

france telecom

Morgan Stanley TMT conference

Barcelona, November 16<sup>th</sup> 2007



## cautionary statement

- this presentation contains forward-looking statements and information on France Telecom's objectives, in particular for 2007. Although France Telecom believes that these statements are based on reasonable assumptions, these forward-looking statements are subject to numerous risks and uncertainties and there is no certainty that anticipated events will occur or that the objectives set out will actually be achieved. Important factors that could result in material differences between the objectives presented and the actual results achieved include, among other things, changes in the telecom market's regulatory environment, competitive environment and technological trends, the success of the NEXt plan and other strategic initiatives based on the integrated operator model as well as France Telecom's financial and operating initiatives, and risks and uncertainties attendant upon business activity, exchange rate fluctuations and international operations.
- the financial information in this presentation is based on international financial reporting standards (IFRS) and is subject to specific uncertainty factors given the risk of changes in IFRS standards.
- more detailed information on the potential risks that could affect France Telecom's financial results can be found in the Document de Référence filed with the French Autorité des Marchés Financiers and in the Form 20-F filed with the U.S. Securities and Exchange Commission.
- market share figures at September 30, 2007 included in this presentation are France Telecom estimates.
- financial data for the third quarter 2006 and the third quarter 2007 are unaudited.

## 3Q07 results

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### 3Q07 highlights

strong 3Q07 results led us to upgrade FY07 guidance

in million of euros	3Q07	9m07	$\Delta$ 3Q07 /3Q06*	$\Delta$ 9m07 /9m06*
<b>Revenues</b>	<b>13,508</b>	<b>39,420</b>	+3.5%	+2.5%
<b>GOM</b>	<b>5,094</b>	<b>14,510</b>	+5.1%	+3.0%
<i>in % of rev</i>	37.7%	36.8%	+0.6pt	+0.3pt
<b>Capex</b>	<b>1,434</b>	<b>4,401</b>	-6,2%	-4,0%
<i>in % of rev</i>	10.6%	11.2%	-1.3pt	-0.7pt

#### main performance drivers:

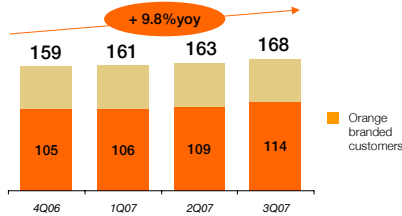
- continuing good resilience of French activities (incl. wholesale) and a strong summer season
- higher mobile revenue growth both in Spain and in the UK
- sustained performance in growing markets
- enterprise growth thanks to a slower pace in legacy voice decrease
- cost base kept under control as announced

4 \* on a comparable basis

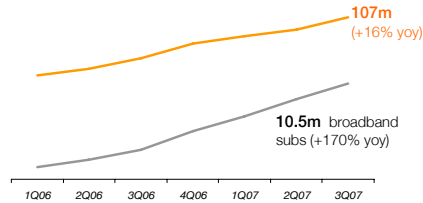
## 3Q07 highlights

### main operational KPIs are improving

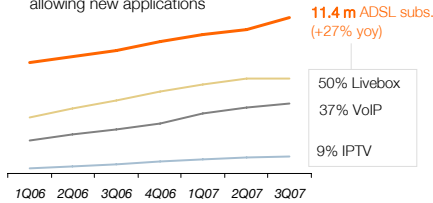
**group customers (in million)**  
68% of our customer base is Orange branded



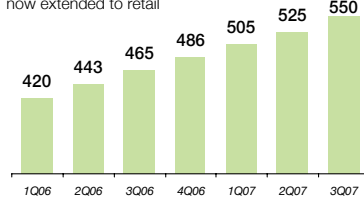
**mobile customers**  
continuous growth with strong development of Broadband



**ADSL customers**  
strong growth while our box strategy is expanding, allowing new applications



**Business Everywhere customers (in 000)**  
successful expansion of our BEW product now extended to retail

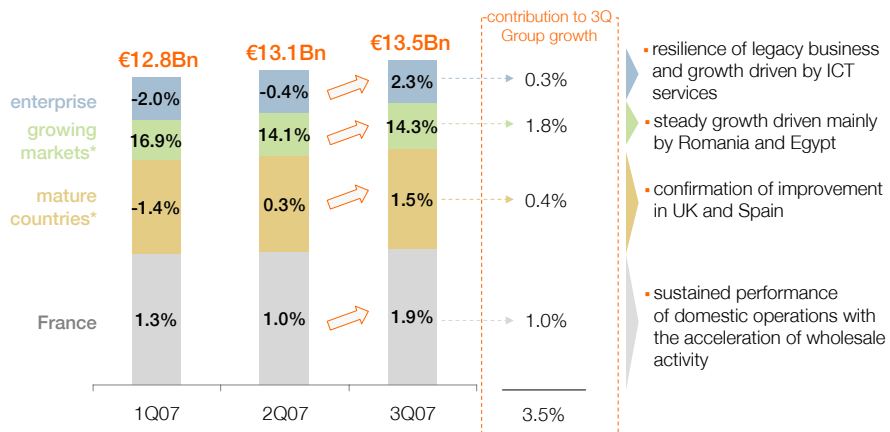


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## 3Q07 revenue growth

### all businesses are contributing to Group growth

**evolution of revenue growth by quarter on a comparable basis**

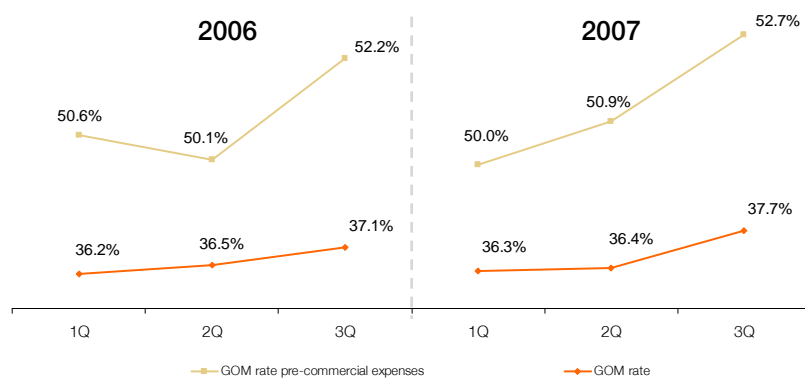


6 \* see glossary

## 3Q07 Gross Operating Margin

improvement over 3Q06 with stable commercial costs in 3Q07

*evolution of margin by quarter on comparable basis*



### GOM drivers in 3Q07:

- roaming regulation impact from September
- subscription fee increase in France (July 3<sup>rd</sup>, 2007)
- stable wholesale tariffs in France
- improved control over operational costs (-0.6 pt yoy as a % of revenues)

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## outlook

operational performance for FY 07 is expected to be in line with the results for the first 9 months

	previous	new
<b>GOM margin rate</b>	▪ near stabilization	▪ <b>stabilization</b>
<b>capex</b>	▪ around 13% of revenues	▪ around 13% of revenues
<b>organic cash flow</b>	▪ €6.8bn	▪ <b>€7.5bn</b>
<b>dividend</b>	▪ 40% to 45% of organic cash flow	▪ 40% to 45% of organic cash flow
<b>debt/GOM ratio</b>	▪ below 2 by the end of 2008	▪ below 2 by the end of 2008

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# france telecom's priorities in a fast changing ecosystem

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## the new telco eco-system

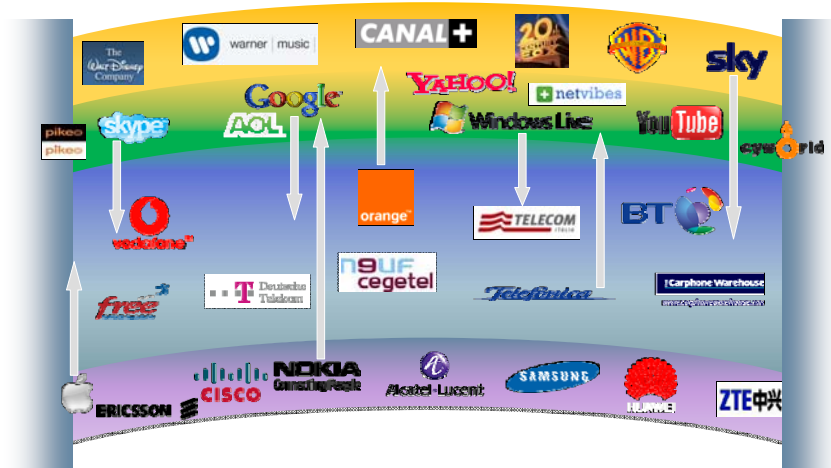
Telecoms, IT and Media were slowly converging ...



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## the new telco eco-system

... but today all the players struggle to capture the entire relationship with the customer which becomes the heart of the network



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## our priorities in a fast changing ecosystem are clear

### objectives

- preserve or increase our market shares
- increase the ARPU
- develop our footprint on growing markets
- adapt our processes and costs structure to new activities
- maintain high organic cash flow level

### priorities

innovation in products, content and services

develop broadband infrastructures to support data expansion

quality of service becomes a key differentiator

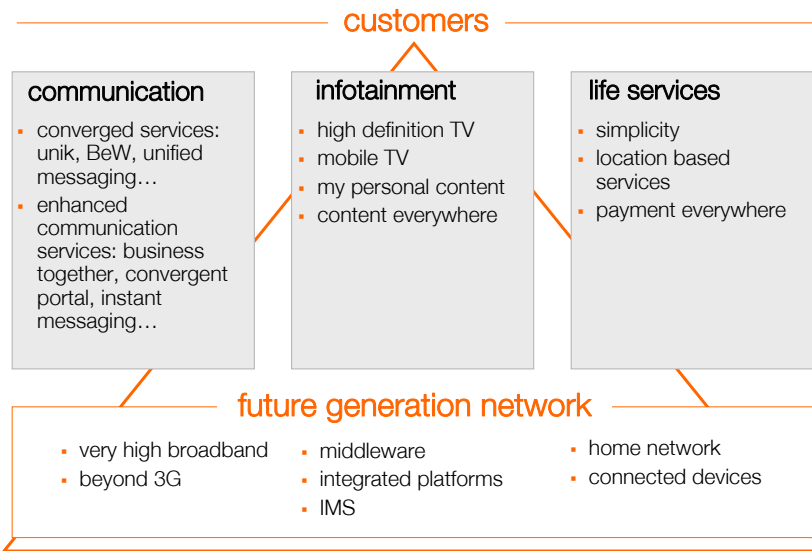
focus on cost reduction

disciplined M&A

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## innovation

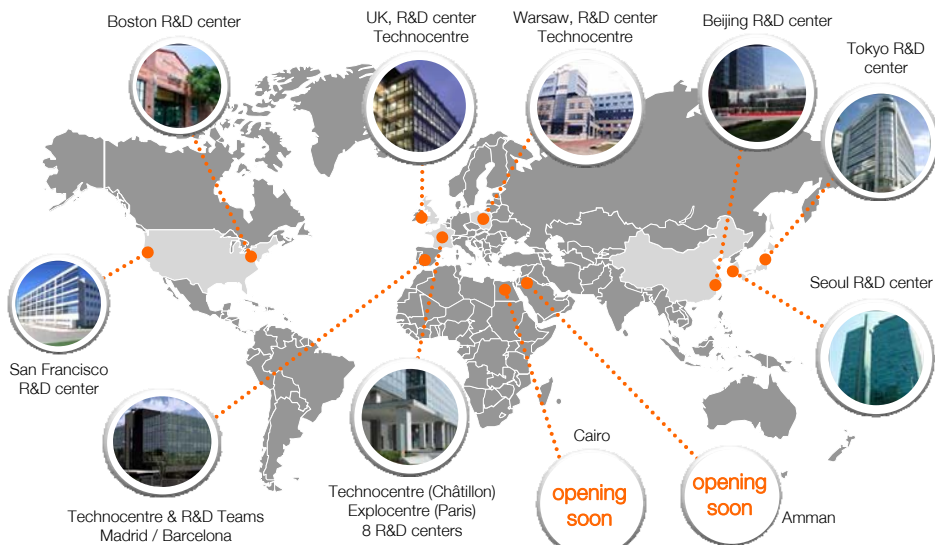
a customer centric approach based on convergence



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## innovation

our Orange Labs capture trends & innovations on worldwide basis



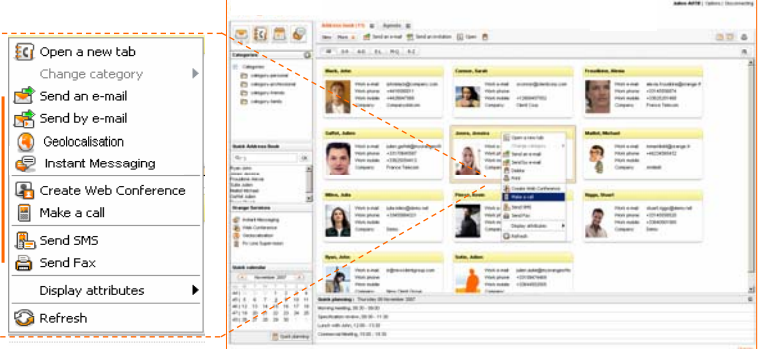
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→ R&D spending was 856 M€ in 2006, ie 1.6% of revenues




**innovation**

**preview of next Autumn collection : Reach Everyone**



- also available on mobile



- all Orange communication services integrated in an intuitive and simple interface
- initiate any contact with your business network, with a simple drag & drop or right click

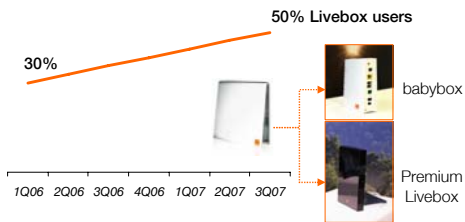
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**innovation**

**new products and services support revenue growth**

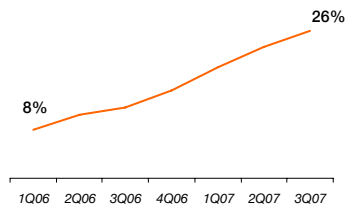
**% of FT ADSL customers using a Livebox**

Livebox becomes the cornerstone of our ADSL development



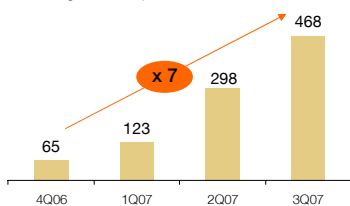
**VoIP in France**

acceleration of VoIP traffic in % of total FT traffic



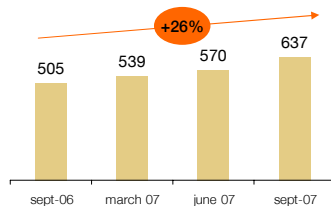
**Unik handsets sold in France ('000)**

convergent UNIK phones are a success



**TV on mobile users in France ('000)**

TV on mobile takes off with 100k unlimited users\*



\* in thousands

\* paying a 10 to 12 € option

## quality of service a key differentiator

### actions

- polls on a monthly basis
- regular benchmark
- quality of service department in each entity

### benefits

- churn reduction
- pricing premium
- increase brand awareness

### complaints rate for ADSL market in France



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## develop broadband infrastructures FTTH pre deployment plan is on track

### FTTH projects

- France
  - pre-deployment until end of 08 in 10 major and medium cities
  - FT's Fiber offer launched at €44,9 / m
  - Objectives
    - 1 million home passed with 150k/ 200k active customers at end of 2008
    - capex plan: ~ €270 million over 07-08

→ full deployment depends upon regulation condition

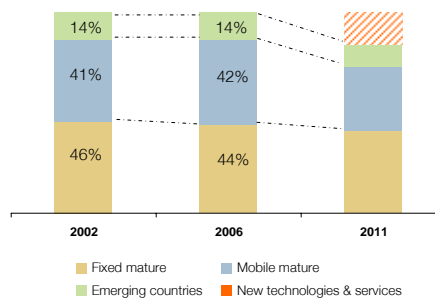
- outside France

- Slovakia has been launched

### Financing

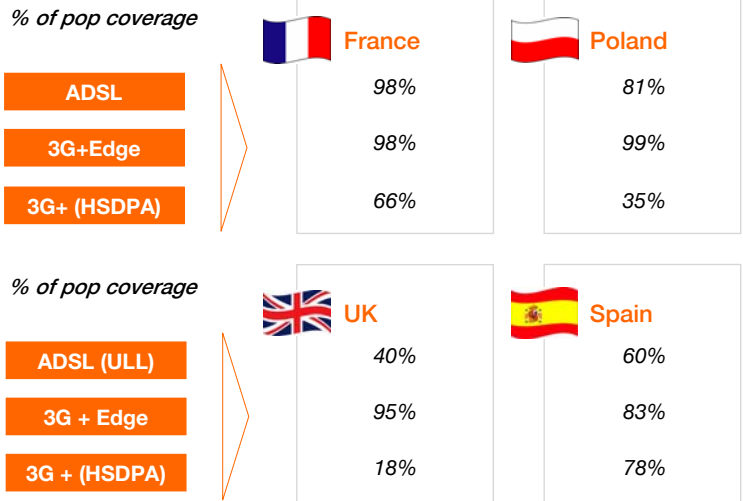
- financing can be done while keeping our capex to sales ratio around 13% over 2007-2012
- from 09, around €1Bn each year will be reallocated to new growth areas (FTTH ..)

### evolution of Group capex split ( base 100)



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**develop broadband infrastructures**  
**our broadband coverage is constantly improving**

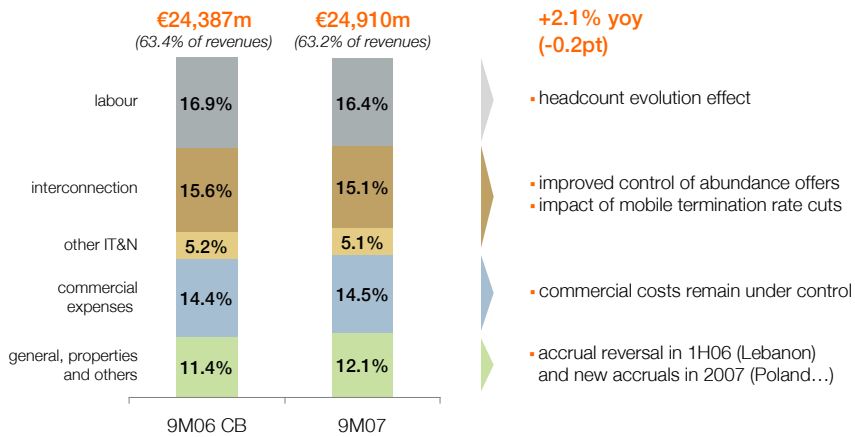


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➔ HSUPA deployment starting in 08 in most of the footprint

**focus on cost reduction**  
**ongoing improvement of cost structure**

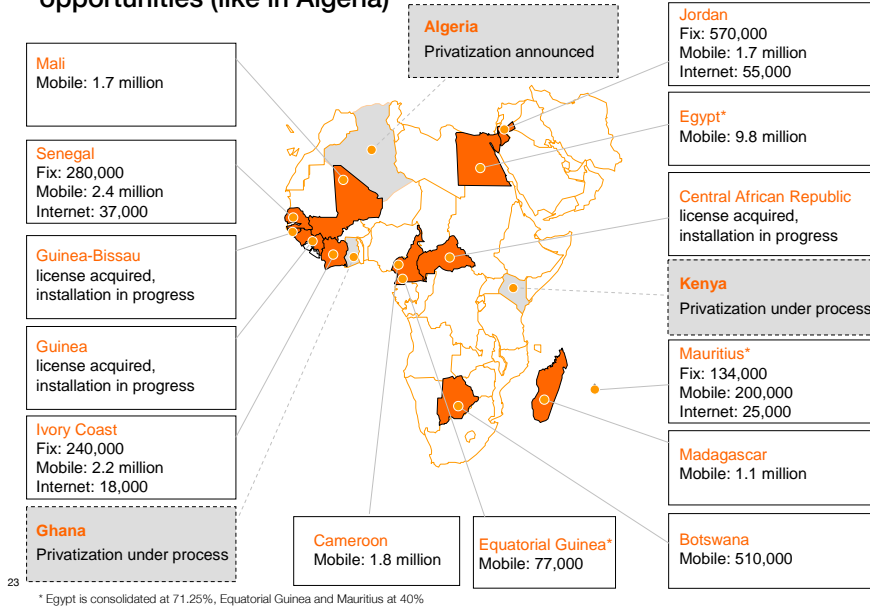
*evolution of opex (in % of revenues)*



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**disciplined M&A: increase emerging countries' presence**

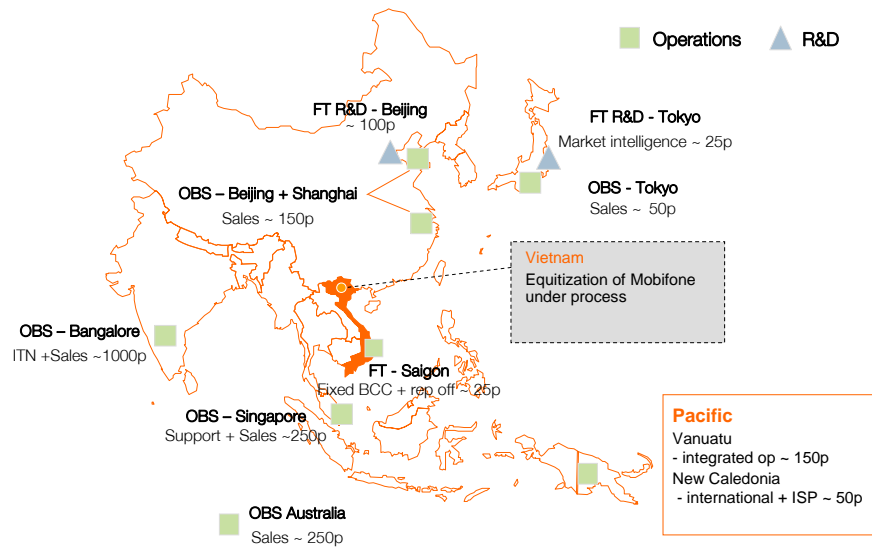
**FT is a significant player in Africa / Middle East, and reviews opportunities (like in Algeria)**



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**disciplined M&A: increase emerging countries' presence**

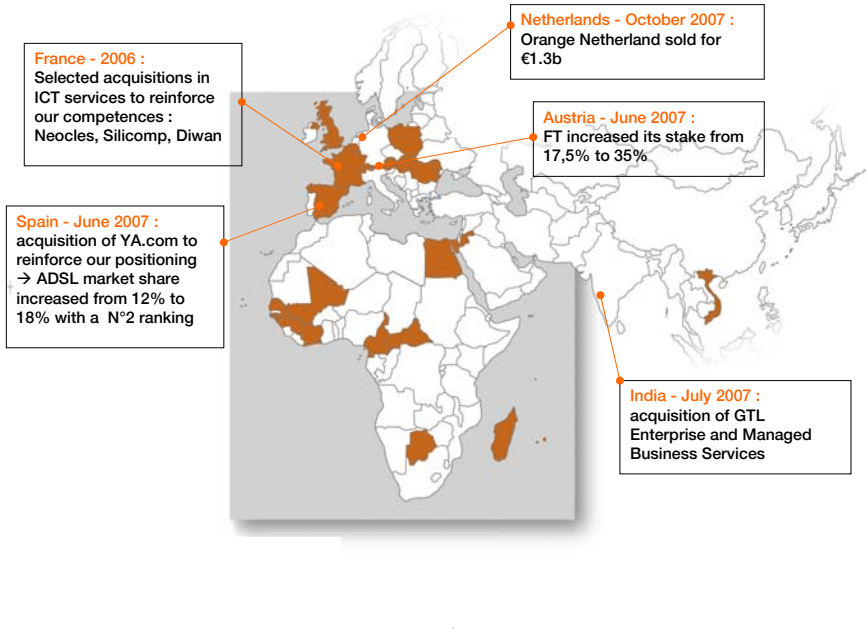
**FT is seeking to develop its footprint in Asia through high growth opportunities like in Vietnam**



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## disciplined M&A

### in Western Europe targeted acquisition and portfolio rationalization



## NExT plan is delivering expected results

- we demonstrate our ability to manage the transformation of our business in France
- our performance in Spain and UK has significantly improved
- cost structure is under control
- projects are launched to capture more growth

→ will be detailed in our December 5<sup>th</sup> Investor Day

**Innovation, proactivity and rigorous execution  
are the key to our future**