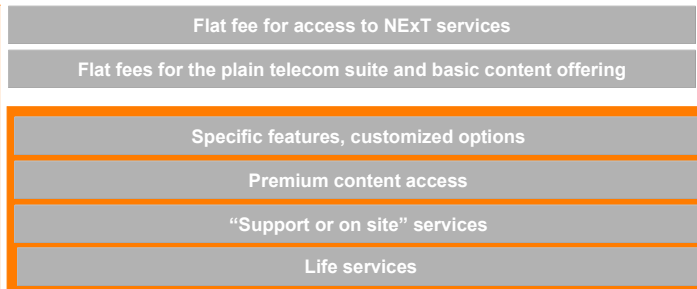
The best way to anticipate industry's transformation

6

# NEXT is a new business model



Towards a new business model for revenue streams



Pay per use, flat fee or shared revenues, license fees and advertising

A progressive change from current business model

7

# NEXT : leverage every growth opportunity



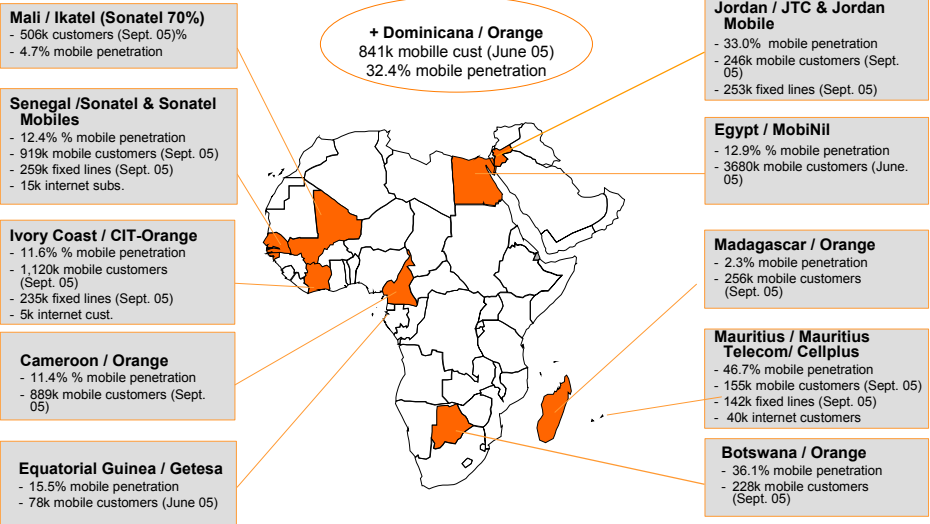
Emerging markets: increase customer base

Convergence: improve core

Content aggregation: develop new services

One Network & IT: optimize costs

# Leverage customer base in emerging markets: the example of Africa and Middle East



9 Controlled subs.

**One of the group key growth driver**

# Leverage customer base in emerging markets: more examples



<p><b>Egypt</b></p>	<p><b>Develop a low cost model to increase penetration level</b></p>	<ul style="list-style-type: none"> <li>➔ Low Mobile penetration (11%) compared to the addressable market</li> <li>➔ Launch low-end offers to increase penetration (launch of prepaid bundles)</li> <li>➔ Optimize cost structure - Lower acquisition costs, selective low cost distribution network, low service offering OPEX (Customer care &amp; billing), low end Network costs</li> <li>➔ Penetration should reach 23% in 2009, and 88% for the addressable market</li> </ul>
<p><b>Mali</b></p>	<p><b>Build successful operations from scratch</b></p>	<ul style="list-style-type: none"> <li>➔ Launch in 2003 ,87%-owned subsidiary of Sonatel</li> <li>➔ Focus on high value customers (retail and enterprises) : synergies with Sonatel to launch GPRS with a minimal investment ; Marketing policy dedicated to develop usages</li> <li>➔ Market leader with a 72% market share, 506k customers at the end of Sept 2005 - More than 50% EBITDA margin 2 years after launch</li> </ul>
<p><b>Romania</b></p>	<p><b>Deploy multimedia to enhance country's growth profile</b></p>	<ul style="list-style-type: none"> <li>➔ Mobile population penetration still low at 48% at the end of 2004</li> <li>➔ From N°2 to market leader with more than 50% market share</li> <li>➔ At the end of 2004, 4 cities were covered with Edge (13% of population)                     <ul style="list-style-type: none"> <li>● 4.700 Edge subscribers at the end of 2004</li> </ul> </li> </ul>

10

**One of the group key growth driver**

# Convergence: why?



	Customer loyalty	Winback	Market dvpt.	ARPU
Family Talk	✓	✓		
Mobile & Connected		✓	✓	✓
Home Zone	✓	✓		
<b>Business Everywhere</b>	✓	✓	✓	✓

**Developing convergent offers to address the needs of our clients**

# Convergence: already a reality for our customers



Retail market	Fixed and Mobile Voice "Family Talk"	Mobile and Broadband: Orange/Wanadoo UK home broadband offer
Enterprise market	Business Everywhere	Business Talk IP Business Everywhere Multimedia

- More innovative convergent offers to be launched, benefiting from the creation of our "product factory"
- R&D more and more focused on convergent projects: up to 2% of revenues for R&D and innovation for 2008
- Integrated customer facing

**Different convergent offers answering different needs already launched in France and outside France**

# Content: why and how ?



TV on ADSL

Online Music

Online Games

VoD

Infotainment

## Why ?

Leverage technology evolution :

- communications devices are more and more "entertainment-ready"
- thanks to network capacities, more secured access to paid content

Leverage customer base (fixed, Internet and Mobile), to improve customer loyalty and improve ARPU

Anticipate new usage patterns in growing markets

## How ?

Build an attractive, simple and user-friendly content offers on all platforms

Develop selected exclusivity

Distribute content in a secure manner agreed with our content provider

Create a thriving ecosystem for on-line entertainment

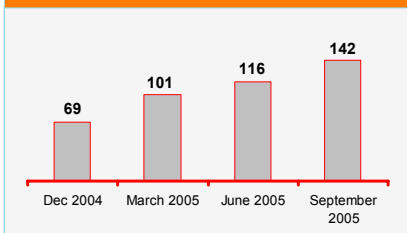
**New source of differentiation to enrich clients' experience**

13

# Content: already a reality for our customers



## MaLigne TV



- Close to 142k subscribers at the end of September (+106% in 9 months)
- 8.5 million addressable households at the end of September
- Continuous success of multiplay offers
- Introducing PVR for high-end set up boxes

## VOD

- Simplified and more **customer friendly VOD portal**
- Films available during 24 hours since October 25th

## Music

- Concretization of the strategic partnership with Warner : **"Madonna Everywhere"**

14

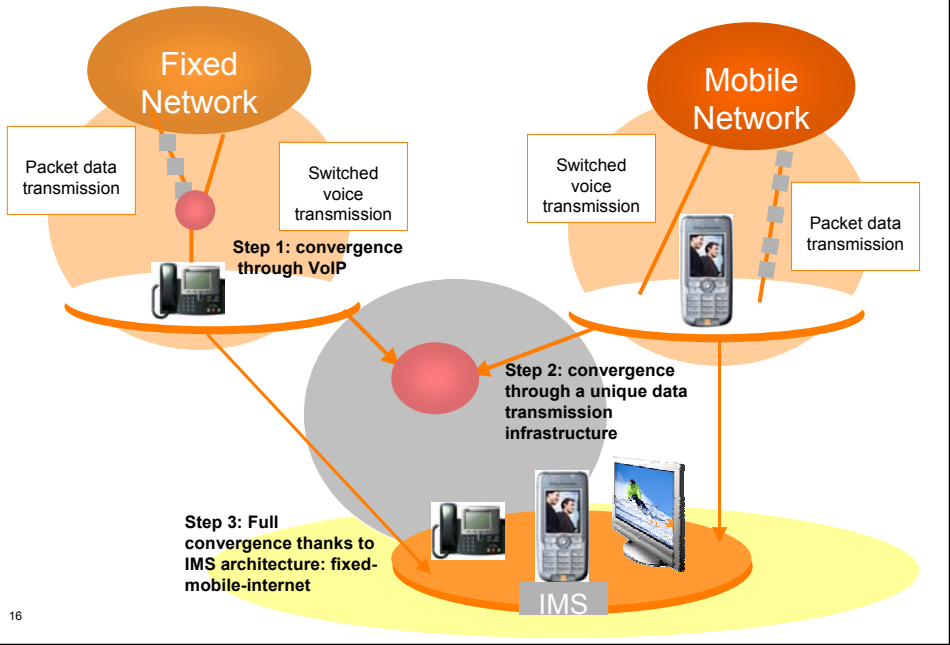
# One Network & IT: why ?



- ➔ To support NExT convergence and integration strategy
  - Livephone
  - Livecom
  - HomeZone
  - Livebox
  - Business Everywhere
  - ...
- ➔ To improve "Time to Market" performance
- ➔ To achieve "Best in Class" end to end quality of services
- ➔ To improve cost efficiency
  - Network and IT OPEX savings representing up to 2pp of EBITDA margin by 2008

IT&N will support the integrated operator model and enable differentiated services

# One Network & IT: how ?



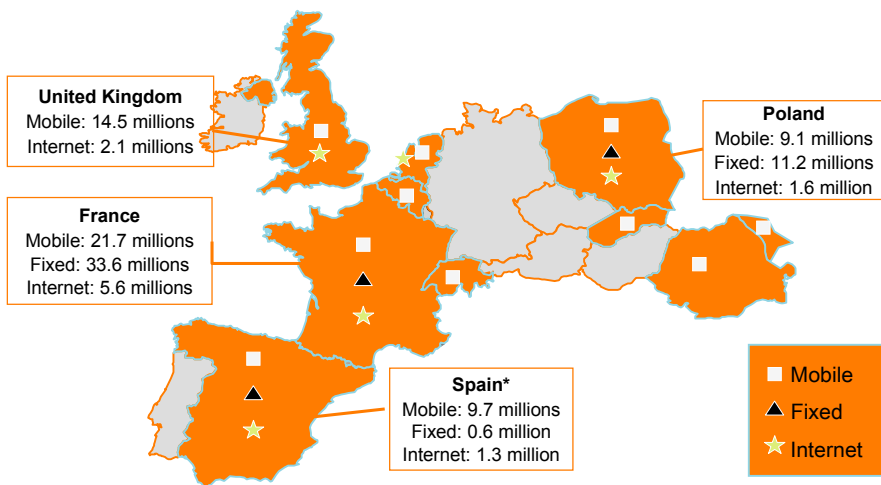
# NEXT footprint ...

Overall European footprint completed

No need for major moves in Western Europe

Selective acquisitions in fast growing countries

Following the acquisition of Amena, overall European footprint completed



Number of customers at the end of September

Scale & Scope set to implement NEXt strategy

## No need for major moves in Western Europe today for France Telecom



**No synergies to expect from legacy networks and IT infrastructure**



**No synergies to extract given current technologies**



**Strong cultural challenges**

**NGN & new technologies potential cost advantage too far away**

19

## Selective acquisition in fast growing countries



# NEXT

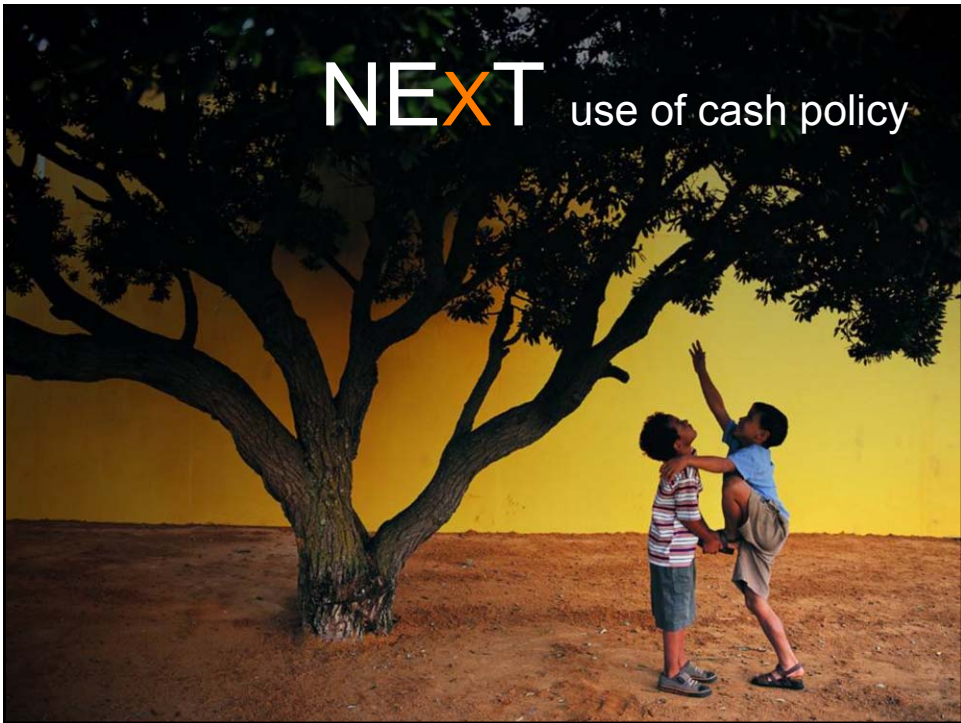
**“Growth At Reasonable Price”**

**Sustain Long Term Cash Generation potential**

**→ Free Cash per share will be the main criteria**

**Focus on targeted profitable growth**

20



## Use of cash policy

<p style="text-align: center;"><b>Continue debt reduction into 2008</b></p>	<p>→ Debt / EBITDA ratio below 2 before end 2008</p>
<p style="text-align: center;"><b>Grow dividend Distribution toward Sector benchmarks</b></p>	<p>→ Proposed 2005 dividend at EUR1 per share          → 2006-2008 dividend per share evolution to take into account organic FCF growth &amp; sector benchmark          → Share buyback under review</p>
<p style="text-align: center;"><b>Pick selected growth opportunities</b></p>	<p>→ Consistent with NEXt's strategy          → Enhance growth profile          → FCF per share is the main criteria          → Consistent with debt targets          → No negative impact on dividend policy</p>

Enhanced shareholders remuneration

22

France Telecom



**A Vision**

**An Ambition**

**An innovative and service oriented strategy**

**→ Profitable growth will be sustained through  
innovation and development**



23



Michel Combes  
Senior Executive Vice-  
President

**France Telecom  
November 2005**

## Glossary (1)



- **Contributive Consolidated Revenues:** consolidated revenues excluding intra-group transactions
- **Pro forma figures:** figures of the preceding period adjusted to reflect the same scope of consolidation and exchange rates as in the current period
- **Market Share of fixed line telephony in France:** calculation based on traffic on the network or interconnected to the network of France Telecom
- **ADSL activated lines:** All ADSL lines in service by end of period including unbundled lines : "Ma Ligne ADSL" lines sold directly to the subscriber whatever his ISP + "IP ADSL" (option 5) and "ADSL Connect ATM" (option 3) lines sold directly or through other telcos to all ISPs to be integrated into the packages (ADSL+IP connectivity) + "Turbo DSL" lines specifically dedicated to large business accounts for their data transmission services + "Ma ligne TV" lines (TV through ADSL) and MaLigne Visio (visiophony through ADSL) when sold without internet access.
- **Network Revenues for mobile services:** include outgoing traffic, incoming traffic, access fees, visitor roaming and value added services.
- **Mobile ARPU:** Mobiles network revenues for the previous twelve months divided by Mobile weighted average customer base for the 12 month period.  

Mobile Network revenues include outgoing traffic, incoming traffic, access fees, visitor roaming and value added services. The mobiles weighted average customer base for the 12 months period is the average of the monthly average customer bases (calculated as the sum of the opening and closing customer bases for the month divided by two). ARPU is quoted on a revenue per customer per year basis. Since January 1st 2005, Orange France (mainland), as the other French mobile operators, exited from the Bill & Keep system. **The discontinuing use of the B&K system leads to an increase in Orange France 'revenues, that receives revenues** from other French mobile network operators for voice calls from their networks that terminate on Orange France's mainland network as in some other market, in particular the United Kingdom.
- **Internet ARPU: ARPU (Monthly Average Revenue Per User):** calculated by dividing year-to-date connectivity revenues by the weighted average number of Wanadoo customers during the same period. The weighted average number of Wanadoo customers during a period is the monthly average customer base for the period. The monthly average customer base is calculated as the sum of the opening and closing number of customers for the month divided by 2.
- **« HOME France Usage » ARPU:** is calculated by dividing the average of the « Home Usage » monthly revenues, for the last twelve months period, by the weighted average customer base for the last twelve months period. The weighted average customer base, for the last twelve months period, is the average of the monthly average customer bases, which is calculated as the sum of the opening and closing customer bases for the month divided by two.

25

## Glossary (2)



- **Mobile AUPU:** Monthly average usage per user (AUPU) is defined as total usage (including outgoing traffic, incoming traffic and roaming) for the 12 previous months divided by the weighted average number of Orange Group's customers during the same period. AUPU is quoted in minutes on a usage per customer per month basis
- **Churn,** the measure of customers leaving our networks, is calculated by dividing the total number of customers who disconnect or are treated as having disconnected from our network, voluntarily or involuntarily (excluding money-back returns and fraudulent connections), for the previous 12 months by the weighted average number of our customers during the same period. The way we compute churn differs between Personal UK and Personal France in the following ways:
  - For Personal UK, customers migrating between contract and prepaid products are included in individual product churn but do not impact overall churn as they remain on the Orange UK network. Customer disconnections that occur either during the money-back guaranteed 14-day trial period or due to fraudulent connections are not included in churn. The Company also excludes from churn those connections which, in its view, do not result in active customers, including those as a result of prepaid handset upgrades or the removal of handsets from the UK market. Prepaid customers are treated as having churned if they have not made any outgoing calls and have received less than four incoming calls in the last three months.
  - For Personal France, churn includes those customers leaving the Orange network, migrations between contract and prepaid products and those customers upgrading their handsets via an indirect channel. Prepaid customers are treated as having churned after eight months if they do not recharge their account during this eight-month period.

26

## Glossary (3)



- **Gross operating margin (GOM):** Revenues minus external purchases, operating costs (net of operating income) and wages and payroll expenses (labour costs). Labour costs presented in GOM do not include employee profit sharing and share-based payment.
- **Capex:** acquisitions of intangible and tangible assets, excluding GSM, UMTS licences and investments financed under leasing agreements.
- **Opex:** includes external purchases, operating costs (net of operating income) and labour costs.
- **Labour Costs:** Labour costs presented in GOM do not include employee profit sharing and share-based payment, and corresponds to the wages and payroll expenses only.
- **Commercial expenses:** includes commissions, advertising and handsets
- **Operating working capital requirement:** net stocks, operational receivables, prior to securitisation, operational payables (excl. fixed production)
- **Sourcing:** implementation of a new purchasing policy at group level
- **FCF (Free Cash Flow):** net cash provided by operating activities, less net cash used in investing activities. FCF does not take into account investment of cash in short term marketable securities
- **CF (Cash Flow) excluding asset disposals & minority buy-outs:** Free cash flow, less net cash used in investing activities, less asset disposals, less investments in minority buy-outs. FCF does not take into account investment of cash in short term marketable securities.
- **Organic CF:** Cash Flow, excluding assets disposals and minority buy-out, after payment impact of Equant CVR. Equant CVR have been reimbursed in 2H04.