commercial investment and distribution channel strategy

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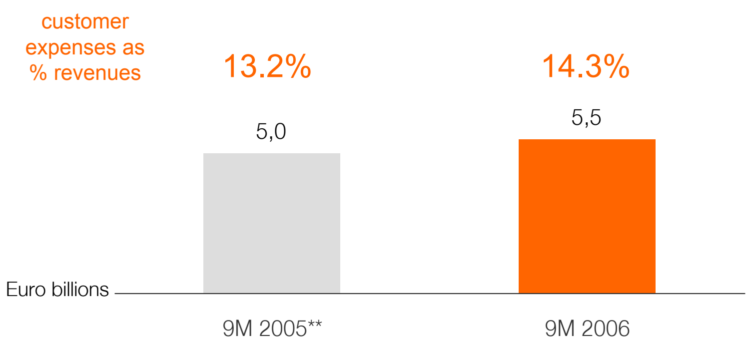
group commercial expenses*

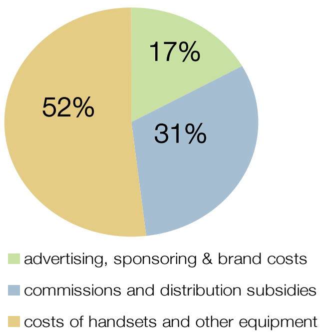


- commercial expenses are growing above revenues

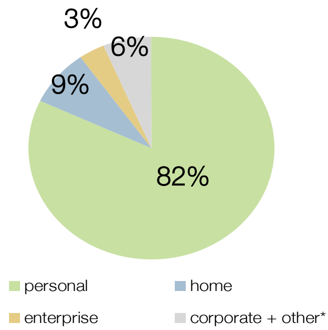
* Excluding Pages Jaunes
** Comparable basis

group commercial expenses- €5.5bn

breakdown by type (9M 2006)



breakdown by business (9M 2006)

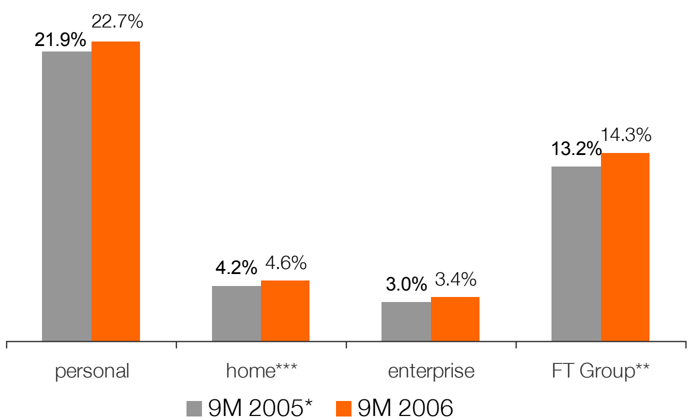


- commercial expenses relate mainly to personal

* includes France's other operations and corporate spend (mainly A&P)

group commercial expenses

Commercial expenses as a % of revenues by line of business

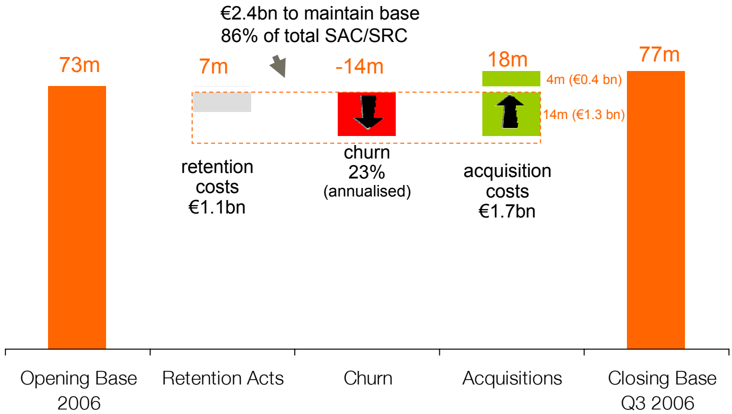


- different dynamics across the lines of business with a similar trends of increasing customer expenses

* comparable basis
** excluding Pages Jaunes
*** excluding corporate and others
Note: Figures exclude intragroup items

personal: commercial investment both to maintain and to grow the base

personal customer base evolution and related acquisition and retention investments for the largest 9 european countries*

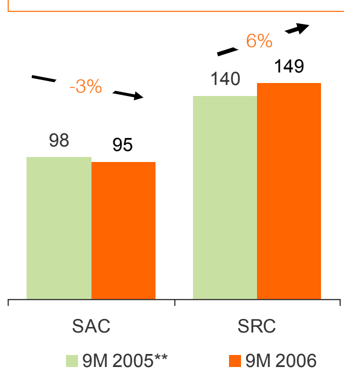


86% of acquisition and retention costs is used to maintain the base

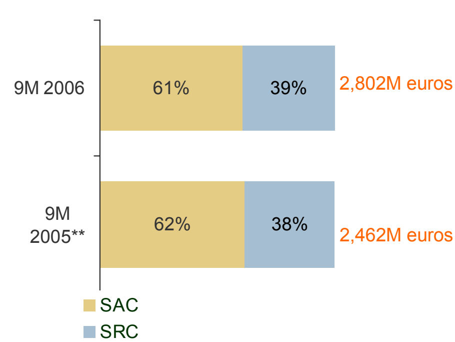
* Largest 9 European countries are: France, UK, Spain, Poland, Belgium, Switzerland, Netherlands, Romania, Slovakia

personal: rebalancing acquisition costs and retention costs

personal SAC and SRC per customer* in euros



personal SAC & SRC*

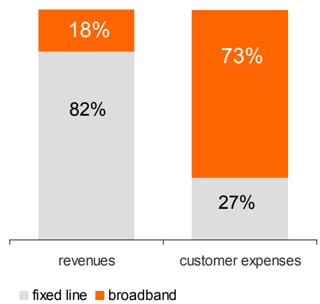


- refocus on retention to tackle churn

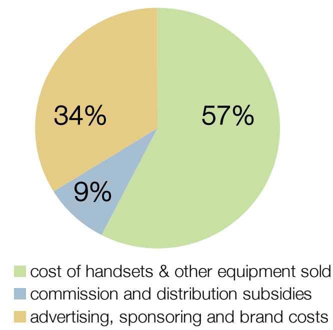
notes: (*) SAC and SRC numbers correspond to the largest 9 European countries (weighted average)
(**) Comparable basis

home: commercial investment is focused on broadband growth

home revenues vs. home commercial expenses (9M 2006)



breakdown of home commercial expenses (9M 2006)



- broadband accounts for 73% of home commercial expenses and 57% come from Livebox and other devices

our strategy to optimise commercial expenses focuses on 3 areas

commercial expenses strategy	
	brand and communications: leveraging the benefits of a single brand
	distribution channel strategy: becoming a world-class retailer and shifting towards customer retention
	device strategy: reducing device costs and optimising device range

brand and communications strategy

rationalise advertising campaigns	• launch common advertising campaigns across several countries • reduce advertising costs by consolidating spend through fewer agencies • create less new campaigns and deliver greater impact
reduce production costs	• heavy reuse of production material • lower production costs
leverage Orange brand in broadband	• improve share of voice in broadband from the Orange brand
leverage online communication	• greater use of online communication to improve efficiency in communication costs and in segment targeting

Distribution channel strategy

become a world-class retailer	• deliver world-class performance and productivity in own brand retail channels • enhance dealer performance through joint improvement initiatives • move towards a value-based allocation of commercial investments across the footprint
strengthen controlled distribution	• increase proportion of controlled distribution: - own brand retail channel - web channel - Telesales - exclusive retailers
shift towards retention	• shift towards customer retention and enhance loyalty • establish longer term relationships with strategic retailers • reward customer loyalty in commissioning models

specific action plans per country

	France	UK	Spain
strategic priorities	• Improve retail productivity • accelerate online channel	• expand controlled channels • optimise efficiency of indirect	• use exclusive channels for retention • accelerate online channel
become a world-class retailer	• Improve own shop productivity • enhance category management approach	• extensive use of geomarketing to match offering to customer needs • rationalise non performing dealers	• develop exclusive channel to push 3G services and convergence • enhance dealer performance
strengthen controlled distribution	• expand footprint through exclusive dealer network • accelerate online commercial acts	• selectively expand footprint of own shops • push direct channels (own channel, Web & Telesales)	• develop channels with acquisitions growth potential (online, kiosks, telesales, joint promotions with partners)
shift towards retention	• enhance loyalty programme to anticipate Mobile Number Portability	• establish longer term partnership with specialist retailers • enhance loyalty programme	• rebalance exclusive channels commissions towards retention • enhance loyalty programme

device strategy

optimise device range	• manage device range based on: – optimally matching demand with customer segments – supporting customer experience through customisation of signature devices (cooperation with manufacturers)
reduce device costs	• concentrate volumes across footprint in limited number of models to maximise scale • balance between low cost and high cost devices in each device category and in each segment
enhance alternative handset subsidies	• enhance non-handset subsidies (e.g. free services) to best match the needs of equipped customers whilst reducing subsidy costs

outlook

- we aim to stabilise* commercial expenses as proportion of revenues in 2007

	key areas:	expected trend
2010 vision	proportion of controlled distribution	↑
	proportion of retention costs of total acquisition and retention costs	↑
	retail productivity	↑
	devices average subsidy	↓

note: (*) subject to market conditions