



2000 annual report

PROFILE

77 MILLION
CUSTOMERS WORLDWIDE
+40 percent in one year

○ **33.1** MILLION
WIRELESS TELEPHONY
CUSTOMERS IN **22** COUNTRIES

○ **39.2** MILLION
FIXED-LINE TELEPHONY
CUSTOMERS IN **10** COUNTRIES

○ **2.6** MILLION
ACTIVE INTERNET CUSTOMERS
IN **10** COUNTRIES

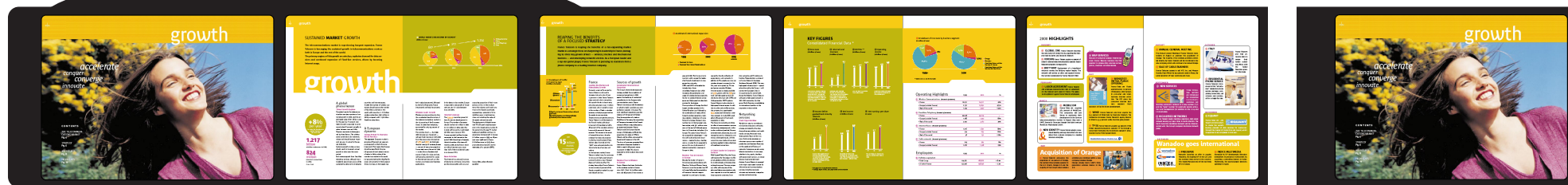
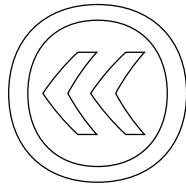
○ **2.1** MILLION
CABLE TV CUSTOMERS
IN **2** COUNTRIES

33.7
BILLION EUROS
IN REVENUES
+23.7 percent in one year

10.8
BILLION EUROS
IN EBITDA
+12.4 percent in one year

3.7
BILLION EUROS
IN CONSOLIDATED
NET INCOME
+32.2 percent in one year

growth Pg.2



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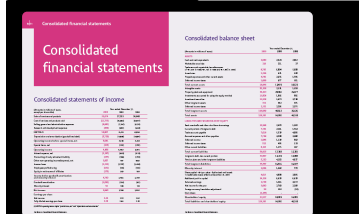
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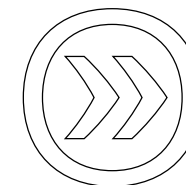
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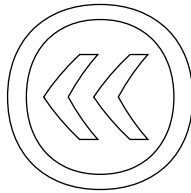
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MESSAGE FROM THE CHAIRMAN



FRANCE TELECOM had quite a year in 2000. Our already rapid transformation shifted into high gear, creating the entirely new enterprise presented in the following pages. Our Group is a world leader in global business services, with Equant and Global One. We are number two in Europe and number three worldwide in the wireless market, with Orange. And we are number two in the Internet segment in Europe, with Wanadoo and Freeserve.

We are a new Group in terms of sheer size, with well over 200 billion francs in revenues last year and nearly 80 million customers worldwide, close to half of them in our wireless and Internet businesses.

We are a new Group in terms of geographic reach as well: with our vigorous international development, almost 40 percent of our 2001 revenues will come from outside France. Our Group today has the strongest European presence of any incumbent telecommunications operator.

Last but not least, **we are** a new Group in terms of our business mix. In 1995, nearly all our business was generated by fixed voice telephony in France, which was still a monopoly. Today, the relative weight of this segment has shrunk to a solid third of our revenues, with the rest coming from new telephone uses — wireless, Internet and data — that are experiencing more rapid development.

The acquisitions made in 2000 create solid foundations to support the strategy we have pursued for the past five years: focus on high-growth businesses to continue to expand in France despite the advent of competition, and develop our businesses in the rest of Europe. We remain committed to this strategy while of course taking economic requirements into account. Consequently, the results presented in this report are the best in our history, tempered only by the fact that our share price — which had perhaps climbed too quickly — ended the year 30 percent below its year-earlier value.

I trust that our shareholders will keep in mind that this price was still triple our IPO price at the end of 1997, along with the fact that the France Telecom share outperformed the European telecommunications index.

We have been able to achieve these sound results thanks to your confidence, and I thank you for your support, which provides us with the means to deploy our strategy.

accelerate
conquer
converge
innovate

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growth

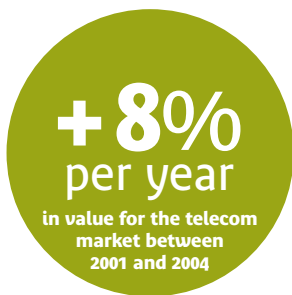


SUSTAINED MARKET GROWTH

The telecommunications market is experiencing buoyant expansion. France Telecom is leveraging the sustained growth in telecommunications services both in Europe and the rest of the world.

The primary engines of this growth are wireless, explosive demand for data services and continued expansion of fixed-line services, driven by booming Internet usage.

growth



1.217
billion
wireless customers in 2004

824
million
Internet connections
in 2004

(Source: Ovum)

A global phenomenon

Three Growth Engines

The global market for telecommunications services experienced sustained growth in 2000, reaching an estimated value of 911 billion euros for the year (up 11 percent over 1999). Growth is expected to continue at about 8 percent annually in value between now and 2004.

Vigorous expansion is being spurred by three factors. The wireless sector continues to be extremely robust and should increase 14 percent per year in value for the period 2000-2004.

Explosive growth in data services should result in 9 percent annual growth in value over the same period.

And revenue growth from fixed-line telephony services, although more modest (4 percent per year), will be sustained by demand in developing

countries and Internet access.

In 2004 the number of wireless customers should surpass the number of fixed-line customers in the world, with more than 1.217 billion wireless subscribers (591 million in 2000), compared with 1.150 billion fixed-line subscribers.

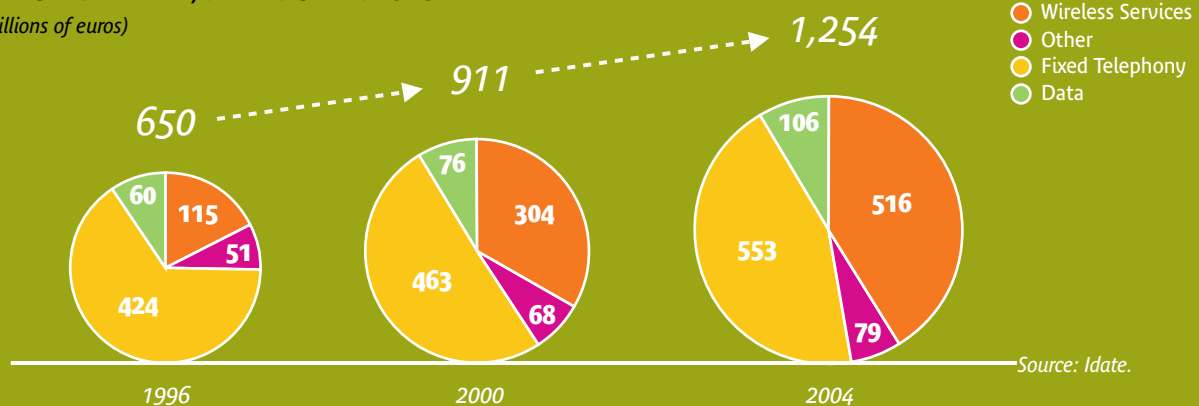
A European dynamic

Europe Poised To Overtake North America

The aggregate European market is growing at 8 percent per year, outpacing growth in North America (4 percent). This means that Europe should surpass North America (26 percent of total value) in terms of value in 2004, making it the number two market in the world (27 percent), behind the Asia-Pacific region (29 percent). In the European Union, Germany is the largest mar-

⊕ WORLD MARKET, BREAKDOWN BY SEGMENT

(billions of euros)



ket in value (20 percent), followed by the U.K. (18 percent), France (14 percent) and Italy (13 percent).

Wireless Leads Growth

Wireless services continue to drive the accelerated transformation of the telecommunications market in the 15 countries of the European Union. In 2000, fixed telephony accounted for only 45 percent of the market.

The wireless boom — the 1999-2000 increase was 13 percent — will gain fresh impetus in 2001-2002 from the progressive introduction of **GPRS** and **UMTS** technologies. Massive take-up of wireless phones — one out of every two people in France had one at the end of 2000 — makes them a fundamental source of value for voice services, with growing potential for access to Internet services such as information, e-commerce and business applications.

In the data services market, Europe is expected to see growth of 10 percent per year in value between now and 2004.

Internet Leverage

The **Internet** is another powerful lever for service development in Europe. The number of accesses should rise from 41 million in 2000 to 129 million in 2004, when the market will be worth an estimated 26 billion euros (source: IDC). France counted 9 million devices connected to the Internet at the end of 2000. According to forecasts, the total number of devices will triple by 2004, giving France about 27 million Internet users, more than half of them residential customers (source: IDC).

New Activities

The Internet has ushered in an era of electronic commerce. Consumers and businesses alike will carry out

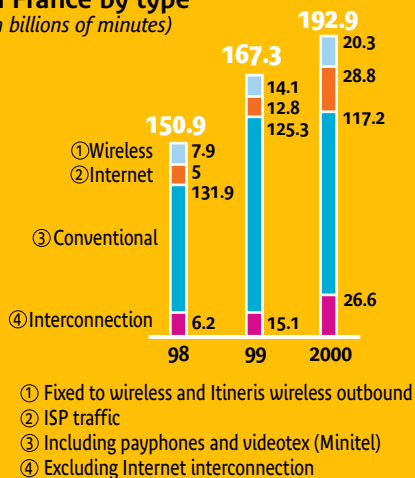
a growing proportion of their transactions on line. In the medium term, this volume could reach 3 to 10 percent of goods purchased, representing a potential of 10 to 45 billion euros in technical services, not including the value of the goods and services sold. The deployment of digital terrestrial TV will spark ongoing expansion in the broadcasting market. At the same time, the pay-TV market (cable and satellite) continues to experience strong growth in Europe (12 billion euros in 1999, up 18 percent over 1998) and in France (2.6 billion euros in 1999), for a projected annual growth rate for 1999-2005 of 12 percent (BIPE).

Source: Idate, unless otherwise specified.

REAPING THE BENEFITS OF A FOCUSED STRATEGY

France Telecom is reaping the benefits of a fast-expanding market thanks to a strategic focus on sharpening its leadership in France, leveraging its three key growth drivers — wireless, Internet and international business — and developing network services. As a European leader and a top-tier global player, France Telecom is pursuing its transition from a phone company to a leading Internet company.

➔ Breakdown of traffic in France by type (in billions of minutes)



over
15 billion euros
 in revenues from international business in 2001

France

Leading the Market and Stimulating Growth

Domestic voice traffic carried by France Telecom continued to increase, rising at a rate of over 15 percent in 2000. France Telecom plays a pivotal role in energizing this growth thanks to lower rates, attractive rate plans (over 7 million customers), and an overall increase in the number of fixed or wireless accesses, multiplying opportunities for people to communicate.

Despite strong competitive pressure, France Telecom is still the leader in the French market, with about 67 percent of long-distance traffic, 48 percent of the wireless customer base and 40 percent of Internet accesses. This success is the result of competitive prices, a broader catalog of services and proactive marketing, including local offices, indirect sales channels and the "3000" voice activated platform for instant ordering of services and options.

In the business market, France Telecom makes it easy for customers to move up to high-speed network services thanks to a new "Integral Approach" all-in-one offer. This strategy has enabled France Telecom to secure nearly 65 percent of the fiercely competitive market for corporate network services.

Sources of growth

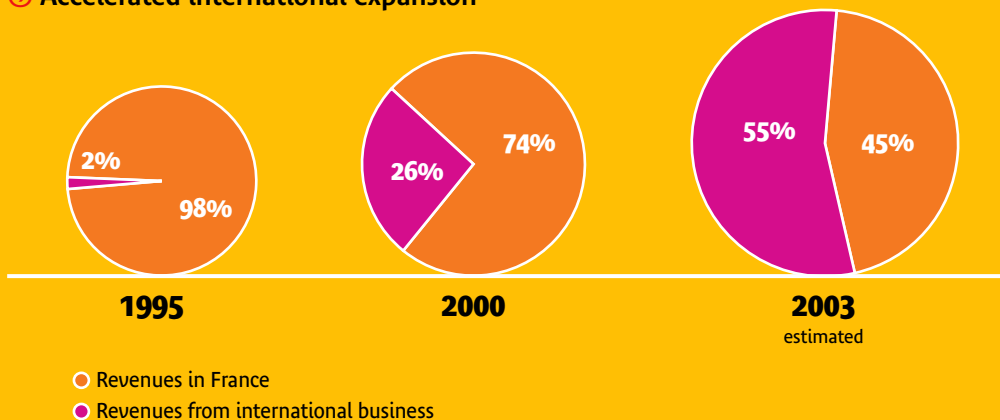
Accelerated International Expansion

The Group's international expansion strategy enabled the completion of numerous transactions in 2000, against the backdrop of accelerated consolidation in the European telecommunications sector. France Telecom now enjoys solid foundations on which to build a position as a comprehensive operator in Europe. The most significant operations were the takeover of 100 percent of Global One, the acquisition of a stake in MobilCom in Germany, the acquisition of Orange, an increase in the Group's interest in Wind in Italy (followed by an agreement between France Telecom and Enel concerning the merger of Infostrada and Wind), the acquisition of a stake in TPSA in Poland, and the offers announced for Equant and Freeserve in the U.K. The share of revenues generated from international business doubled in 2000 to reach 25.8 percent, versus 13 percent in 1999. This share is expected to climb to about 40 percent in 2001.

Number Two in Wireless in Europe

France Telecom has been the leader in the wireless market in France since 1992. It had 14.3 million customers and 48 percent of the market at

➔ Accelerated international expansion



year-end 2000. The Group aims to maintain and leverage this leadership through investments in new-generation networks. GPRS and UMTS will enable the introduction of new voice/data/image services while increasing the penetration and usage of wireless devices, especially thanks to wireless/Internet convergence and high-speed wireless data services for businesses.

The acquisition of Orange, the third-largest wireless operator in the United Kingdom, was followed by the combination of nearly all the Group's wireless operations, marking a decisive milestone in France Telecom's strategy. Orange is now number two in the European wireless market, with 30.1 million customers at the end of 2000 and operations in 20 countries, including 13 in Europe. This gives France Telecom the competitive advantages — starting with scale and proven experience — needed to play a leading role in a market that is expected to account for nearly 40 percent of telecommunications revenues in Europe in 2004.

Number Two in Internet in Europe

Already the leader in France in Internet access and audience with Wanadoo, Voila and OIeane, France Telecom is now the number two ISP in Europe following the acquisition of Freeserve. Internet usage is expected to continue to increase,

spurred by the diversification of access devices and networks. In addition to PCs, people can now use wireless phones to connect to the Net, soon to be joined by TV sets and games consoles. Wireless Internet access is already available on GSM systems with the WAP protocol and high-speed service will shortly be rolled out with GPRS and third-generation UMTS systems. France Telecom is also a leader in high-speed Internet access. In addition to cable and satellite services, the company has spearheaded ADSL access and initiated an ambitious program to make ADSL available to 80 percent of the French population in 2003.

The Group is constantly enriching its offer of communications services (messaging, newsgroups, etc.), information solutions (practical, finance, entertainment, directories, etc.) and transaction services (electronic commerce, online gaming, etc.). At the same time, new media-rich services are being readied to take advantage of broadband connections.

A Global Leader in Corporate Services

With Equant/Global One, the Group will become the first player to offer a truly global portfolio of solutions for multinationals, with dense international coverage. The new company's offer will comprise all the advanced telecommunications solutions required to meet the needs of large corporate customers, from

data networks and IP solutions to hosting. These solutions are based on France Telecom's European Backbone Network (EBN). This very-high-speed infrastructure — operated end-to-end by the Group — will connect 40 European cities in 16 countries by the end of 2001. Across the Atlantic, France Telecom will open a high-speed network in 2001-2002 connecting 24 cities across North America, consolidating its international position in the corporate services market.

Networking services

Fresh Opportunities

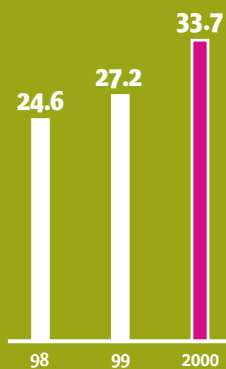
Myriad new ways to use telecommunications resources continually emerge, prompted by the abundance of access solutions and multimedia services. More and more, these systems figure at the very core of enterprise processes, as e-business spawns new models of production, and business flows rely on the speed and efficiency of networks. Consumers are also using telecommunications in new ways, whether to buy goods, interface with government services, or simply discover local entertainment choices. France Telecom is engaged in the high value-added market for information and communications services, including corporate intranets and extranets, integration services and outsourcing.

KEY FIGURES

Consolidated Financial Data *

➤ Revenues

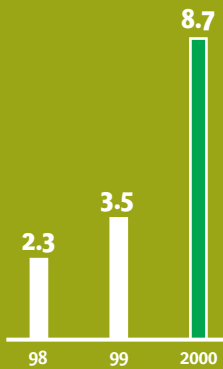
(in billions of euros)



Consolidated revenues rose by 23.7 percent from 1999 to 2000, compared with a 10.5-percent increase in the preceding year. Excluding changes in scope and exchange rates, annual growth was 8.1 percent.

➤ International revenues

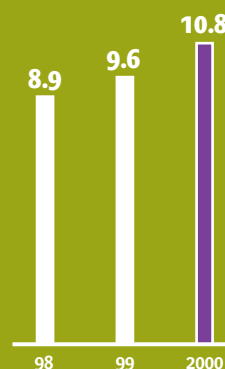
(in billions of euros)



Revenues from business outside of France were up 149.7 percent over the previous year. International business accounted for 25.8 percent of consolidated revenues, up from 12.8 percent in 1999.

➤ EBITDA **

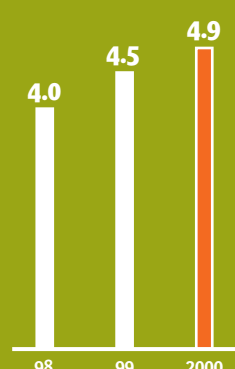
(in billions of euros)



EBITDA rose 12.4 percent from 1999 to 2000.

➤ Operating income

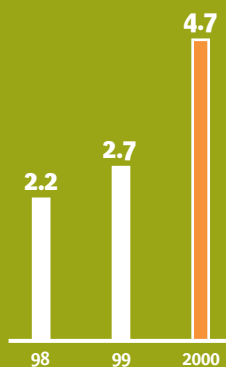
(in billions of euros)



Operating income increased by 8.2 percent compared to the previous year.

➤ Income before goodwill and minority interests

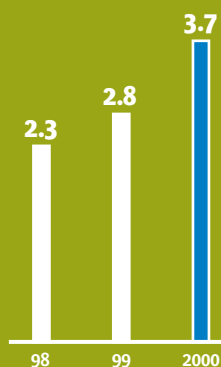
(in billions of euros)



Income before goodwill and minority interests grew by 73.7 percent from 1999 to 2000, reflecting exceptional gains made on the disposal of non-strategic assets.

➤ Net income

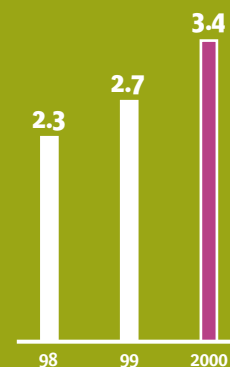
(in billions of euros)



Consolidated net income increased by 32.2 percent over 1999. This increase was 20.3 percent between 1998 and 1999.

➤ Net earnings per share

(in euros)



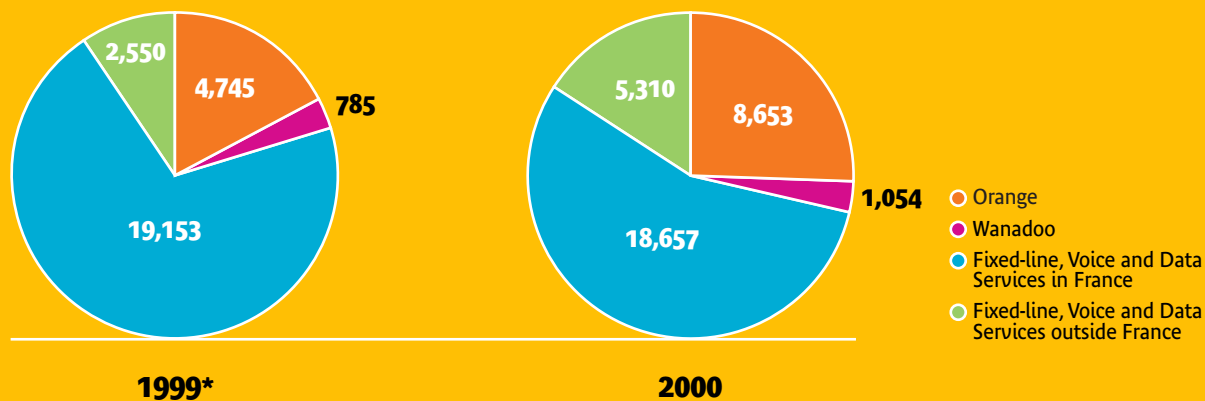
Net earnings per share increased 27.4 percent from 1999 to 2000.

* See pages 60 to 64 for financial statements.

** Earnings before interest, taxes, depreciation and amortization

📍 Breakdown of revenues by business segment

(in millions of euros)



* Segments on pro forma basis

Operating Highlights

	1999	2000	%
📍 Wireless Communications (thousands of customers)			
• France	10,051	14,311	42%
• Europe (outside France)	2,752	15,832	475%
• Rest of the world	1,253	2,927	134%
📍 Fixed-line Telephony (thousands of customers)			
• France	34,056	34,114	–
• Europe (outside France)	1,168	1,937	66%
• Rest of the world	2,457	3,167	29%
📍 Internet Access (thousands of customers)			
• France	1,016	1,831	80%
• Europe (outside France)	374	679	82%
• Rest of the world	58	132	128%
📍 Cable networks (thousands of customers)			
• France	709	769	8%
• Europe (outside France)	1,076	1,328	23%

Employees

	1999	2000	%
📍 Full-time equivalent			
• Total Group	174,262	188,866	+ 8.4%
• of which France	152,346	148,846	– 2.3%

2000 HIGHLIGHTS

JANUARY

- ▶ **GLOBAL ONE** France Telecom becomes the sole owner of Global One by acquiring the interests held by Sprint and Deutsche Telekom
- ▶ **JORDAN** France Telecom acquires 40 percent of Jordan's national telecommunications operator Jordan Telecommunications Company (JTC).
- ▶ **BRITTANY** Deployment of a broadband network serving the Brittany region begins. The network will service 24 cities and support innovative services developed by France Telecom R&D.

FEBRUARY

- ▶ **LABOR AGREEMENT** France Telecom and employee representatives sign an agreement on the reduced work week in France. The agreement applies to 149,000 France Telecom employees.

MARCH



- ▶ **MOBILCOM** France Telecom acquires 28.5 percent of MobilCom. The companies will join forces to accelerate their development in the German telecommunications market. In August they won a UMTS license in Germany through their joint venture MobilCom Multimedia GmbH.

- ▶ **NEW IDENTITY** France Telecom adopts a new visual identity and logo that reflects its transition from a phone company to a leading Internet enterprise.



MAY

Acquisition of Orange

▶ France Telecom announces the acquisition of 100 percent of Orange, the number three wireless operator in the U.K. Itineris, Orange U.K. and the majority of the Group's other wireless

activities are combined within a new company, branded Orange. Orange already held a UMTS third-generation wireless license in the U.K.



JUNE

- ▶ **WAP SERVICES** Roll-out of consumer wireless Internet services: France Telecom becomes the first operator to propose Wap services via two portals, I-Services and Voila Mobile.



JULY



▶ WANADOO INITIAL PUBLIC OFFERING

France Telecom floats approximately 10 percent of Wanadoo, which groups its consumer and small-business Internet activities. The IPO gives the consumer Internet business segment fresh resources to fuel its future development.

- ▶ **WIND** France Telecom and Enel acquire the 24.5 percent of Wind held by Deutsche Telekom. The transaction increases France Telecom's equity interest in Wind to 43.4 percent while Enel has 56.6 percent.

- ▶ **TP SA** France Telecom acquires 35 percent of the Polish telecommunications operator TP SA through a consortium following the incumbent operator's privatization by the Polish government.

TELEKOMUNIKACJA POLSKA S.A. 

AUGUST

▶ ANNUAL GENERAL MEETING

The Annual General Meeting of France Telecom shareholders on August 22 approves the acquisition of Orange. The majority of the wireless activities controlled directly by France Telecom will be transferred to the new company, which will continue to be named Orange.

▶ SALE OF CABLE BUSINESS

France Telecom agrees to sell NTL Inc. and Morgan Stanley Dean Witter its 49.9-percent stake in Noos, the cable operation of Suez Lyonnaise des Eaux.

SEPTEMBER

▶ NEW SERVICES



Three innovative services are introduced for residential customers: malicious call

blocking, automatic callback to a busy number ("5") and the "3000" number for automatic service activation and management (in addition to the 1014 and 1016 services).

▶ HIGH-SPEED NETWORKS

France Telecom begins building a seamless, high-speed network serving 24 major cities in North America. The North American Backbone Network will be interconnected with the Group's European Backbone Network (EBN).

OCTOBER

▶ ITALY



France Telecom and Enel announce plans to merge their Italian subsidiary, Wind, with the Italian fixed-line operator Infostrada.

▶ RESIDENTIAL PHONE SERVICE

France Telecom introduces its first "all-inclusive" residential phone service packages, comprising connection, call minutes and services, all for a single flat rate.



NOVEMBER

▶ EQUANT

France Telecom and Equant announce plans to create the world's leading provider of data services for businesses through the merger of Global One and Equant, which is expected to be completed in mid 2001.



DECEMBER

Wanadoo goes international



▶ FREESERVE

Wanadoo launches an offer to acquire Freeserve, the leading ISP in the U.K. and the number three portal in the country. This makes Wanadoo one of the top three ISPs in Europe.

▶ INDICE MULTIMEDIA

Alongside its ISP development, Wanadoo strengthens its presence in directories by acquiring a controlling interest in Indice Multimedia, the second-largest directory publisher in Spain.

create value
convince
bring together
mobilize

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stakeholders



CORPORATE GOVERNANCE

EXECUTIVE OFFICERS



Michel Bon
Chairman and Chief Executive Officer



Bernard Bresson
*Executive Vice President,
Human Resources*

- CORPORATE HUMAN RESOURCES
- HUMAN RESOURCES FRANCE TELECOM PARENT COMPANY (FT SA)
- RELATIONS
- TRAINING
- HUMAN RESOURCES INFORMATION SYSTEM
- FRANCE TELECOM INSTITUT DES MÉTIERS



Marie-Claude Peyrache
*Executive Vice President,
Corporate Communications*

- CORPORATE INFORMATION
- BRANDING
- CORPORATE PATRONAGE AND SPONSORSHIP
- COMMUNICATIONS MANAGEMENT



André Cathelineau
*Executive Vice President,
Distribution Division*

- HANDSET PROCUREMENT AND DISTRIBUTION
- DISTRIBUTION AND SERVICE
- DEVELOPMENT OF ALTERNATIVE DISTRIBUTION CHANNELS
- CUSTOMER BILLING AND CARE
- MANAGEMENT POLICY
- EXECUTIVE CAREER MANAGEMENT



Jacques Champeaux
*Executive Vice President,
Large Business Division*

- CARRIERS
- CORPORATE CUSTOMERS
- KEY ACCOUNTS
- MARKETING — BUSINESS SOLUTIONS
- GLOBAL ONE
- BROADCASTING
- EUROPE ZONE AND OECD COUNTRIES



Jean-Jacques Damlamian
*Executive Vice President,
Development Division*

- STRATEGY
- INFORMATION SYSTEMS
- INNOVATION
- R&D



Nicolas Dufourcq
*Executive Vice President, Consumer
Internet Division
Chairman and Chief Executive Officer
of Wanadoo*

- CONSUMER INTERNET ACCESS
- PORTALS AND INTERNET SITES
- ADVERTISING AND MULTIMEDIA CONTENT
- INTERNET SOLUTIONS FOR BUSINESSES
- DIRECTORIES — PRINT, MINTEL AND INTERNET
- MULTIMEDIA KIOSKS
- BROADCASTING
- INTERNET NETWORKS



Marc Fossier
*Executive Vice President, Consumer
Fixed-line Services Division and
Senior Vice President, Public and
Regulatory Affairs*

- SECRETARY TO THE BOARD OF DIRECTORS
- MARKETING, FIXED CONSUMER SERVICES (TELEPHONY, ADSL, TERMINALS, CARDS AND PUBLIC SERVICES IN FRANCE)
- RELATIONS WITH ELECTED OFFICIALS AND INSTITUTIONS
- NATIONAL AND EUROPEAN RELATIONS
- TARIFF ISSUES
- RELATIONS WITH INTERNATIONAL BODIES
- RELATIONS WITH EUROPEAN UNION
- RELATIONS WITH CABLE OPERATORS
- ENVIRONMENTAL AFFAIRS



Jean-Yves Gouiffès
*Executive Vice President, Network
Division*

- REGIONAL NETWORKS
- NATIONAL NETWORKS
- INTERNATIONAL NETWORKS AND SERVICES
- NETWORKS OUTSIDE FRANCE
- PROCUREMENT AND LOGISTICS
- LATIN AMERICA, AFRICA AND ASIA-PACIFIC ZONES
- FT POLAND



Jean-François Pontal
Chief Executive Officer, Orange

- ORANGE FRANCE
- ORANGE UK
- ORANGE REST OF THE WORLD
- STRATEGY
- REGULATORY AFFAIRS
- FINANCE
- LEGAL AFFAIRS
- HUMAN RESOURCES AND COMMUNICATIONS



Jean-Louis Vinciguerra
Executive Vice President, Resources

- FINANCE
- ACCOUNTING AND FINANCIAL CONTROL
- AUDITS
- MERGERS AND ACQUISITIONS
- LEGAL AND FISCAL AFFAIRS
- PROPERTY AND TRANSPORTATION
- EURO MISSION

BOARD OF DIRECTORS

as of January 1, 2001

MEMBERS

ELECTED BY THE ANNUAL
SHAREHOLDERS' MEETING

- ▶ **Michel BON**
Chairman and Chief Executive Officer, France Telecom
- ▶ **François GRAPPOTTE**
Chairman and Chief Executive Officer, Legrand
- ▶ **Michael LIKIERMAN**
Co-Chairman and Chief Executive Officer, GrandVision SA
- ▶ **Jean SIMONIN**
Managing Director, Residential Agency of Toulouse

MEMBERS

ELECTED BY EMPLOYEES

- ▶ **Alain BARON**
- ▶ **Jean-Yves BASSUEL**
- ▶ **Monique BIOT**
- ▶ **Michel BONNEAU**
- ▶ **Michelle BRISSON-AUTRET**
- ▶ **Jean-Claude DESRAYAUD**
- ▶ **Michel GAVEAU**

MEMBERS APPOINTED

BY DECREE OF THE FRENCH STATE

- ▶ **Jean-Paul BECHAT**
Chairman and Chief Executive Officer, Snecma
- ▶ **Alain COSTES**
Director of Technology, Ministry of Research
- ▶ **Pierre-François COUTURE**
Chairman of the Management Board of Entreprise Minière et Chimique (EMC)
- ▶ **Yannick d'ESCATHA**
Executive Vice President, Industrial Affairs, Electricité de France
- ▶ **Roger FAUROUX**
Honorary Chairman of Saint-Gobain
- ▶ **Pierre GADONNEIX**
President, Gaz de France
- ▶ **Nicolas JACHET**
Head of Investment Monitoring Division, Treasury Department, Ministry of the Economy, Finance and Industry
- ▶ **Jacques de LAROSIERE**
Advisor to Chairman of BNP Paribas
- ▶ **Sophie MAHIEUX**
Budget Director, Ministry of the Economy, Finance and Industry
- ▶ **Jacques RIGAUD**
former Chairman and Chief Executive Officer of Ediradio (RTL), Honorary Member of the Council of State.

**OBSERVERS APPOINTED BY
THE BOARD OF DIRECTORS**

- ▶ **Eric HAYAT**
Vice-President, Steria
- ▶ **Didier LOMBARD**
Vice-President of State Council on Information Technologies
- ▶ **Gilles MORTIER**
Director of Federation of Rural Families

France Telecom is committed to serving the interests of its shareholders through a proactive focus on sound corporate governance.

Since its transformation into a corporation on December 31, 1996, France Telecom has embraced the recommendations of the Viénot report on corporate governance of French listed companies. At its meeting on January 15, 1997, the Board of Directors approved the creation of an Audit Committee and a Compensation Committee. These advisory committees present their recommendations on specific issues to the Board of Directors. The members of the Board of Directors and of both committees were reappointed in 2000. The Board of Directors met nine times in 2000 and in particular approved the main strategic growth initiatives pursued by France Telecom.

AUDIT COMMITTEE

The Audit Committee reviews all finance or accounting-related issues, including half-year and full-year financial statements, accounting procedures and internal audits. It provides a recommendation on the appointment and renewal of the mandate of the independent auditors and on their methods. A charter governing functioning of the Audit Committee was approved by the Board at its meeting on May 21, 1997. The Audit Committee is composed of Jacques de Larosière (chairman), Yannick d'Escatha and Nicolas Jachiet. The Audit Committee met eight times in 2000.

COMPENSATION COMMITTEE

The role of the Compensation Committee is to submit recommendations concerning the remuneration of board members, including the chairman of the Board, and capital increases reserved to employees. It may also be asked to submit recommendations concerning the compensation of members of the Executive Committee and compensation policy for Group officers.

The scope of the mission of the Compensation Committee was approved by the Board at its meeting on September 10, 1997. The Compensation Committee is composed of François Grappotte (chairman), Pierre Gadonneix and Michael Likierman. The Compensation Committee met twice in 2000.

The meetings of these committees reflect the commitment of the enterprise to providing the Board with additional information and insights on its business environment.

EMPLOYEES

Robust international expansion and ever-growing competition dictate proactive attitudes at every level of the organization. France Telecom is nurturing the competencies needed to meet tomorrow's challenges thanks to a flexible organization, motivating human resources policies and forward-looking management practices, all built around a corporate culture that embraces change.

189,000

EMPLOYEES

(full-time equivalent)

149,000

EMPLOYEES IN FRANCE

(full-time equivalent)



A culture that embraces change

Collective Bargaining Agreement

Culminating two years of negotiations involving the main operators and other enterprises in France's telecommunications industry, a collective bargaining agreement was signed on October 12, 2000 with four unions.

This agreement provides a framework for labor relations in the industry, while leaving individual enterprises sufficient margin for negotiations and innovation. It provides for guarantees concerning employment, while enabling results-oriented policies and addressing the need for flexibility in the industry in terms of mobility, workplace organization and travel. An initial phase led to an industry-wide agreement concerning the shortened work week in France. A framework agreement was signed at France Telecom, along with 370 local accords. Application of the collective bargaining agreement is being pursued

through negotiations at the level of all France Telecom entities.

Management Practices

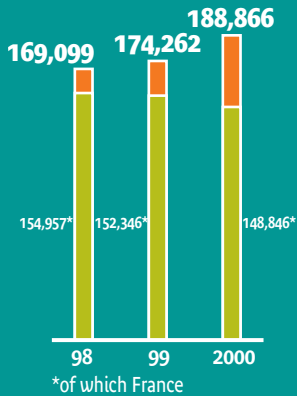
France Telecom has always been committed to offering attractive career opportunities in management, enabling people to apply their talents as they contribute to meeting collective challenges. For the past three years, decentralized management platforms have applied a "learning enterprise" model to foster professional development among employees. At the initiative of operational management, these platforms provide a forum where managers can together address strategic issues and best practices. Fifteen platforms have been created to date, bringing together 5,000 managers and team supervisors.

Cost management

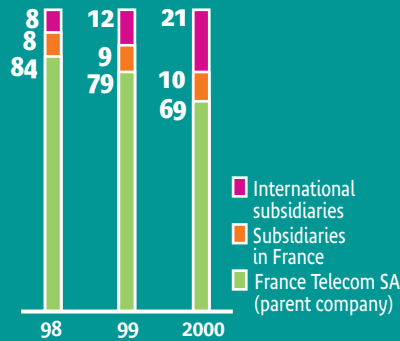
Redeploying Staff

Efforts to redeploy staff continued in 2000, with particular emphasis on high-speed services.

👤 **Employees**
(full-time equivalent at December 31)



👤 **Breakdown of workforce**
(in % at December 31)



HUMAN RESOURCES ON THE INTRANET



The Group has developed a variety of sites dedicated to Human Resources, all of which are frequently consulted by staff.

The "Planetemploi" site promotes mobility by creating a transparent internal job mart. Nearly 14,000 offers were posted and 19,000 resumes received in just one year. This resource accelerates contacts between employees and managers seeking to recruit. Another portal, dubbed "@noo", enables employees to enter personal data on profit-sharing, incentives, annual vacation leave and free-time credit earned. These resources reduce operating overhead while encouraging widespread use of online tools.

Each year, between 10,000 and 12,000 people change jobs in the group, which means nearly half of the workforce in five years. Nearly 50 percent of all employees now work in "front office" jobs with direct customer contact, up from just 15 percent in the late 1980s. The spin-off of businesses as separate subsidiaries led to the creation of Wanadoo and FTM SA, the French subsidiary of Orange. Nearly 3,000 employees with civil servant status were affected by these changes, and over 92 percent have joined these fast-expanding subsidiaries. The parent company has also pursued redeployment and a reduction of its workforce. Numerous acquisitions and investments outside France resulted in a significant increase in the total number of Group employees worldwide.

Pooling Services

In a fiercely competitive environment, France Telecom is lowering operating costs, while retaining an unyielding focus on delivering excellent service quality to customers. Network and distribution activities

have been restructured to enable pooling of back office functions and more efficiently match market needs. A restructuring of human resources teams will halve the size of this function at the parent company, France Telecom S.A., within two years. Creating shared service centers that work for multiple entities will bolster both the quality and expertise behind these services, while freeing local resources to provide optimum support for management.

Compensation

Individual Compensation

France Telecom continued to implement a policy of individual compensation and recognition of performance.

Compensation for managers emphasizes the leadership skills needed at a certain level of responsibility, regardless of the specific status or entity. All France Telecom S.A. managers — nearly 30,000 people — are now part of the individual compensation scheme. Individual

pay increases take into account fulfillment of responsibilities and skills development, along with a variable portion that reflects annual performance.

Incentive Agreement

A new three-year incentive agreement was signed for the parent company. The objective is to enable all employees to recognize how they can positively affect the performance of their unit and thus their company and the entire Group. This agreement is part of the decentralization of employee relations. Some 333 local agreements were signed in application of a national agreement that reflects local strategies.

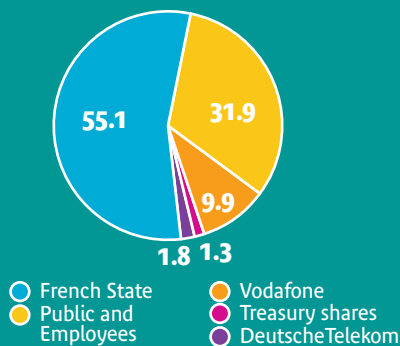
Company Savings Plan

Within the scope of the company savings plan, all employees in France had an opportunity to acquire Wanadoo shares at the IPO. A total of 80,000 employees in France took advantage of this offer.

INVESTOR INFORMATION

Against a backdrop of stock market turbulence, especially for technology stocks, France Telecom remained committed to exemplary shareholder relations, providing in-depth information for both individual and institutional shareholders.

OWNERSHIP STRUCTURE at December 31, 2000



Turbulent Stock Markets

The France Telecom share price was affected by extremely volatile stock markets in 2000, especially for telecommunications stocks. During the first quarter of 2000, technology/media/telecom (TMT) stocks attracted strong investor interest, inspired primarily by the growth outlook for this sector. This effervescence was followed by an abandoning of telecom stocks, largely due to the massive financial and operational investments required, especially for third-generation UMTS wireless.

The Euro Stoxx Telecom index dropped from 1,164.96 points at the end of 1999 to 666.56 points at the end of 2000, a drop of over 42.8 percent in one year. The France Telecom share price, which began the year at 133.20 euros, closed at 91.95 euros on December 31, 2000, shedding 30 percent for the year. France Telecom thus outperformed the benchmark index for the sector. Between its initial offering at 27.75 euros in October 1997 and the end of 2000, the France Telecom share price rose by

approximately 230 percent, a three-year annual average of 46 percent.

Well-informed Shareholders

Since its initial public offering, France Telecom has consistently made a panoply of resources available to shareholders to provide information on the Group and its development. This information enables investors to better understand the challenges and realities facing the telecommunications industry. This strategy reflects the Group's commitment of aiding shareholders who are discovering a new environment.

The high point of investor relations, the Annual General Meeting, took place on June 21, 2000 in Paris. Nearly 4,000 shareholders were on hand to meet directly with France Telecom executives and review the numerous events that marked the first part of the year. In order to make information available to as many investors as possible, France Telecom once again broadcast the event live. An additional

EMPLOYEE SHAREOWNERS

France Telecom has long been a benchmark for employee share ownership: over 92 percent of employees own part of their company, representing 3.3 percent of its capital.

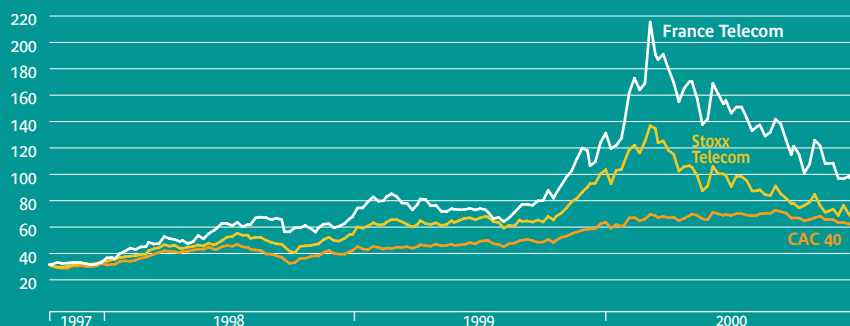
In further testimony to their confidence and commitment to the Group's development, 45 percent of employees subscribed for shares when 10 percent of Wanadoo, the Group's consumer Internet subsidiary, was listed on the stock market.

The France Telecom Share

- ③ The Premier Marché of Euronext Paris
- ③ Sicovam Code: 13330
- ③ Reuters Code: RTE
- ③ New York Stock Exchange (NYSE – United States), under the form of American Depository Shares (ADS)

③ FRANCE TELECOM STOCK PERFORMANCE

(in euros) (CAC 40 and Stoxx Telecom indices — base 100, October 20, 1997)



4,000 people in 30 cities across France were able to participate in the Annual General Meeting, in addition to those who watched the event via the Internet, either live or in a rebroadcast.

Nearly 50 meetings with shareholders took place in 2000 in cities across France, providing an opportunity for shareholders to discuss the company with executives.

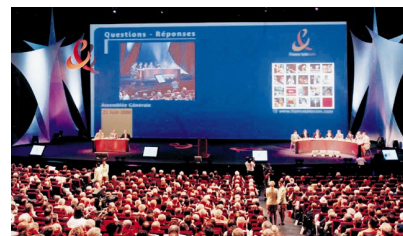
In addition to these events, France Telecom's 1.7 million shareholders have 24-hour access to a toll-free number staffed by advisors who answer questions on the Group and its activities. There is also an interactive voice response system that provides real-time information on the share prices of France Telecom, Wanadoo and Orange.

The 600,000 members of the France Telecom Shareholders' Club have opportunities to attend a variety of events and enjoy discounts on products sold in the Club boutique. The Group's corporate website, www.francetelecom.com, contains a special Investor Relations section that won an award in 2000 from

La Vie Financière magazine as one of the best shareholder sites. Among last year's innovations was the creation of a monthly email investor newsletter, en @ctions.

Meetings With Investors and Analysts

France Telecom maintains regular contacts to provide the information expected by the investment community, covering everything from purely financial issues to queries concerning the Group's strategy. Meetings with analysts are organized to provide in-depth briefings on annual and half-year financial results, as well as for major events such as the Orange, Freeserve and Equant acquisitions, or the Wanadoo and Orange IPOs. Ten analyst meetings took place in 2000. Telephone conferences combined with live Internet broadcasts are also organized throughout the year. Group executives also meet with investors in France and around the world to present France Telecom's results and provide perspective on major operations. Seven global road shows were organized in 2000. In



SHAREHOLDER'S HANDBOOK

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www.francetelecom.com

addition to these events, the investor relations team is available to field questions from institutional investors and financial specialists. France Telecom employs a variety of communications channels to deliver information to the investment community, including live and archived Internet broadcasts and the Investor Relations section on the www.francetelecom.com website.

AN ENTERPRISE COMMITTED TO THE COMMUNITY

The success of France's gymnastics team in Sydney showcased one of the myriad facets of France Telecom's corporate citizenship initiatives. From corporate patronage to support for the environment and education, the Group transforms its ethical values into actions that benefit the broader community.

LOCAL DEVELOPMENT

▶ A VALUED REGIONAL PARTNER



With a presence across France, the Group is actively involved in development projects, in conjunction with local government authorities. France Telecom has signed an agreement with the association

of French Chambers of Commerce and Industry, for instance, to promote new technologies with the organization's partners. To support employment, France Telecom contributes to structures that facilitate new business creation. France Telecom has also set up an organization to encourage the launch of start-ups by intrapreneurs from the Group. At the end of December 2000, 150 employees had founded 115 enterprises, creating 1,700 jobs.

France Telecom participates in efforts to promote social integration

through work/training programs. The latest agreement with the French national employment office, ANPE, enables Group employees to play a fundamental role in these initiatives as mentors. The company is one of the most active backers of "Agir Contre l'Exclusion", a government-supported foundation to combat exclusion.

As a leading force in the Internet, France Telecom promotes initiatives to make the Internet available to the broadest number of people. A partnership agreement with PIMMs — an association of organizations that set up local information centers and offer mediation services — enabling residents of less-favored neighborhoods to discover the Internet and information technologies. Other initiatives are being developed as well, including a network of 55 multimedia centers in French cities, "cyberbuses" and "cybervillages" in rural areas and "Internet ambassadors" to schools and municipal authorities.

THE ENVIRONMENT

▶ ENVIRONMENTAL MANAGEMENT



France Telecom's global environmental initiative spans reducing consumption, recycling, limiting noise, visual and atmospheric pollution and creating services that contribute to sustainable development. This initiative will lead to a full-fledged Environmental Management System.

Printed phone directories are recycled, with revenues from the program going to the national forestry department to aid reforestation following the storms that swept across France in December 1999. France Telecom has also set up an operation to dismantle old phones in partnership with an enterprise that helps the long-term unemployed rejoin the workforce. Switches, telephone poles, batteries and cables are also recycled.

Over 15 percent of France Telecom's "line installation" investment goes towards integrating network equipment in order to preserve historical sites, including Mont Saint Michel. All transmission network lines and two-thirds of subscriber lines are already installed underground. These same policy applies to wireless network facilities. France Telecom also develops services that minimize environmental impact, such as remote reading of environmental sensors, tools that reduce travel, telemeetings, or Web-based transactions.

▶ PARTNERING SUSTAINABLE DEVELOPMENT

France Telecom participates in partnerships that promote the concept of sustainable development, including ETNO, Global Compact, the Global Telecom Initiative and others.

In addition, the company helps heighten environmental awareness among the public and contributes to European air quality projects (such as APNEE). Since 1998 the Group has been a partner of the Foundation for Environmental Education in Europe (FEEE), for which it has developed a collaborative work application.

CORPORATE PATRONAGE

▶ SUPPORT FOR TALENT

Corporate patronage expresses the ethical values of the enterprise: responsibility, sharing, relations between people and local support. Since its creation in 1987, the Fondation France Telecom has provided support for actions that forge ties through emotion, hope and solidarity.

A major patron of the vocal arts, the Foundation aids young singers, voice ensembles and festivals. It also plays an active role in the creation of productions and recordings that reach new listeners. Thanks to the Foundation, young people in underprivileged neighborhoods have access to cultural enrichment through music and teaching programs. The Fondation France Telecom sponsors French gymnastics teams as well, providing scholarships to high-level gymnasts to facilitate their training and transition to new jobs after their sports careers.



▶ SUPPORT FOR EL SALVADOR

On January 13, 2001, a violent earthquake ravaged El Salvador, killing over 800 people. Employees from the entire France Telecom group, which has a subsidiary in El Salvador, mobilized to deliver aid to the country, funding food, medicine, blankets and shelters. France Telecom also contributed to reconstruction and repair.

▶ AUTISM: NURTURING HOPE



The Foundation has provided support for autistic persons and their families since 1991, focusing on improving the resources available to them by adapting and creating specific structures, such as medical and social institutes, integrated education, vacation facilities, etc. This support also spans special training of professionals and parents. The Foundation funds research as well by awarding numerous scholarships. It encourages solidarity through-

out France, particularly within the Group: over 200 France Telecom employees are members of the Association of Volunteers to aid the Autistic (AVA).

▶ CONSUMER RELATIONS

France Telecom's customer service policy is centered on addressing the expectations of consumers. The company has signed a protocol with the consumer rights group AFUTT in France, which was renewed in 2000. Within the scope of this accord, regular meetings and work groups are organized to better identify and address consumer concerns regarding fixed and wireless telecommunications services.

SPONSORSHIP

▶ SPORTS PARTNERSHIPS



France Telecom is involved in several sports partnerships, with an emphasis on team and leisure sports such as rugby and sailing. For "The Race", round the world yacht race, France Telecom equipped all boats with video production and transmission equipment, as well as voice and data communications resources, including

an innovative MPEG-4 coding system developed by France Telecom R&D. France Telecom also designed and produced the official website, www.therace.org, which had a tremendous audience during the event. France Telecom partnered the French national rugby team for its matches, in addition to 20 clubs in the national championship league. A number of rugby websites have been launched as well thanks to support from France Telecom. France Telecom provides support for 20 soccer clubs, 12 of them in France's first division. These partnerships have created communities of interest whose members

benefit from special discount offers for France Telecom products. Finally, France Telecom was a sponsor of the Tour de France bicycle race.

In the leisure arena, France Telecom has for the past two years provided support for running and roller-blading, both increasingly popular in urban areas.



communicate
listen
deploy
transform

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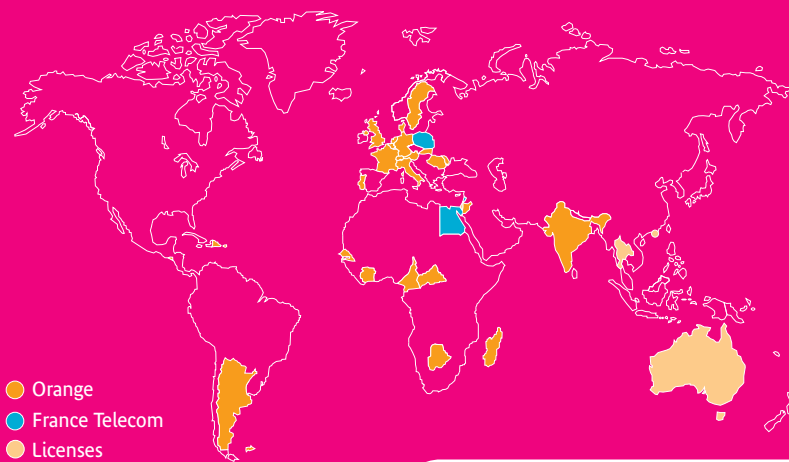
business segments



wireless

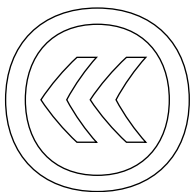
In 2000, France Telecom combined the majority of its wireless operations under the Orange brand. Orange is a tremendously vigorous brand with a unique, forward-looking vision. It enjoys a broad presence in Europe and the rest of the world, coupled with customer-centric innovation. These strategic advantages position Orange as a pivotal force for communications in the third millennium and for third-generation wireless.

FRANCE TELECOM WIRELESS OPERATIONS WORLDWIDE



33.1 MILLION
CUSTOMERS
WORLDWIDE *
IN
22 COUNTRIES

* Companies in which France Telecom has a controlling interest.



A new dimension for Orange

Expanding Across Europe

In May 2000, France Telecom announced its acquisition of Orange plc, the number three wireless operator in the United Kingdom. This acquisition was approved in August, making France Telecom one of the world's top wireless operators and one of the first to provide truly seamless pan-European services. This marks a decisive step in the Group's international expansion. The two companies bring mutually enriching technical and marketing competencies that will drive ongoing service enhancements. Thanks to broader coverage, the Group will be able to develop wireless networks that span the continent, lessening its dependence on roaming agreements with other operators. At the same time, unified pan-European services will be marketed by all of its distribution networks. Orange enjoys greater leverage with equipment and content providers as well, and has the critical mass required to build a third-generation **UMTS** network on a European scale.

Orange is the U.K.'s most dynamic wireless operator, with a reputation for cutting-edge innovation and superior service quality. From its launch, Orange has focused on building a strong brand and a fast and efficient network, with products and services that offer excellent quality at attractive rates, plus a talent for constant innovation and best-in-class customer service. Six years after its launch, Orange is the best known brand in the country. It has deployed one of the world's

most extensive GSM 1800 networks, with the largest customer base in the world. Orange is widely recognized as an industry pioneer in marketing, sales, distribution and customer management. Numerous marketing innovations were first unveiled by Orange, including service packages with inclusive minutes and per-second billing. What's more, the company brings proven know-how for swift build-out of new, high-performance GSM 1800 networks.

These distinctive advantages have been rewarded by robust growth as Orange gained one-third of its customers in the eight months prior to its acquisition by France Telecom.

Success Anchored in Vision

The acquisition of Orange plc was followed by the creation of a new France Telecom subsidiary, formed by combining Orange plc with France Telecom's main wireless units in France and other countries. The new company retains the name Orange. At its creation in August 2000, the company had 21 million customers in 16 countries in Europe and the Mediterranean basin, plus 1.2 million customers in the rest of the world. At

ORANGE IPO

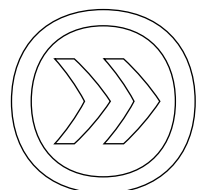
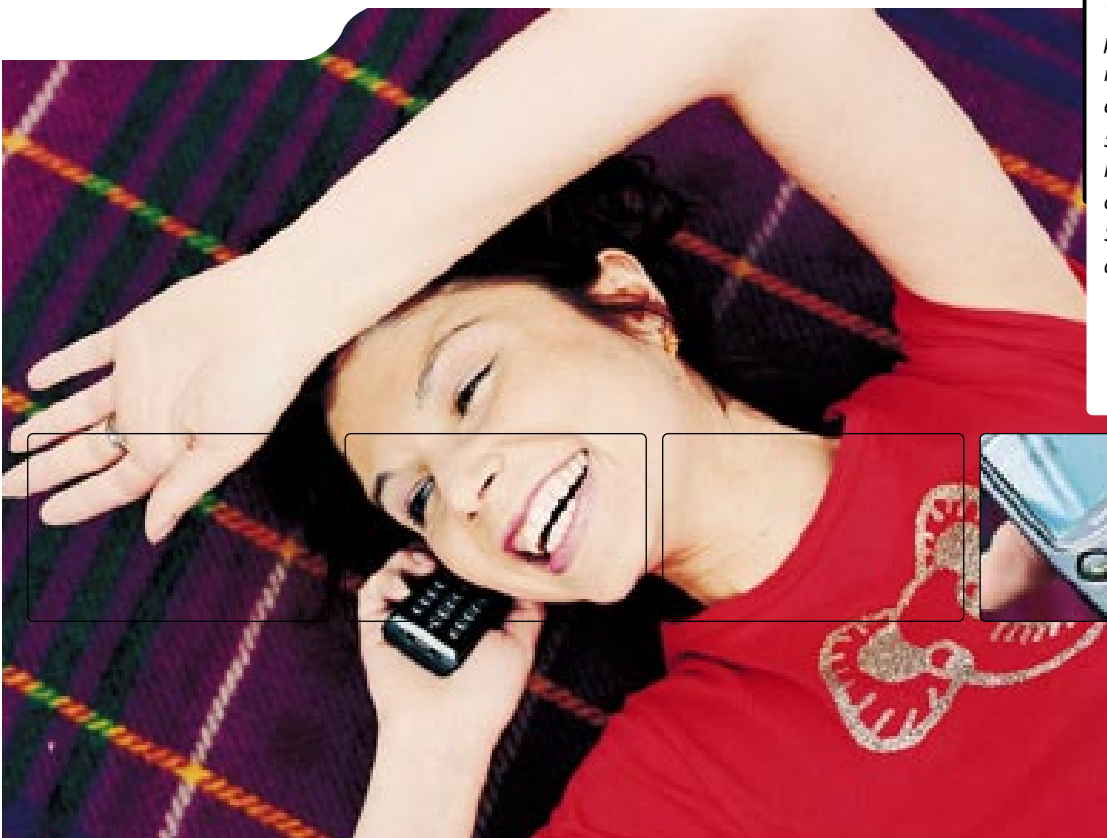
Orange shares were offered on the Paris and London stock exchanges in February 2001. The operation was a solid success despite difficult market conditions. The offering of 633 million shares was 2.6 times oversubscribed, while the convertible bond offering to institutional investors was 8.2 times oversubscribed.

A total of 60,000 employees of France Telecom and Orange also became shareholders.



Maureen, economics student

"I call Sean every night. We talk about little problems, make plans, we even argue, but not seriously. The time goes by so fast that even 50 minutes with my Orange Everyday 50 plan isn't enough. It's a good thing Sean has an Orange phone too, because it only costs 5 pence for each additional minute. Still, that stubborn Irishman could call me once in a while too..."



▶ Ready for the third generation

UMTS, THE WORLD IN THE PALM OF YOUR HAND

The future of wireless communications is a third-generation system known as UMTS. This high-speed system will offer personalized multimedia services that are truly universal. The services offered will increase the value-added generated by networks, fully justifying the investments needed.

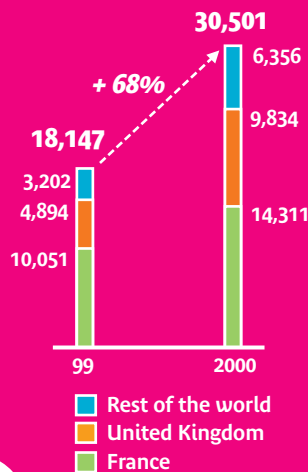
The first UMTS services will be introduced in Europe in 2003. When the system reaches maturity, people will be able to stay in contact anywhere in the world using any type of device — wireless handset, fixed phone, pocket videophones, or PCs, fax machines and PDAs. Information will

circulate at speeds up to 200 times faster than today's GSM system. The networks will transport voice, data, text or fixed and full-motion video.

In this hotly contested market, the winners will be the operators able to offer the services customers really want. This means local information, games, audio and video on demand and video-telephony, for example. A pilot group of a hundred users has been testing services selected by a focus group of customers since September 2000.

Orange already has 11 UMTS licenses in Europe (as of February 28, 2001). These licenses will enable it to launch third-generation services across Europe on its own network.

⊖ ORANGE CUSTOMER BASE
(in thousands)



the end of December, this figure had increased to 30.5 million customers, representing 12-month growth of 68 percent (pro forma). The new subsidiary will capitalize on the strengths that have made Orange such a tremendous success in the U.K. and other countries: a powerful brand with a distinctive difference, a unique vision and strategy for wirefree™ communications, and a complete portfolio of services that will be continually enhanced in the years ahead.

With Orange, France Telecom will offer customers throughout Europe the best wireless services in the

market. The Group's vision is to make this brand — which is already well-established in Europe — synonymous with superior quality wirefree™ service and innovation around the world.

The buoyant growth of this new subsidiary is guided by a clear vision of the future market, where wirefree™ devices will be customers' key access device, "open to the world". This is a future where customers are able to access all the people, information and entertainment they need. Orange is anticipating this evolution by offering services that are clear, straightforward, reliable and innovative, with excellent customer support and extended network coverage, backed by a network of highly qualified distribution partners.

At the end of 2000, Orange's various operations covered a population of over 480 million people, more than any other European operator. The company encompasses 20 wireless operators in Europe, Asia, Africa and the Caribbean.

In Europe, Orange has subsidiaries in 13 countries, with solid competitive positions in nearly all its markets. Orange is number one in France, number two in Belgium and Switzerland, number three in the United Kingdom, Italy (through Wind, a joint subsidiary with Enel) and the Netherlands, and is also building its presence in Germany (with MobilCom), Poland and other countries.

Orange is building on these foundations by staying on the cusp of technology — including GSM, GPRS and

📍 UMTS LICENSES IN EUROPE

- Licenses obtained
- 📶 Candidate for license



UMTS — in order to continually enhance the speed and efficiency of its networks. In the future, in addition to voice, these networks will offer such multimedia services such as videophones, access to image libraries, wireless Internet and untethered e-commerce. With 11 UMTS licenses to date, Orange will be a major force in third-generation wirefree™ services.

A Clear Regulatory Framework

France Telecom and other operators believe that a clear regulatory environment is fundamental to the success of future wireless services.

Two significant multilateral conferences under the aegis of the International Telecommunications Union (ITU) addressed these issues in 2000. The decisions adopted are favorable to the Group's businesses, particularly as regards to third-generation wireless.

Standards provide an international definition of the characteristics required to enable different systems to interface with one another. Frequency allocation is also an important issue, and the identification of new frequency bands addressed the explosive growth of the market and the advent of broadband wireless services. The unified standards defined will enable customers to use their wireless phones around the world. France Telecom can thus invest in these services with the knowledge that a clear regulatory framework will guarantee that its frequency needs are met until 2008.

Subsidiaries and their markets

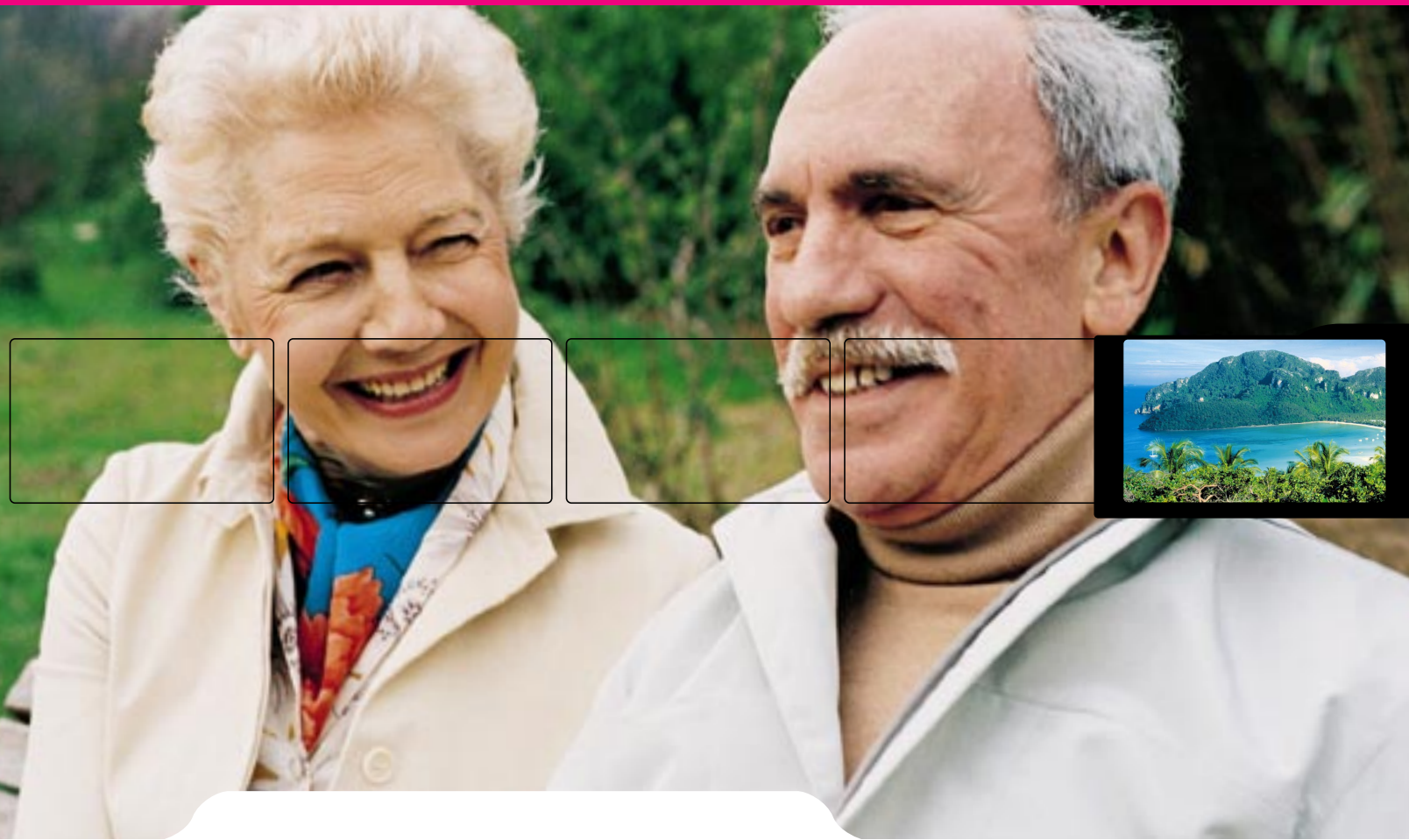
Triple Number One in France

Orange operates in France through its subsidiary France Telecom Mobiles, which markets the Itineris, Ola and Mobicarte services. In 2000, the company consolidated its leadership in a French market that continues to expand. At the end of 2000 it had 48 percent of the market and 14.3 million customers, adding 4.3 million customers in 12 months. France Telecom Mobiles is also the leader in coverage (reaching 98 percent of the population with its dual-band GSM network). This coverage is reflected in both customer satisfaction surveys and studies by the French telecom regulator ART.

The Group's position in France is bolstered by a dense distribution network. The arrival in 2000 of a host of competitors offering prepaid services led France Telecom to add new distribution channels. Two hundred salespeople were recruited and trained for 40,000 sales outlets. Nearly seven million call credit vouchers and Mobicarte credit recharges were sold via this indirect network of local outlets in 2000. Following this success, other France Telecom products will soon be sold by these outlets, including Mobicarte pay-as-you-go kits and Wanadoo Internet kits.

France Telecom Mobiles sharpens its leadership thanks to ongoing innovation. In particular, work by France Telecom R&D labs have made the Group a pioneer in





wireless/Internet convergence. France Telecom Mobiles was the first operator in France to introduce secure payment solutions for wireless e-commerce: customers simply insert a credit card into a slot on specially designed

wireless handsets to make purchases from anywhere. The first wireless portal in France, Itineris-Services, was launched in June, offering WAP services and access to the WAP versions of the Voila

portal, Alapage, the Yellow pages, Mappy and Yahoo. A business wireless portal dubbed "Portail Mobile Entreprises" was introduced at the same time. In June, France Telecom became the first operator in the world to enable customers to add call credit to pay-as-you-go service using credit cards. Trials of GPRS services began in

April and were deployed on a larger scale in the fall in the run-up to planned market launch in mid-2001.

The Internet creates opportunities to foster closer customer relationships too, and France Telecom opened the market's first e-care center. Offers designed to secure loyalty proved successful, and France Telecom now has one of the lowest churn rates in the country, despite tight control over service cancellations by prepaid customers. Already the wireless leader in the French West Indies with its Ameris network, the Group launched its Itineris network in Réunion, the island's second GSM service.

Growth Champion in The U.K.

Despite arriving in the market several years later than the three other wireless operators in the U.K., Orange U.K. had nearly reached second place at the end of 2000, with 9.8 million customers. Orange U.K. posted the highest growth rate in the market in 2000, increasing its customer base by over 80 percent. This tremendous expansion is the fruit of highly innovative marketing and an extremely strong brand.



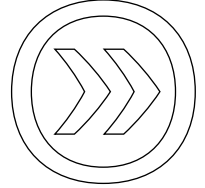
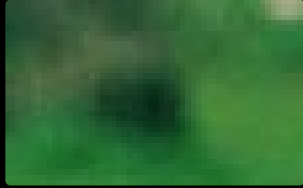
THE ADVENT OF WIRELESS INTERNET

The introduction of WAP technology marks a significant step towards wireless Internet, enabling people to access the Net from anywhere.

But the real breakthrough in untethered Internet will come with the upcoming introduction of GPRS, followed by the 3G UMTS system. The higher bandwidths available will transform handsets into true mobile multimedia devices.

Renée and Jean Salmon, *nomadic retirees*

"We have an Ola service plan, but sometimes I think it's mainly so our son Alain and daughter Monique (although she calls less!) can reach us. We told them that the cellphone was like a new umbilical cord! I think they worry about us. Since Jean retired we've been traveling a lot and they just aren't used to us not being at home. But then there's no reason we should be sitting around just getting old, is there!"



Pay-as-you-go plans like Orange Just Talk and great-value inclusive talk time plans have enabled Orange UK to win nearly 25 percent of the market. For the third consecutive year, surveys commissioned by British regulator Oftel show that Orange has the best network and service quality in the UK, which explains why the company is number one in brand recognition. Orange also has the best coverage, reaching 99 percent of the country's population.

Orange UK launched WAP services in December 1999, paving the way to third-generation services. It already has over 160,000 WAP customers.

An HSCSD high-speed data service for business customers was introduced in August 2000. This service provides wireless access to email, faxes and the Internet. This technology enabled the introduction of the Orange Videophone at the beginning of 2001.

Orange UK has also opened its Orange.net Internet service, where customers can manage their subscription, customer profile and personal diary.

Orange U. has a UMTS license and plans to introduce 3G services as of 2002.

A Dynamic Presence Across Europe

Orange operates in Italy through Wind, a joint subsidiary with electricity utility Enel. After entering the Italian wireless market in March 1999, Wind quickly climbed to third place with 4.9 million wireless customers and an aggregate customer base of eight million (wireless, fixed and Internet) at the end of 2000.

INTERNATIONAL DISTRIBUTION NETWORK



France Telecom's acquisitions in 2000 have established the Group as one of Europe's leading telecommunications players. The acquisition of Orange in the UK and the purchase of a stake in Polish national operator TP SA substantially strengthened the distribution network for the Group's products and services. The network of "Orange Shops" is expected to increase from 137 outlets at the end of 2000 to 170 by December 2001. In Poland, TP SA's wireless subsidiary Centertel has set up a separate network of outlets for wireless customers. These "Idea" outlets are located in high traffic commercial areas, city centers and malls. The network of TP SA stores, which sells fixed telephony and Internet solutions, provides dense coverage of the entire country with 1,000 outlets.

▶ Other France Telecom Wireless Businesses

BUSINESSES TO BE INCLUDED IN ORANGE

France Telecom holds direct interests in certain of its wireless businesses. These companies will be folded into Orange as soon as legal and commercial conditions allow. The Group operates in Poland through TPSA, the country's incumbent fixed-line operator. Earlier this year, France Telecom acquired 25 percent of TP SA, which owns the wireless operator PTK jointly with France Telecom. PTK Centertel is the third largest operator in Poland with 1.65 million subscribers as of December 2000. It holds one of the three UMTS licenses awarded by the Polish government.

In Egypt, through its interest in MobiNil, France Telecom owns 51 percent of ECMS, which has marketed wireless services under the MobiNil brand since 1998. At December 31, 2000, ECMS was the leading wireless operator in the country, with just under 1.218 million customers.

In the Middle East, France Telecom has acquired 35.2 percent of MobileCom, a Jordanian operator that launched GSM service in September 2000. In Lebanon, France Telecom subsidiary FTML markets wireless communications services under the Cellis brand. The company had 383,000 customers at the end of 2000 and holds 50 percent of the Lebanese market.

The merger of Wind and Infostrada, a fixed and Internet operator acquired by Enel, will make the resulting company a top-tier player in the Italian market. Upon completion of the operation, Orange will own 26.6 percent of the equity of the new company, which is expected to be listed on the Italian stock market. Plans call for a restructuring of the company's capital 24 to 30 months after the merger, which would enable France Telecom to increase its share to approximately 32.5 percent. Enel will then have 42.5 percent and the public float will represent 25 percent. This will give Orange solid foundations in Italy, with even more attractive potential thanks to a UMTS license.

In Germany, Orange is a shareholder in MobilCom, the second-largest wireless reseller in the country, with four million customers. MobilCom is also the country's second leading Internet service provider through its Freenet subsidiary and the number two fixed-line operator, giving it a total of 6.5 million customers. The company is building one of the most modern voice and data networks in Europe, which will link Germany's major cities to the rest of the world at the end of 2001. MobilCom will market third-generation wireless services starting in 2002 thanks to a UMTS license that it obtained in August 2000.

In Belgium, Mobistar is the number two wireless operator, with 1.8 million customers and a 32 percent market

share. It introduced WAP services in April 2000 and was awarded a UMTS license in 2001.

In the Netherlands, Dutchtone, which entered the market as the number four player in January 1999, had over one million customers at the end of 2000. Dutchtone has acquired a UMTS license.

In Denmark, Orange has a 53.6-percent interest in Mobilix, which has signed up 517,000 customers since it began operating in March 1998. This ranks it third among the four operators in the country. Mobilix is considered the most innovative operator in Denmark thanks to its SMS (short message service), WAP and e-commerce offers (the latter uses a chip card included with the handset for wireless transactions).

In Sweden, Orange obtained a third-generation wireless license in December 2000. It owns 51 percent of Orange Sverige, a company created for the license acquisition. In Switzerland, Orange Communications is now 85-percent held by Orange. Since the launch of commercial service in June 1999, Orange has moved to second place out of three operators in the country, with 786,000 customers. Orange is promoting its distinctive innovation in this promising market with WAP and high-speed data services, while leveraging the power of the brand. This strategy includes the recent acquisition of a UMTS license.

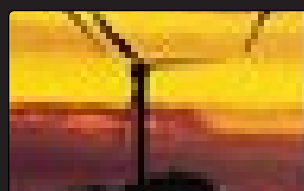
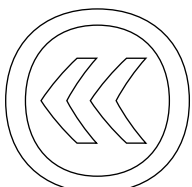
In Portugal, the group owns 20 percent of Optimus, the country's number three wireless operator. Optimus has



MOBILIX



MOBISTAR



quickly established itself thanks to innovative marketing — especially its popular prepaid cards — and had 1.35 million customers at the end of last year. This company has also acquired a UMTS license.

In Austria, Orange has a 17.5-percent stake in the Connect Austria consortium, which obtained the country's third GSM wireless license. Marketed under the One brand, the service had 1.15 million customers at the end of 2000, ranking it third. The company holds a UMTS license.

In Eastern Europe, Orange is the leader in Romania with MobilRom (1.2 million customers, giving it 51.3 percent of the market), as well as in Slovakia with Globtel (617,000 customers, 56.4 percent of the market) and Moldova with Voxtel (55,000 customers).

Global Ambitions

France Telecom's new wireless business segment enjoys tremendous advantages that will enable it to become a global leader in multimedia wirefree™ services. The subsidiary expects to have operations in some 50 countries towards 2005 and is already a shareholder in wireless ventures around the world.

In India, Orange owns 26 percent of BPL Mobile, which has 262,000 customers in the Bombay region. It also has a 34-percent stake in the Thai company Bitco, whose Wireless Communications Services subsidiary has acquired a GSM 1800 license.

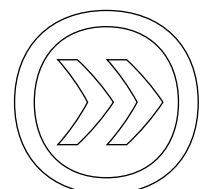
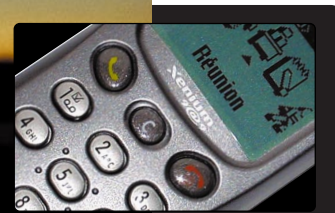
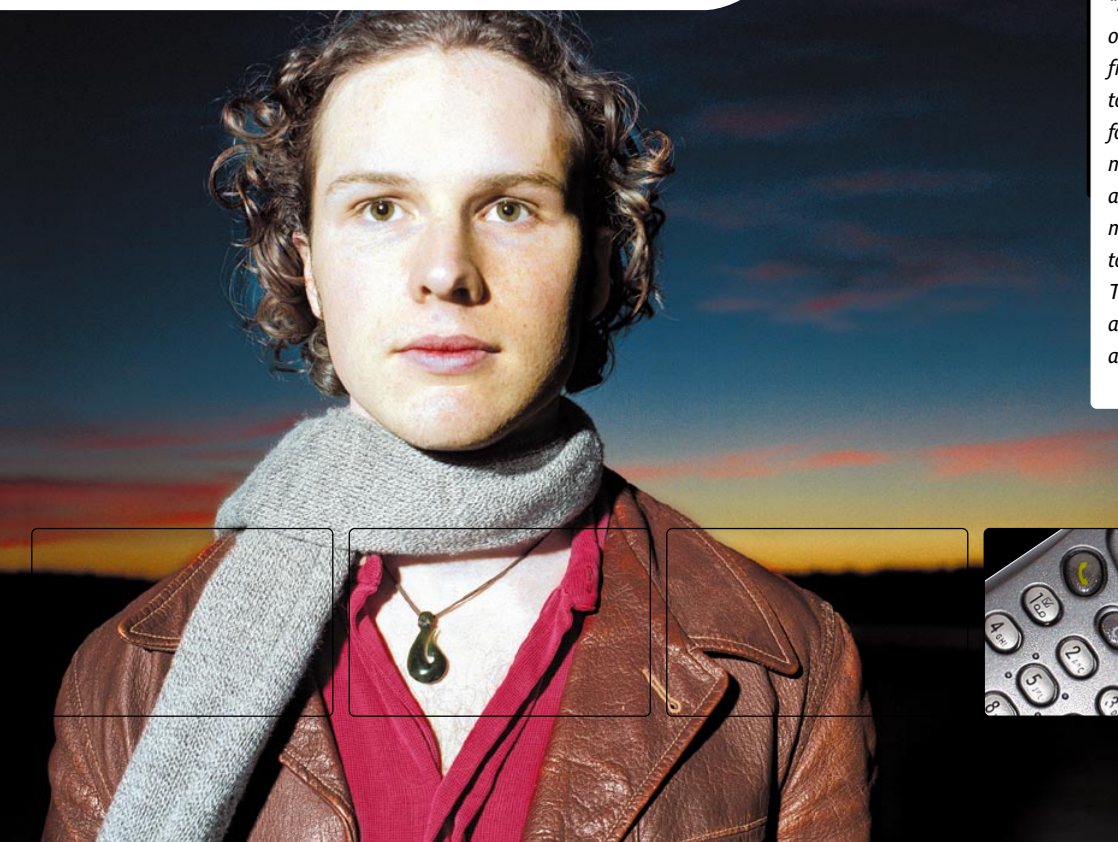
Orange has a presence in numerous African markets. In the Ivory Coast it owns 85 percent of Ivoiris, which has offered GSM service since 1996 and counted 212,000 customers at yearend 2000. In Cameroon, Société Camerounaise de Mobiles, in which France Telecom has a 100-percent stake, launched a network in January 2000 and had recruited 81,000 customers by the end of the year. In Botswana Orange owns 51 percent of Vista Cellular, which has since 1998 operated a network that now has 53,000 customers. In Madagascar, Orange holds a majority interest in SMM via Telsea. This service had 47,000 customers at year-end.

In the Dominican Republic, France Telecom Dominicana began operating a wireless service in November 2000, winning 20,000 customers in two months.

Orange has also accorded brand licenses to network operators around the world, enabling them to take advantage of its reputation and impact, including Hutchison Telecom (Australia and Hong Kong), Hutchison Telecom Max (India) and Partner Communications (Israel). In order to maximize synergies, a program to integrate all wireless entities within the new Orange company was initiated in September 2000. This will enable deployment in all markets worldwide of the vision that has energized the success of Orange in the United Kingdom, taking advantage of the existing strengths and expertise acquired by the wireless operators that are now part of Orange. ■

Niels, windmill fan

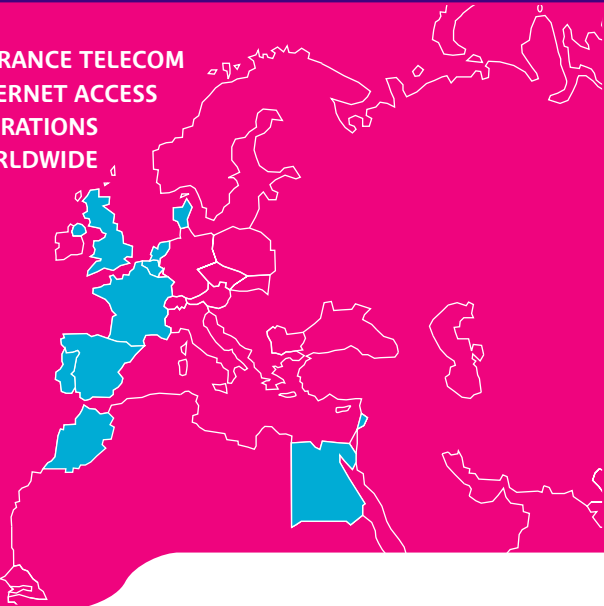
"My little village might look like something out of Hans Christian Andersen, but aside from the summer, when it's invaded by tourists, this is not exactly an exciting place for teenagers....That's why I really enjoy making friends on Chat TV. We can talk about anything and I can send SMS messages from my handset. Mobilix forwards the messages to the TV station, which posts them on the TV screen, where anyone can read them and answer. You don't need a PC! I even found a job that way...with a windmill installer!"



Consumer Internet

France Telecom's position as a leading Internet company is spearheaded by Wanadoo. This unique media and online services enterprise is an ISP, portal and e-commerce site operator, directory publisher, and provider of Internet services for businesses. Many different France Telecom entities also contribute to the Group's Internet strategy, from the networks that transport information to R&D teams working on cutting-edge services for today and tomorrow. Traffic managers provide indispensable support, while kiosks have emerged as a viable business model for the Internet. Equally important is the commercial network that promotes and sells these products. This breadth of expertise gives France Telecom market-leading performance at every link in the Internet and online services value chain.

⊕ FRANCE TELECOM
INTERNET ACCESS
OPERATIONS
WORLDWIDE



2.6 MILLION
CUSTOMERS
IN
10 COUNTRIES

A Leading Internet Company

France Telecom Weaves its Web

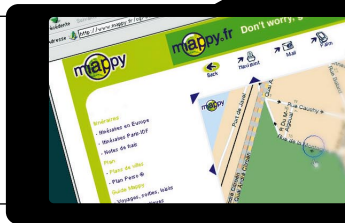
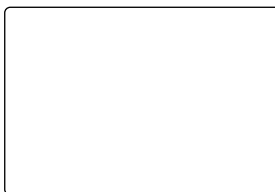
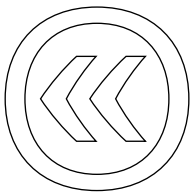
France Telecom continues to expand its Internet presence. At the end of 2000, 5 million consumers and small businesses — 16 percent of all French households — were connected to the Net, compared with just 2.8 million (9 percent) a year earlier. France Telecom has progressively established its leadership in this market in Europe thanks to its strategy of developing Internet operations by offering easy-to-use solutions that are matched to needs.

France Telecom is active in every aspect of the Internet, starting with information transport infrastructures. Customers enjoy a choice of access channels and speeds, from conventional phone lines to cable, [ADSL](#) and wireless. Their connections all hook into a long-distance network that deploys sophisticated technologies, stretching beyond France to major cities in Europe and



Anne-Sophie,
high-tech photographer

"People usually have a pretty stereotyped image of fashion. But this is an extremely professional business and there's no room for anything less than perfect. New technologies and the Internet are extremely useful for my work. I never leave for a shoot without checking the itinerary and traffic conditions on Mappy.fr. I use the Voila.fr search engine to find the latest haute couture sites, as well as music and art trends from around the world. I buy some of my material and supplies in Wanadoo's virtual boutiques, and I also find a lot in Alapage's immense catalog."



North America. These solutions are marketed by 750 sales outlets in France (where websurfers can obtain expert advice on appropriate solutions), in addition to outlets run by Group affiliates in other countries. Customers also enjoy superior 24-by-7 support thanks to 12 call centers for online assistance.

Gearing Up For the Internet of Tomorrow

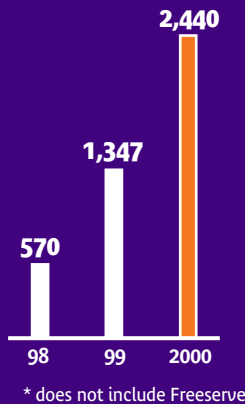
As a pioneer in online services since the 1980s, France Telecom remains on the cusp of innovation, largely thanks to France Telecom R&D, Europe's number one telecommunications research center. France Telecom R&D counts 3,000 researchers and engineers at nine facilities in France and the United States. Its work focuses in particular on new-generation networks, search engines, virtual environments, e-commerce and payment solutions, community-oriented offers and converged fixed, wireless and Internet services.

Wanadoo, a Media Enterprise Serving Consumers and Businesses

Five Core Businesses

Wanadoo is the hub of France Telecom's Internet activities. This unique media enterprise spans Internet access, portals, e-commerce sites, directories and IP services for businesses. These five businesses are now grouped within a single company that went public in July 2000. Today, Wanadoo provides millions of consumers and businesses with tools, services and information that create real value every day. One of Wanadoo's strengths is its ability to understand the variety of customer needs and propose a range of complementary solutions to address them, from Internet access and email to route finding and online gaming. Wanadoo enables businesses to promote their activities through directories and to sell goods and services on line. It can

⊖ WANADOO CUSTOMER BASE
(active subscribers, in thousands)



also create, host and even manage back office operations for their websites.

With the acquisition of Freeserve in 2001, Wanadoo is already one of the top three ISPs in Europe and aims to figure among the top three portal operators and top two directory providers in Europe by 2003.

Internet Access for Everyone

New regulations introduced in mid-1999 made it easier to sell wholesale Internet traffic capacity to operators competing with France Telecom. This sparked the introduction of extremely attractive offers by ISPs, including unlimited access, free access and free local calls.

The Group is itself an ISP through its Wanadoo subsidiary. To meet this stiff competition, Wanadoo is focusing on offering a broad and complete range of Internet access solutions that deliver daily value-added, coupled with a reliable, fast network, and superior commercial and technical assistance. In addition to permanent online assistance, the Wanadoo hotline was staffed by over 1,500 agents in April 2000. The success of the Internet service has also resulted in a strong brand image for Wanadoo, whose dynamic communications earned it the Top Com prize for the best advertising by a French Internet company in 2000. Partnerships with leading PC vendors give Wanadoo another channel to access new customers. For example, special discounts were offered during the 2000 back-to-school season to buyers of new major brand PCs. This strategy has proved successful, since Wanadoo has avoided entering a price war and remains the top ISP in France with 1.83 million active customers at the end of 2000.

Committed to encouraging "Internet access for everyone", Wanadoo proposes solutions adapted to different needs, with access via a choice of networks, from regular phone lines and Numeris ISDN to cable or ADSL.

With the "@ccès Libre" offer introduced in 2000, customers pay only the cost of a local call, which is added to their regular phone bill, without the need for a subscription. This is a perfect way for people to discover the Internet or for people who want to get online without the restrictions of a service plan.

"Wanadoo Classique" is a range of access packages that do not include charges for local call usage. A quarter of

Attracting Audiences to Portals and

In addition to being the top ISP, Wanadoo has the largest Internet audience in France. Its two general interest portals, wanadoo.fr and voila.fr, and its different themed portals represented a total of 528 million pages viewed per month in December 2000, with a coverage rate of 65.8 percent (source: Nielsen Netratings). Wanadoo's leadership reflects its combination of general interest sites with vertical targeted

offerings. The wanadoo.fr site is a general portal and home page for subscribers to Wanadoo, leveraging the positions acquired by the group as an ISP. It features a wide variety of content, services and theme sections. Localized versions of the portal have been developed in Belgium, Spain, the Netherlands and Morocco since 2000, joined by Lebanon in 2001. To make its offer even more attractive, Wanadoo.fr is deploying pan-

European services for its customers. Launched in December 1998, voila.fr features communications resources, information services and a powerful French language search engine. The portal was enriched this year with new services, including personal home pages, e-cards and more. In addition to these portals for the general public, Wanadoo theme sites provided specific content for targeted communities of interest.



Wanadoo customers in France still had these plans at the end of December 2000.

For heavy-duty websurfers or families, Wanadoo's "Intégrale" plans provide all-in-one solutions that became even more attractive in 2000: from 3 to 30 hours a month, call charges included. A host of promotional offers were launched during the year, with up to 100 percent more connection time, plus a plan that included a modem.

Wanadoo continually develops solutions tailored to different market segments, such as the "Intégrale Etudiants" offer for students, with one-third more connection time, or the Pack Santé Wanadoo, a turnkey solution that lets healthcare professionals transmit paperwork electronically.

For intensive users, Wanadoo has an offer with 100 hours a month, as well as "always-on" Wanadoo ADSL and Wanadoo Cable broadband solutions. In addition to the comfort of high-speed surfing, these solutions leave the phone line available even during connection. Wanadoo has further simplified its ADSL offer with the new Wanadoo ADSL Modem Pack, launched in Paris, Lyon, Lille, Nantes, Toulouse and some Paris suburbs in January 2001. The pack includes a modem for customers to install, plus 30 minutes of free telephone support and unlimited broadband connection.

At the end of 2000, more than 54,000 customers had opted for unlimited ADSL connections, while 35,000 customers enjoyed high-speed Wanadoo access via a cable network. The breakdown of the customer base for 2000 indicates a strong transition to broadband, led by ADSL. In 2001,

EXTERNAL GROWTH

Wanadoo is pursuing growth outside its domestic market by gaining pivotal market positions with control over key assets, in order to propose a comprehensive range of solutions to customers.

This strategy has led to the acquisitions of Freeserve and Indice Multimedia. Freeserve is the leading Internet service provider in the U.K. and one of the top three in terms of audience. Indice Multimedia is the second largest directory company in Spain, with strong potential for business services. Wanadoo's growth initiatives also included the acquisition of an interest in I-Pin, which develops Internet micro-payment solutions, and acquired Andtrade, an online marketplace for B2B exchanges.

ADSL should be extensively available in France, enabling everyone to take advantage of the latest technology. Wanadoo's objective is to have 30 percent of its customers connected via cable or ADSL by 2003.

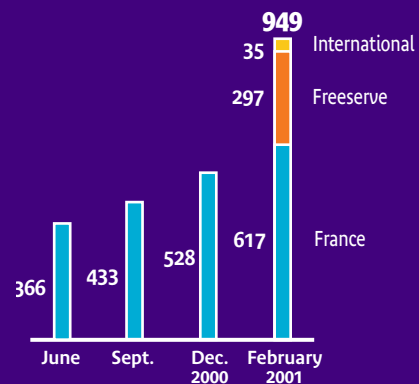
Theme Sites

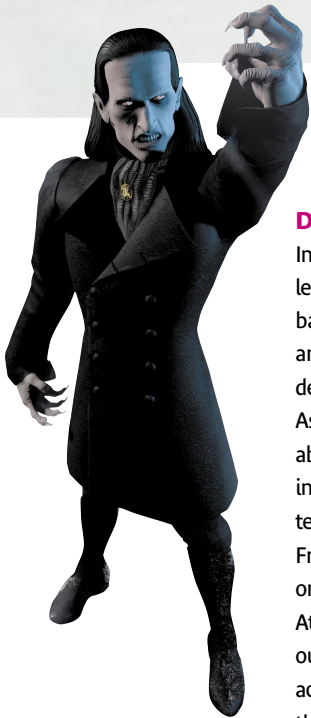
The Goa multiplayer gaming platform also features information and news on games. The site, which targets French-speaking gamers, is available via any ISP and includes tools for management of game communities. The "@près l'école" site is the favorite after-school site among 5 to 14-year olds (Ipsos-Mediangles survey, September 2000), giving them an opportunity to play, learn and communicate with one another on the Net.

The ITI service, rebranded "Mappy" in May 2000, is a route calculation site that offers maps, traffic and tourism information. Six versions in local languages have been opened in Belgium, Germany, Italy, Spain, the Netherlands and the U.K. Since November Mappy has been available on WAP wireless handsets and PDAs. These innovations helped generate a record audience of nearly 20 million pages viewed in July 2000. Computer

AUDIENCE ON WANADOO SITES

(in millions of pages viewed per day)





DRACULA, ONE OF THE ONLINE GAME HITS.

Developing International Access

International growth creates economies of scale at multiple levels. Service platforms are amortized by a large customer base, negotiating positions with connection providers and advertisers are stronger, and international content development is enhanced.

As an enterprise with broad competencies, Wanadoo is able to integrate local regulatory and competitive factors in each country, focusing on specific business areas. Its strategy is to establish positions in European countries where France Telecom is an operator, while seizing opportunities on other continents where the local context is promising. At the end of 2000 Wanadoo had 610,000 active customers outside France. This figure rose sharply in 2001 with the acquisition of Freeserve, the leading ISP in the U.K. and the third most popular portal in the country. Freeserve added more than 2.16 million active subscribers to the Wanadoo group at the end of February 2001.

Since 1999 Wanadoo has been solidly established in Belgium, the Netherlands, Spain and Morocco. In February, its Morocco Connect subsidiary rolled out an access service and a portal designed for local consumers.

A Top Provider of Advertising Space

Wanadoo is leveraging its position as the audience leader in France by selling advertising space to take advantage of its significant market share. Media space is sold by

Wanadoo Régie, one of the top Internet advertising clearinghouses in Europe. It markets general and themed banner ads, exhibition space for merchants, context-sensitive banners triggered by search engine key words and shopping pop-ups linked to theme pages.

Wanadoo is also marketing its in-house expertise through Wanadoo Consulting, which provides strategic analysis for the launch of new Internet businesses, designs websites and proposes solutions to boost audience levels.

Content and Services

To ensure a steady stream of attractive content for its portals and sites, including specialized offers, Wanadoo has acquired targeted content providers and concluded partnerships with programming and service production companies.

In September 2000 Wanadoo acquired 93.15 percent of ridingzone.com, a surf, ski and rollerblade site. Ridingzone will develop content for Wanadoo portals and for thematic sites.

With Emap, Wanadoo has formed an equally-owned venture to produce and broadcast websites. Emap is France's third-largest publisher of consumer magazines, with titles read by a full half of the French population.

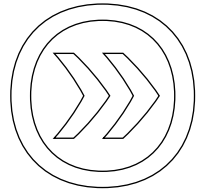
The company already has new portals in the pipeline dedicated to outdoor activities, health and celebrities. It will also develop sites derived from Emap publications.

Arnaud and Romain, Goa gamers

"Our game persona is Orlac the Necromancer. We're a team with five other clones, including an elf called Elronde who's become a friend. Before we discovered Goa we used to play separately on our own PCs. But it really takes two to react fast to online situations, since we're playing with real, unpredictable partners. And with ADSL it's as fast as offline on the PC. We also use the chatroom outside the game. We might even decide to meet the others face-to-face someday!"



GOA



Wanadoo is involved in media production through its interests in production companies and thematic channels. These activities have led to the creation of Wanadoo Audiovisuel, which encompasses cable and satellite thematic channels (Histoire, the music channel Mezzo and Regions), Multiradio (which offers a package of 40 radio programs) and production companies France Animation, FIT Production, Idéale Audience and Chaman.

In 2000, Wanadoo acquired the 39 percent of FIT Production it did not already hold, giving it sole ownership of one of France's leading producers of sitcoms and TV series. FIT Production will provide a platform for development of content that can be delivered via high-bandwidth Internet services.

Games are another area where the Internet harbors great promise. Wanadoo Edition was created in September 2000 from the merger of multimedia publisher Index and France Telecom Multimedia Edition. This unit produces and publishes video games for CD-ROMs, games consoles and the Internet. Wanadoo Edition markets a catalog of over 60 titles in 47 countries, including a number of major hits (Dracula, Louvre, L'Ultime Malédiction, Croisades). The objective is to roll out ten new games in 2001. Wanadoo Edition will also handle production of Internet games for Wanadoo's high-bandwidth service, adding more attractive content to its portals.

For nomadic web surfers, Wanadoo and Orange have agreed to jointly develop portals that can be accessed from wireless handsets. Wanadoo already publishes content for the I-Services and Voila Mobile wireless portals.

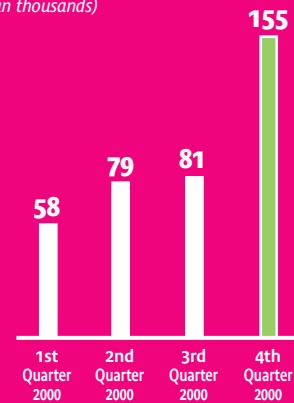
Tapping Audience Potential With E-Commerce

Electronic commerce is another means of generating value for an Internet audience. With its online merchant

sections, Wanadoo enables retailers to propose their product catalogs to visitors on its sites. Services range from simple posting of catalogs to delivery of turnkey online shops. Wanadoo specialists also manage sales promotions and supply payment solutions.

ALAPAGE.COM : QUARTERLY ORDER FLOWS

(in thousands)



VISUAL WORLDS

Led by France Telecom R&D, "Platform for Interactive Networked Games" is a European project that will build a dedicated infrastructure for online games. The system will be able to accommodate real-time participation by thousands of players from around the world. The innovation lies in the creation of a "generic" platform that is compatible with all types of applications, regardless of their security, interactivity or bandwidth constraints. This is a cornerstone in the Continuum platform, which aims to build and host virtual worlds on the Internet. Beyond networked games, Continuum could be used to broadcast new interactive applications at minimal cost on a very large number of services, complete with high-resolution 3D images. Potential uses include collaborative working, distance learning and all types of forums.

▶ Remuneration From Content

The kiosk model remains the most efficient way to remunerate content providers. To expand France Telecom's existing solutions for micropayment of goods and services purchased online – the Minitel and Kiosque Micro – France Telecom and Wanadoo have concluded a partnership with I-Pin, a pioneer in Internet and wireless payment technology. The partners will create a joint subsidiary, w-HA, which will market a solution for online transactions with

low unit costs, without requiring a credit card. Plans call for deployment of the w-HA micropayment solution in mid-2001, enabling customers to pay for online music, for example. Purchase costs will be added to the consumer's phone bill, ushering in a new model for the Internet economy.

In addition to merchant spaces on its portals, Wanadoo's Alapage.com and Marcopoly.com sites give it a presence in two of the most dynamic online commerce sectors, books and music, and household goods.

Alapage.com is one of the leading French e-commerce sites for entertainment and leisure. It features a catalog of over three million items (books, CDs, videos, DVDs, etc.) and thousands of preview clips. Customers can create personal profiles and the site delivers anywhere in the world. Some 4,000 partner sites have already confirmed their confidence in alapage.com, which booked 83,000 orders in December 2000. In May it acquired Librissimo, which publishes and delivers on-demand facsimiles of antique or out of print books. Galaxidion, another subsidiary acquired in December 2000, provides a platform where bookstores and book lovers can meet.

Marcopoly, which Wanadoo acquired in 2000, sells 15,000 household electronics and appliance items. Marcopoly has expanded its catalog to become the benchmark in online shopping for everything for the home.

Consolidating Leadership in Directories

The Yellow Pages business, which is part of Wanadoo, was created in July 2000 by the merger of Oda and France Telecom's national phone directories unit. Pages Jaunes directories are the leading print advertising media in France. In addition to the paper directories, their content is circulated via Minitel, CD-ROM, voice

services, the Internet and WAP. Wanadoo is the third-largest publisher of directories in Europe and also sells Internet advertising space and services to advertisers seeking to move beyond conventional directories to complement their print ads. Wanadoo had 135,000 advertisers on its pagesjaunes.fr site at the end of December 2000, making it the top French Internet advertising media. It is also the number one website creation company in France, with over 20,000 sites developed for its advertisers. Its marketing team, already the largest in the advertising sector, was further augmented in January 2000 by the creation of a new telemarketing agency in Bordeaux.

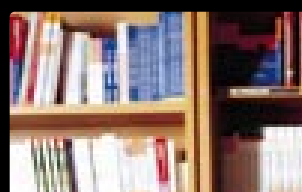
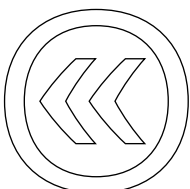
Wanadoo's Pages Jaunes yellow pages logged 48.5 million pages viewed in December 2000, giving it the highest audience of any online directory in Europe. One of its most attractive features is a map linked to businesses' street addresses in major French cities, including photos that are displayed at the click of a mouse. In September, Wanadoo acquired Société de Numérisation de la Ville (SNV), a company that takes photos of street addresses and indexes them for directories.

In addition to its yellow pages products, Wanadoo is developing specialized business directories following the acquisition of Kompass in December 1999.

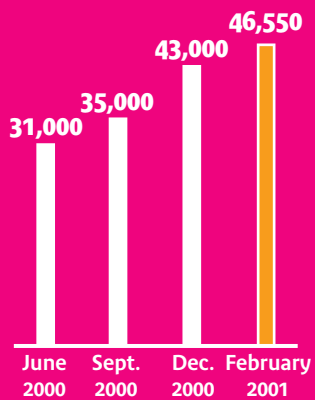
The Kompass France directory contains detailed information on 150,000 companies and is available in several different media. Following its acquisition of Andtrade in



YELLOW PAGES:
No. 1 AUDIENCE IN EUROPE



⊕ SITES HOSTED



October 2000, Wanadoo enhanced the Kompass.fr website with a B2B online marketplace where buyers and sellers can efficiently carry out Internet transactions. Another unit, Mediatel, is a specialist in direct and online marketing, with a database covering 19 million consumers and 3.2 million businesses. Mediatel is the top direct marketing database in France, both in terms of size and in guaranteeing up-to-date information. Wanadoo is expanding its directories activities outside of France as well. Kompass has set up brand franchises in Spain, Morocco and the Benelux countries, while Pages Jaunes has yellow pages operations in the Benelux countries, Spain, Morocco, Lebanon, Brazil and

El Salvador. Wanadoo has acquired Indice Multimedia, the second-leading directory publisher in Spain, one of the fastest growing markets in Europe. This addition provides fresh impetus for development of directory and business services businesses outside of France.

A Complete Array of Business Services

According to the Idate consulting firm, 57 percent of smaller businesses in France (under 50 employees) plan to have an Internet connection by the end of 2001. The "Wanadoo Pro" range is designed specifically to address this fast-growing market.

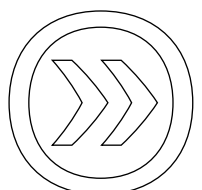
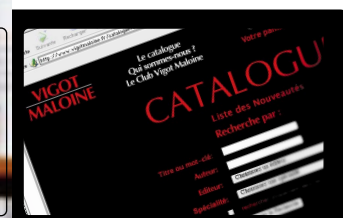
Wanadoo restructured its organization in November to deploy the first offer of end-to-end services for smaller enterprises in France. The new Wanadoo Services Pro unit combines expertise from the Domicile, Telecommerce, Triel and Wanadoo Pro units, resulting in a range of five complementary packages: "Wanadoo Pro Solo" (Internet access, domain name, email address and virtual office) "Wanadoo Pro Groupe" (intranet with remote supervision), "Wanadoo Pro Sites" (hosting), "Wanadoo Pro Commerce" (e-commerce platform for management of every phase, from order booking through secure payment) and "Wanadoo Pro Sur Mesure" (including customized creation of websites, portals and applications).

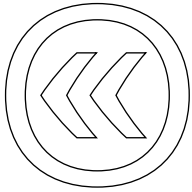
With Wanadoo Pro Commerce, merchants can efficiently outsource their online sales operations.

E-commerce solutions from Wanadoo enable merchants to progressively build a full-scale solution with modules for order management, catalog creation, secure payment, etc. Or they can opt for a complete turnkey e-commerce solution that integrates all back-office operations.

Daniel Vigot, bookstore owner

"Memory. That's what a bookstore is really about. Selling 1,500 new titles a year doesn't leave enough time to promote the 20,000 other books we have. Now, with the website that Pages Jaunes created for us we can feature less recent works. And the first order on vigot-maloine.fr was from a reader in Washington, who ordered a book ...and had it shipped to Senegal!"





In 2000, Wanadoo added a payment system using smart "chip" cards to enhance security, and signed a partnership with Géodis, one of the leading providers of e-commerce transport and logistics services in France. Another agreement with insurance broker FIA-Net offers customers insurance against fraudulent transactions (free for online consumers). Wanadoo hosted 43,000 websites at the end of 2000, making it the French leader in consumer website hosting.

Recognized Internet Expertise from France Telecom

Traffic Transport

The growth in Internet usage is encouraged by the excellent quality of France Telecom's IP (Internet Protocol) network. France Telecom is the first carrier in the world with the capacity to route IP data packets all the way to the subscriber switch level, a future-looking technique that cuts transmission costs. France Telecom routes Internet traffic over an access network that feeds into its backbone network. The access network counts 50 points of presence that receive traffic from Wanadoo customers and other ISPs, whether they connect via conventional dial-up lines, ISDN, ADSL or cable. The network is connected to the IP backbone, which has been fully operational since mid-2000, implementing wavelength division multiplexing on a fiberoptic infrastructure. This network is continually being upgraded to accommodate the annual doubling in Internet users, as well as the constant stream of new services and uses. The network's bandwidth will be quadrupled annually between 2000 and 2002.

Fusing Phones and the Internet

For most people, the "plain old telephone" line is the primary means of accessing the Net. France Telecom offers a variety of solutions to let them surf while keeping a phone line available. Really intensive websurfers can install a second analog or [digital](#) line with the "Ligne Surf" plan, introduced in November 2000. Or they can subscribe to the Numeris Itoo solution, giving them two digital lines, one exclusively for Internet connections.

For small businesses, France Telecom proposes one conventional line dedicated to Internet connections, or a choice of Numeris-ISDN service plans.

Benefiting From Cable Connections

With cable access, people can surf at much faster speeds than over regular phone lines. The Group offers cable Internet service mainly through France Telecom Cable, one of the biggest cable operators in France. Cable Internet via the France Telecom Cable network is already available in 14 cities in the country. In addition to unlimited connection, the monthly subscription charge includes five email addresses, an IP address and hosting of a personal homepage.

Promoting ADSL

ADSL has emerged as the prime broadband technology for multimedia Internet applications. This technology is capable of providing "always-on" very-high-speed connections over the majority of existing phone lines. This requires deployment of an access network that integrates data traffic from subscriber lines for transport to the network core.

France Telecom's ADSL service, branded "Netissimo", gives customers a permanent high-bandwidth connection. Depending on the service, Netissimo reaches speeds of 500 kbps to 1 Mbps for inbound traffic (from the Internet to the customer). By the end of 2000 over 64,000 customers had already signed up for Netissimo, which is available to over a third of France's urban population. France Telecom expects to invest nearly 400 million euros in ADSL deployment through 2002, making this technology a cornerstone in its high-bandwidth solutions catalog.

In addition to consumer services, businesses can opt for the "Turbo DSL" service offering up to 2 Mbps of bandwidth. An ADSL access offer is also available to third-party operators.

Internet via Minitel

To make the Internet available to people who do not own a personal computer, the 3615 Minitelnet service lets them send and receive email via a Minitel terminal. Web services will soon be available on the Minitel, which remains tremendously popular even as Internet



NUMERIS ITOO.

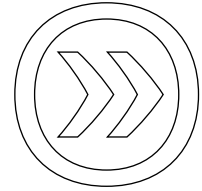


NETISSIMO.

Connected Schoolchildren



Jules Verne is one of many schools with high-speed Internet connections, enabling children to learn how to use the [Web](#) right from kindergarten. Grade school classes at the Jules Verne school have made energetic contributions to the school's website. They are also joining a class in Quebec to write a story, featuring colorful Canadian characters...and bears. The young editorial team also gives their new Canadian friends a look at their region by posting photos of local sites and their drawings.



usage increases. The Minitel represents 457 million euros in revenues paid to content providers, making it still the biggest online marketplace in France. The installed base totals 5 million standalone Minitels and 3 million PCs with Minitel connection software. Introduced earlier this year, the high-speed i-minitel service attracted 300,000 new users in its first two months. Audiotel is the audiotext equivalent of the Minitel kiosk platform. This service continues to post annual growth of nearly 6 percent. To facilitate access to Audiotel content, a voice recognition service developed by France Telecom R&D has been tested in Toulouse. R&D teams are also working on new functions that will take advantage of France Telecom's intelligent network technologies.

Sales Offices Energize Distribution

France Telecom sales offices help customers choose equipment and options that fit their needs and also market a growing catalog of products and services,

including Wanadoo Internet solutions. In addition to selling PCs and modems, for example, France Telecom also installs this equipment and provides onsite training. These home services have met with a very favorable reception among customers.

France Telecom not only designs a complete range of solutions with smaller businesses in mind, but also helps them quickly benefit from new communications services. Even the smallest businesses can swiftly exploit emerging e-business opportunities thanks to website creation by Pages Jaunes and Wanadoo Pro, along with hosting solutions.

Both France Telecom sales offices and other outlets began marketing Netissimo high-speed Internet solutions during the fourth quarter of 2000, in addition to the France Telecom Cable Internet service. Sales teams provide customers with an invaluable source of expertise spanning every aspect of modern communications resources. ■

Deploying the Network of the Future

France Telecom R&D is working on innovative services that combine telephones and the Internet. One example is an Internet call waiting service that allows people to surf the Web without worrying that someone might be trying to reach them. This service, dubbed "@llo", has been tested in the Isère and Haute-Garonne regions since the beginning of 2000. With the Phoneasy service, people can call any phone number from a PC, click on their computer screen to contact a telephone hotline, answer

phone calls and even set up PC-to-PC phone conversations. The Phoneasy solution has been marketed since 2000 by several of France Telecom's affiliate ISPs in Europe. Looking further ahead, France Telecom R&D labs are experimenting with very-high-speed access solutions on copper wire (HDSL, VDSL), over the air or on fiberoptic links (FTTC, FTTH, etc.). At the network core level, developments in the pipeline include new protocols (such as IPv6) and new

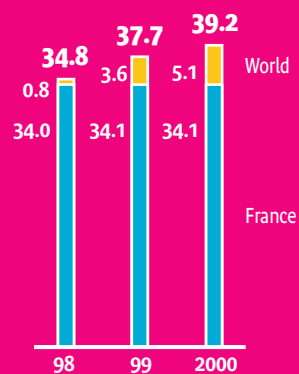


Next Generation Network architectures, paving the way for the Internet of tomorrow.

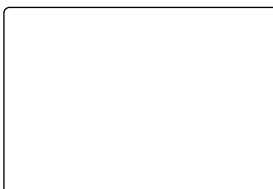
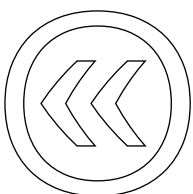
Consumer fixed telephony services

Although wireless continues to experience exponential growth, the foundation of telecommunications is still fixed-line access, which is continually being enriched by new services. In the face of ever-greater competition, France Telecom has sharpened its competitive advantage thanks to high service quality, attractive rates and innovative solutions. This approach has met with strong approval from the ultimate judges, the Group's customers. Fixed-line services are supported by networks that deliver constantly enhanced performance in France and 75 other countries where France Telecom operates through its carrier affiliates.

⊕ GROWTH IN CUSTOMER BASE (in millions)



39.2 MILLION
SUBSCRIBERS TO FIXED
TELEPHONY SERVICES
IN **10** COUNTRIES



Products and services

A Vast Catalog of Services

The basic France Telecom telephone subscription plan includes a wide variety of free services. In 1999 these included last call return (3131), itemized billing, the Allofact and Webfact telephone and web billing information services, calling line ID blocking, selective outgoing call barring (to limit calls to certain types of numbers), and free inclusion on an "Orange" list (numbers not given to telemarketers). In 2000, two previously pay options were added to the free services package: 3-way calling and Top Message voicemail. Both services have quickly become very popular and already count nearly one million users.

Introduced in 1999, the Top Message voicemail service was enhanced with new features in February of last year. Voicemail can now be shared by the entire family, with personal mailboxes for everyone. In addition, users can program the number of rings before calls are routed to voicemail. Combined with call waiting, Top Message also picks up calls when the customer is already on the phone. Two other free services that were developed inhouse by France Telecom R&D were launched in September: the "3000" voice-activated service management center and automatic callback to busy numbers.

The automatic callback service is extremely convenient and is activated when customers reach a busy number. A message prompts them to press "5" if they want to have the number automatically called as soon as the other person hangs up.

3000, A VIRTUAL SALES OFFICE

The 3000 service was launched in September 2000. This interactive voice response system provides information about France Telecom services and lets customers order and activate them with simple voice commands. Customers enter a password the first time they call the service to identify themselves. The 3000 service is emblematic of France Telecom's advanced information systems and sophisticated voice recognition and synthesis technology. This virtual sales office complements the 1014 and 1016 customer service numbers.



In addition to these services, small business customers also get a free listing in the yellow pages and special customer support. Specific service plans have been designed for new business owners and for people who move.

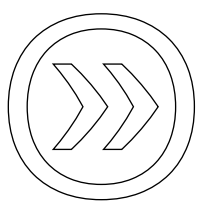
The 2000 edition of the Pages Jaunes yellow pages featured a new layout, more information and widespread free distribution to residential customers.

Targeted Solutions for Small Businesses

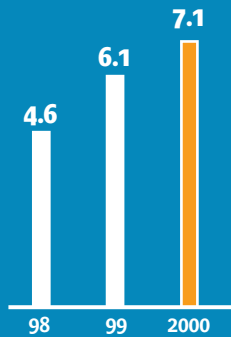
France Telecom is continually developing solutions that better match the needs of each customer segment. Several new offers that take into account the unique needs of smaller enterprises were launched in 2000.

Solange, working mom

"Telecommuting is not nearly as relaxed as most people think. I'm continually switching back and forth from my job to taking care of my two little girls. Sometimes the phone rings when I'm in the kids' room or the kitchen and the caller hangs up before I can get to the phone. With the 3131 last call return service I just press a key to call the person right back — usually to their surprise. That way I'm always available, which is important to my employer."



➤ GROWTH IN SUBSCRIBERS TO SPECIAL RATE PLANS (in millions)



NEW IN 2000

The array of services that make the phone more and more convenient continues to grow.

Call Blocking

This service lets customers block calls that do not show a caller ID, or those that have been identified (by their number) as malicious calls. Many customers want this service as an alternative to changing numbers or requesting an unlisted number.

Transfer to New Number

This is one of several services for customers who move and want calls to their old number forwarded (with or without a message). In 2001 the service will be available without any geographic restrictions and will be billed on a per-use basis.

For entrepreneurs launching a new business, a "Telecom Consulting Kit" includes a booklet of coupons good for special offers from partners (Ciel accounting software, Ikea Entreprise, Chronopost, Office Depot, Viking Direct). Booklets with coupons from local partners and training/consulting services are also created by local France Telecom sales offices.

A new Numeris Commerce service gives retailers an ISDN line for faster access to transaction and electronic payment services. Flexligne is a single call number service that lets a group of people route incoming calls to a given phone. This flexible and modular service makes it possible to change call routing as often as is needed. With the Clic Line application, businesses can personalize their call reception from a PC connected to a telephone linked to a Diatonis switchboard. The screen shows the number of the caller and data is stored in the PC. By clicking on the screen the call is transferred to another extension. The application can also be used to send faxes, email or files. This computer-telephony integration (CTI) tool was developed by France Telecom R&D labs.

New Phones in 2000

The new 2000 range of phones makes it easier to access services (both current and upcoming), with enhanced ergonomics (more comfortable receivers, bigger screens and more memory for diaries and directories) and simplified service activation (direct access to a directory of services and guide, with onscreen menus and contextual prompts). The stylish phones have been specially designed for France Telecom, with models available for every type of use. The first phone in the new range was unveiled in May.

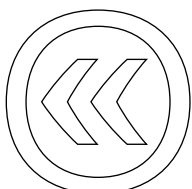
The design and spirit of the 2000 range is found in two new fax machines as well. The Galéo 2200 is an entry-level thermal paper fax and the Galéo 4830 is a plain paper fax with a DECT compatible phone, enabling email and printout of web pages.

For businesses, the Diatonis range has been enhanced with a new wireless terminal, the 4074 GT, and by a "wiring-free" option for simple, low-cost connection of phones

Rates

Lower, Simplified Rates

France Telecom lowered its international long-distance rates in two phases in 2000, with an 18-percent reduction for residential customers and a 24-percent cut for small businesses. The Primaliste Pays rate option, providing country discounts for calls to a given country, is now free,



making it easy for customers to take advantage of France Telecom's lowest rates for calls to any five countries of their choice. Redefined calling areas in border regions and lower rates make it easier to communicate with neighboring countries. Discount rates for calls to wireless numbers outside France have also been introduced, reflecting changes in billing between carriers for these calls.

The market saw an accelerated reduction in rates in 2000 and France Telecom adapted with sharp cuts in its long-distance rates in April (an average of 17 percent for residential customers and 15 percent for businesses). Rates were lowered again in October for daytime periods. The rate structure was also simplified in late 2000 with the introduction of a single extended local toll area rate, compared to three zones at the beginning of the year. Peak and off-peak rate periods were also simplified for business customers and single rates applicable all day long were introduced for all national long-distance calls. Volume discounts are continually adjusted to guarantee that businesses benefit from highly competitive rates.

The cost of the residential and business basic service fee was raised in September (6.4 percent for the primary subscription), enabling France Telecom to more accurately reflect costs in its rate structure. This change was an economic and strategic imperative for the enterprise in a highly competitive environment. At the same time, new free services were included in the basic service plan. A minimum reduced-rate service was introduced in July for low-income customers within the scope of France Telecom's universal service obligations.

France Telecom completely revamped its local rates in December, cutting the initial call setup charge by reducing the minimum duration to one minute and lowering

per-minute costs. These changes address the expectations of all customer segments and reflect the evolution of the market. They resulted in an average reduction of more than 5 percent for local calls.

France Telecom introduced additional innovations targeting specific customer segments as well, including Tropic France discounts for calls to French overseas departments, service plans for people with vacation homes and volume reductions for residential customers ("Plan Gagnant"). In particular, the "Lignes Locales" plan launched in November was the first "all-in-one" concept in the market, including line connection, call traffic and services for a single fee.

A la carte

From Public Phones to Public Services

As customer needs evolve, public payphones are changing to offer a variety of services, including Internet connections. France Telecom is enhancing existing payphones by integrating new services while at the same time developing new Web access terminals to enter the emerging market for on-demand Internet access.

Since last year, subscribers to the Mobicarte pay-as-you-go service have been able to add credit to their cellphone using a credit card in payphones. Each month, this simple and secure way to add call time is used an average of 60,000 times. The Rapidofax self-service fax solution will progressively replace the "Poste Eclair" service in post offices. Some 500 Rapidofax machines will be installed during the first quarter of 2001.



MARCH 2000:
FRANCE TELECOM ADOPTS
NEW LOGO.



Axelle, entrepreneur

"I always dreamed of having my own company, and finally the time came to put my experience to work for myself. But creating a new business can get really complicated. I wish I could get the same sort of support in other areas that I get from my France Telecom sales office! Thanks to the advice and 'new business' kit they gave me, I have a phone system that's perfect for my business, and reasonably priced too. I even saved on office furniture with the discount coupons from Ikea Entreprise included in the kit."

You're ready to
create your own
business.
But have you really
thought of everything?





The highlight of 2000 was the rollout in May of Netanoo self-service Internet terminals. With over 1,000 terminals installed at the end of the year, France Telecom has a leading position in this new segment. Situated in high-traffic areas, the terminals enable access to the entire Web, in addition to content matched to the specific location.

A Full Range of Discount Solutions

France Telecom intends to figure at the avant-garde of the extremely promising market for prepaid phone cards, which target customers who are particularly price-sensitive. This market has quadrupled in three years.

France Telecom has introduced a prepaid service for residential fixed lines. Customers make calls using either the "Ticket Universel" or "Ticket International" prepaid

cards. An abbreviated access feature lets people use the phone without having to enter the password each time. The Ticket France Easy, designed for young people, experienced 60-percent growth, coupled with high user satisfaction levels and repeat purchases.

Revamping the France Telecom Calling Card

Faced with competition from wireless phones and prepaid services, the Carte France Telecom calling card now features a simplified rate structure, with lower call costs for both national and international long-distance calls. This calling card is increasingly being used for Internet connections, which saw a ten-fold increase in traffic in 2000.

Following in-depth studies of how people communicate when they travel, a new "Carte Voyage" card was launched in partnership with travel agencies and transport companies.

France Telecom also took over Global One's calling card business in 2000.

Cable, Satellite and Terrestrial Networks

Cable, satellite and terrestrial networks are three essential distribution media for consumer television programming. The France Telecom Group is actively involved in pay television with the Viaccess access control system, through France Telecom Cable and through the satellite TV venture TPS.

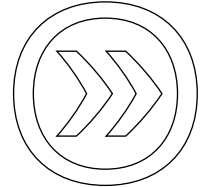


PREPAID FOR EVERYONE

France Telecom expanded its family of prepaid "Tickets" in 2000 with the latest "Ticket International" card and the "Ticket Alizés" for calls to French overseas departments.

Vanessa, cultural activities leader

"I discovered the Internet because our city is very much involved in using new technologies to help kids from disadvantaged neighborhoods. I'm pretty reticent when it comes to electronic media in general, but I definitely got into it. Every day I see how the Internet can bring these kids a more positive approach not only to the entire world, but also their own local environment. So I definitely think it's a great idea to set up Internet terminals in public places like shopping malls."



Viaccess access control has met with growing success. The subsidiary that markets this solution has 12 percent of the world market in the digital pay TV segment. Viaccess made strong inroads in Asia during the year with new contracts in Vietnam, Taiwan and continental China, as well as in Turkey. In France, five TV network operators signed up with Viaccess, which now counts over 5 million subscribers. Thanks to Viaccess, France Telecom Cable can send information directly to its subscribers by displaying messages on the TV screen. France Telecom Cable added nearly 20 channels to its Modulo Cable package in 2000, giving it a total of over 100 TV and radio programs. The Modulo Cable customized subscription service had 768,000 customers at the end of 2000.

In August 2000, France Telecom reached an agreement with Suez Lyonnaise des Eaux, the majority shareholder in cable operator Noos, under the terms of which France Telecom would increase its stake in Noos in exchange for the integration of its cable networks. This stake will subsequently be sold to NTL Inc. and Morgan Stanley Dean Witter. The parties are currently in discussions to determine the best ways to complete this transaction.

With TPS, France Telecom is playing a high-profile role in the growth of digital pay TV. TPS currently encompasses 160 TV channels, four movie channels, 30 theme channels and 78 international channels, in addition to 47 radio stations and 40 interactive services. In 2000, the package welcomed a host of new channels (Paris Première, I-Television, TV Breizh, etc.) and new interactive services, including home banking, travel and games. It also introduced a TV email service able to communicate with all types of messaging devices, from PCs to wireless handsets.

Networks

A World-Class Phone Network

A subscription to France Telecom's phone service brings customers access to one of the most reliable and digitized networks in the world. France Telecom is continually enhancing this network to offer an ever-broader range of innovative new services for customers.

Telephone switches, the nodes of this network, continue to evolve too. The last analog switches were replaced in 2000.

The total number of switches will be reduced from 900 to 570, resulting in a stable network infrastructure.

Another key to France Telecom's superior service is 24-by-7 fault signaling and customer assistance. A total of 2,500 agents provide customer support, primarily through the 1013 and 1015 call centers. Ten Customer Support platforms are dedicated exclusively to business customers. Efficient functioning of the network — which counts more than 34 million lines — is ensured by 30,000 agents and technicians who have time and

NETANOO: PUBLIC INTERNET ACCESS

In addition to public payphones, France Telecom is now offering public Internet terminals. Several thousand Netanoo terminals will enter service by the end of 2001 in a variety of public places. People will be able to connect to the Internet and use their email just as they would use a payphone. France Telecom is providing network connections (Numeris-ISDN), the terminal (I-Macs with access to Wanadoo) and a range of services. The manager of the public location (train stations, shopping centers, etc.) takes care of the installation and proposes merchant or free services via the Netanoo portal. Customers pay for access using France Telecom phone cards.

▶ ADSL, the High-Bandwidth Revolution

ADSL technology transforms a regular phone line into a high-speed pipeline that makes the Internet and multi-media easier and more convenient than ever for both residential and business users. What's more, ADSL lets people continue to use their phone line while connected to the Net, and provides unlimited, "always-on" access for a single flat fee.

Through Wanadoo, France Telecom aims to aggressively develop this high-speed offer for both business and residential customers. The objective is to have 30 percent of the customer base connected to the Internet via ADSL by 2003.



again demonstrated their ability to maintain or restore communications even under the most difficult circumstances.

Network operation is being optimized as well. France Telecom will restructure its 300 multi-equipment operating groups into 13 supervision centers. These centers will be staffed by teams with multiple skills, thus further enhancing quality of service while boosting the competitiveness of the network.

Affiliate Networks in Europe

A more unified Europe creates a new domestic market for France Telecom, thus fueling business development. Aside from Poland, where France Telecom acquired an equity interest in the country's incumbent operator, the Group has established positions as an alternative operator in almost all the other countries where it has entered the market. The objective is to offer a complete range of converged voice, data, fixed, wireless and Internet solutions, addressing the expectations of one of the most competitive — and promising — markets in the world. Many of the Group's operations across Europe are linked with Wanadoo and above all Orange, even when their offering extends beyond Internet and wireless services. France Telecom has operations in virtually every country in Europe, with the exception of the former Yugoslavia, Belarus, Ukraine and the Baltic nations.

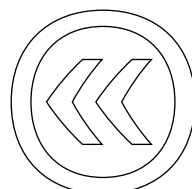
In Poland, France Telecom last year acquired a 25-percent stake in TP SA, the partially privatized incumbent operator. The Group's local partner Kulczyk Holding has 10 percent of TP SA, which is the dominant carrier in the market with 96 percent of the fixed lines (over 10 million customers at yearend 2000) and 80 percent of the Internet access connections. TP SA also has a dense distribution network throughout the

country. France Telecom has been present in Poland since the early 1990s when it built the PTK Centertel analog cellular network as part of a consortium that included the future TP SA. France Telecom currently owns 34 percent of PTK Centertel, which has since developed GSM services and acquired a UMTS license at the end of 2000.

In the rest of Europe, Group affiliates are positioned as new entrants. Several of them have rapidly gained very strong positions in the fixed-line telephone market. Their objective is to provide customers with a complete range of telecommunications services.

In Spain, France Telecom controls 69 percent of Uni2, which holds the third fixed-line license in the country. Uni2 has built a fiberoptic backbone network that provided service for 1.7 million customers at the end of 2000. This network will provide direct links to all cities with over 100,000 inhabitants as of 2002. Uni2 also purchased a 75-percent stake in al-pi, the first alternative operator in Catalonia and launched the www.wanadoo.es Internet service, which had 320,000 active customers at the end of 2000, making it the number three ISP in Spain.

In Italy, the merger of wireless operator Wind with Infostrada will enable it to offer a complete range of fixed, wireless and Internet services. The company had 2.3 million fixed telephone customers (residential and businesses) at the end of 2000, putting it second in Italy.



European Backbone Network

40 CITIES
SERVED IN
16 COUNTRIES
BY END 2001

★ European Backbone Network
■ Landing point
--- Planned



In Germany, France Telecom owns 28.5 percent of MobilCom, which has 892,000 fixed-line customers in addition to its Internet and wireless businesses.

The Group is also growing its cable network businesses in Europe. In the United Kingdom, NTL aims to create the country's first alternative broadband network. France Telecom owns approximately 18.6 percent of NTL, which has become the leading cable operator in both the UK and Ireland. NTL has 3.2 million customers for its telephone and cable TV services and 1.8 million Internet subscribers. In the Netherlands, cable operator Casema's 1.3 million customers also use its fixed telephone services.

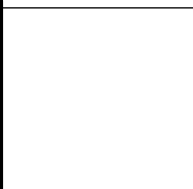
Rest of the World

Outside Europe, France Telecom's international strategy focuses on seizing investment opportunities in countries with strong growth potential. The Group applies its proven technical and commercial expertise to nurture businesses in every segment of telecommunications, in particular for modernization of countries' fixed-line infrastructures and the development of business services. These investments sometimes involve the launch of an alternative operator. France Telecom applies its technical and management know-how in countries around the world through its Sofrecom and Telemate engineering and consulting subsidiaries.

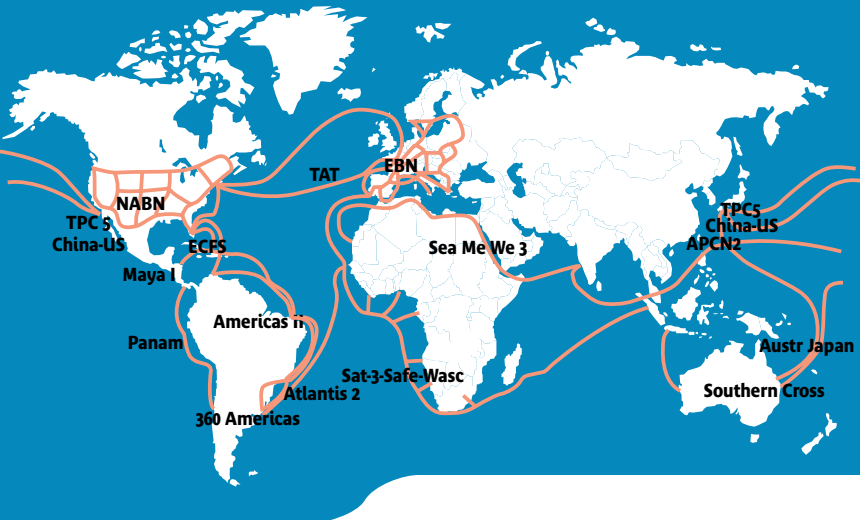
France Telecom entered the Latin American market in 1990 by taking over Telecom Argentina, the operator for the northern half of the country. The Group currently owns 50 percent of the voting rights in Nortel, the holding company that controls this operator. Under France Telecom's guidance, Telecom Argentina has developed and completely modernized the network it inherited from the incumbent operator. Its network now counts 3.5 million lines. Nortel also has an interest in Telecom Personal, which operates a digital cellular network using the North American D-AMPS technology, with over two million customers. In Brazil, France Telecom holds 25 percent of Intelig, an alternative domestic and international long-distance operator that

Thierry, Net pioneer

"Since I'm a researcher, I've had an email account since 1985, and my first IP address dates back to 1990. Now, though, with ADSL at home I'm really discovering everything the Internet can do. I can stay connected all the time and still use my phone. And the connection is every bit as efficient as at my office, where we have a fiberoptic link! I use it to work at home, and I just love the multimedia entertainment, like being able to watch a TV show from a country where I was on an assignment a few weeks earlier!"



GLOBAL TRANSMISSION NETWORK



France Telecom has a longstanding involvement in network development in African countries. In the Ivory Coast the Group holds a majority stake in the national operator Côte d'Ivoire Telecom, which has over 267,000 customers.

In Madagascar, FCR holds 34 percent of Telecom Malagasy, which provides national and international long-distance services. Their joint subsidiary DTS offers Internet access and data communications services. In Senegal, France Telecom holds 42 percent of national carrier Sonatel, which has an installed base of nearly 206,000 fixed lines and plans to build 300,000 new lines with support from FCR. Sonatel's Alizé wireless service has over 195,000 customers. FCR and Sonatel have formed a joint subsidiary, Telecom Plus, which markets value-added services and Internet access.



ASIA ...

launched its service in January 2000. The ultra-modern network built by Intelig already covers 37 cities across the country. In addition to long-distance service, Intelig will shortly begin marketing direct network connections, data services and Internet access. In El Salvador, France Telecom is the leader in the Estel consortium, which acquired a majority stake in the national operator CTE. In addition to the country's fixed-line network (570,000 lines) — which is 85 percent digital — CTE has a 20-year license for a wireless network that had 164,000 customers at the end of 2000. The current penetration rate for fixed telephony (six lines per 100 inhabitants) leaves substantial growth potential in the country. In the Dominican Republic, France Telecom operates through Orange.



AFRICA ...

In Asia, France Telecom acquired an additional five percent of Pramindo Ikat, giving it a 40-percent equity stake in the Indonesian fixed-line operator. Pramindo has a license to build 306,000 lines in three years plus exclusive rights to operate the existing network of 868,000 lines in conjunction with the new lines. In Vietnam, the government awarded France Telecom a contract to build 540,000 lines in five years in the Ho Chi Minh City region, of which 252,000 have already been installed. France Telecom's FCR subsidiary has also signed a cooperation agreement with the national operator VNPT. In Jordan, France Telecom acquired a 40-percent interest in the incumbent operator Jordan Telecommunications Company (JTC) in 2001 in partnership with Arab Bank. JTC has 614,000 customers. The Group is responsible for the management and operation of JTC and its wireless subsidiary PetraCell, whose MobilCom service was launched in September 2000. France Telecom is also present in India, Thailand and Lebanon.



LATIN AMERICA.

GROWTH OPPORTUNITIES FOR FRANCE TELECOM.

Submarine Cable Links

France Telecom's international activities benefit from its high-quality intercontinental wireline infrastructure. France Telecom is one of the few carriers involved in designing, building and operating submarine cable systems. The Group owns shares in dozens of submarine cable systems, of which 17 have landing points in France. On January 1, 2000, these operations were grouped within a new subsidiary, France Telecom Marine. This structure addresses the expectations of customers—maintenance authorities and system suppliers—and will facilitate partnerships, which are indispensable to achieving critical mass. As network architect, France Telecom Marine is involved in the construction of two submarine cable systems that entered service in 2000. The 13,000-kilometer Atlantis 2 system links Europe, Africa and Latin America. The Group played a major role in project engineering and management for this system, which deploys ultra-modern fiberoptic cable with wavelength division multiplexing (WDM). The Americas 2 cable stretches 8,300 kilometers with landing points in Florida, St. Croix, Puerto Rico, Martinique, Curacao, Venezuela, Trinidad, French Guiana and Brazil. The system has terrestrial extensions to Surinam and Guiana. With bandwidth of 40 gigabits per second, the fiberoptic WDM Americas 2 system is capable of transporting 300,000 simultaneous calls. France Telecom has a 9-percent share of the cable, for which 2,000 kilometers were laid by the Group's cables ship Fresnel.

On June 17, 2000 a construction and maintenance agreement was signed for the SAT-3/WASC/SAFE

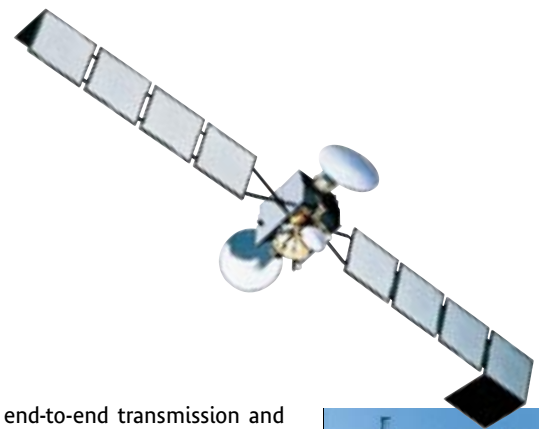
system (South Africa Telecommunications/West African Submarine Cable/South Africa-Far East). France Telecom Marine also signed a contract for construction of a new ultra-modern cables ship, to be delivered in December 2001. This vessel will join the existing fleet of four ships, making France Telecom the world's third-largest cables ship operator for submarine cable laying and maintenance operations.

Satellite Services

Satellite services provide a complement to ADSL high-speed wireline solutions. These services also support wireless communications and TV broadcasting. The Group offers global mobile satellite coverage through its investments in Inmarsat (5.1 percent) and TESAM (51 percent). TESAM has a license to operate Globalstar services for Belgium, Egypt, Spain, France, Morocco, Paraguay and Portugal. This consortium manages a constellation of 48 Low Earth Orbit satellites and about 50 earth stations. For satellite-based broadcasting and IP transmission services France Telecom operates through its GlobeCast

unit. GlobeCast provides end-to-end transmission and production services for video, audio and multimedia broadcasts, from and to any point on the globe. GlobeCast entered a new dimension in 2000 by integrating satellite-based Internet and multimedia in its portfolio of solutions. Satellite links feed ISP platforms and also enable direct connection of customers to the Internet. Satellite capacity also supports Internet broadcasting services such as streaming video and audio, push mode and theme channels. France Telecom believes that satellites will play an ever-growing role in this segment and approved plans for a 2002 launch of a new satellite to provide broadcasting and high-speed Internet capacity. The Stellat program will be developed in partnership with satellite operator Europe*Star.

A new international broadcast contribution network (a network dedicated to video and IP signal transport) was developed in 2000, based on France Telecom's terrestrial and submarine fiberoptic infrastructure. ■



FRANCE TELECOM MARINE HAS FOUR CABLESHIPS AND A FIFTH UNDER CONSTRUCTION.

SATELLITES COMPLEMENT THE GROUP'S HIGH-SPEED TRANSMISSION INFRASTRUCTURE.

Distribution

INNOVATION AT SALES OFFICES

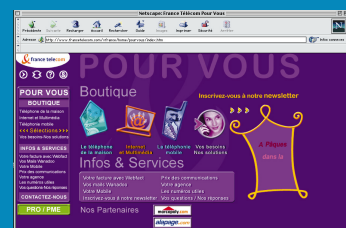
France Telecom's direct distribution network encompasses some 700 sales offices. A "relocation" program that kicked off in 2000 aims to establish a presence in prime consumer traffic locations. By the end of 2001 nearly half the sales offices will have moved. France Telecom has also developed and is testing a new point-of-sale concept that features new signs and interior layout. The stores provide attractive, clear displays of wireless, Internet and residential telephone products. Several sales offices feature an "Innovation Center" that demonstrates futuristic services spawned by France Telecom's R&D labs. These centers will



progressively be introduced at all sales offices in 2001

ONLINE BOUTIQUE AT francetelecom.com

Since last year, France Telecom customers have been able to contact sales agents, obtain information and order products and services online at www.francetelecom.com. Opened in March 2000, the online boutique sells

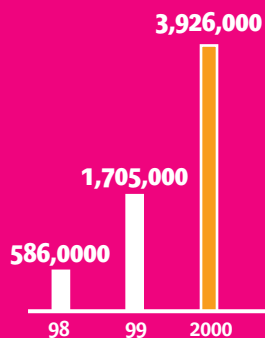


products with secure payment via the Telecommerce platform. Since June, customers have also been able to order services online. The catalogue includes residential phones, wireless phone services and Internet access, as well as solutions for businesses. In December alone the online boutique logged 200,000 visits, representing 2.5 million pages viewed, plus 5,000 email contacts and 14,000 orders for services.

Business services

France Telecom partners businesses as they deploy new technologies, providing them with networks that combine security, quality and high speeds, both in France and around the world. The Group offers services to meet all the needs of enterprises, from website hosting and network management to complete telecommunications outsourcing.

INTERNET AND SWITCHED IP TRAFFIC IN FRANCE (billions of characters)



PROJECTED PRESENCE
IN JULY 2001 THROUGH
EQUANT/GLOBAL ONE*
IN OVER

220
COUNTRIES AND
REGIONS

3,700
MULTINATIONAL
ENTERPRISE CUSTOMERS

*after completion of merger

The market

The Era of "Cyberenterprises"

Whether they belong to the "old" or "new" economy, virtually all businesses are rethinking their processes. The sheer volume of internal exchanges and external communications with clients and suppliers is increasing exponentially, spurred by a multitude of factors, such as globalization, a refocus on core activities, growing competition, accelerated life cycles for products and services, changing customer behaviors, new work methods and increasingly nomadic personnel.

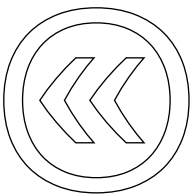
According to Dataquest, the global market for business telecommunications (encompassing all telecom segments) is expected to experience annual growth of 11 percent between 2000 and 2003, compared with 8-percent growth for the overall telecom market. During this same period, the French market will increase from 13 billion euros to nearly 17 billion.

France Telecom helps enterprises flourish in this evolving environment thanks to high-performance solutions at competitive rates, covering international networks, Internet, wireless, high-speed links and a complete range of value-added services.



Isabel,
mauve to order

"I'm a woman who knows exactly what she wants: a minivan for the kids, but a compact model to make it easy to park. Four-wheel drive to get out in the country. And in mauve, my favorite color. My dealer got on his computer and found what I was looking for right away at another dealership in Murcia. They delivered my new car in less than a week." At Renault Spain, Global One's IP VPN is pronounced "just in time"....



International

Birth of a Global Heavyweight

France Telecom entered a new dimension in 2000. The acquisition of 100 percent of Global One at the beginning of the year, followed by an agreement to acquire a controlling interest in Equant, creates a global leader in IP and data services for multinational corporations. Once the merger has been completed in 2001, the new company will have a presence in over 220 countries and regions and will service 3,700 multinational customers, with revenues of about \$3 billion and a workforce of 13,000 people. In addition, the acquisition of Orange makes France Telecom one of the leading wireless communications operators in the world, with strong positions in the business market.

The combination of these strengths makes France Telecom one of the few operators capable of offering complex global networks coupled with complementary wireless solutions in major markets.

A Trans-European Network

France Telecom's international expansion is backed by very-high-speed networks capable of delivering the performance needed by customers of the new Equant/Global One entity. These networks also transport the data, voice and multimedia solutions of France Telecom and other operators and Internet service providers.

Launched in October 1999, the European Backbone Network (EBN) provides direct, seamless access across the continent. This network supports all protocols and can be used by other operators and ISPs. Each of its loops can transport 80 gigabits per second, with a total capacity of up to 1.2 terabits per second. A supervision center for all of Europe has been set up in Toulouse.

In 2001 the EBN will link 40 cities in 16 countries, stretching over 20,000 kilometers from Helsinki to Lisbon and from Dublin to Katowice.

NO STOPPING PROGRESS FOR FIBEROPTIC LINKS

France Telecom has 84,000 kilometers of fiberoptic circuits across France, representing 2.4 million kilometers of fiber.

Thanks in particular to Wave Division Multiplexing (WDM) technology, the bandwidth that a single fiber can transport has doubled each year for the past five years. In 1997, France's first WDM circuit, between Nantes and Penmarch, had four wavelengths per fiber. Today's fibers support 80 and even 100 wavelengths. And although there is a theoretical limit, it remains far from being reached.

Thanks to the national networks of the Group's subsidiaries, the service will be available in over 250 European cities.

North American Backbone Network

In North America, France Telecom will build a 24,000-kilometer transmission network linking 24 major cities in the United States and Canada. The first optical loop, linking the TAT 14 cable landing points in Philadelphia and New York, entered service in late 2000. By designing and building its own infrastructure, France Telecom is able to deploy state-of-the-art technology. The North American Backbone Network is expected to open towards the end of 2001.

Internet

Solutions for Corporate Customers

France Telecom continues to augment its position as an Internet solutions provider for large businesses. The creation of the new France Telecom e-business entity in August 2000 has energized this segment. E-Business brings together the broad competencies of France Telecom and its partners to deliver custom-tailored solutions for businesses. This includes project development, partner-

ships and end-to-end server solutions, covering everything from access to audience building.

The Global Hosting offer from Global One provides large enterprises with managed hosting of their websites, enabling secure access from anywhere in the world. This offer is based on the 100 Global One IP points of presence and a network of ten global hosting centers.

Global Intranet brings businesses the simplicity of the Internet plus the quality and security of a corporate network thanks to Global One's International IP virtual private network (VPN). Global IP VPN is an all-IP solution now available in 36 countries and already provides connections for over 2,500 sites. More than 20 customers have chosen this service, which has won two prestigious awards from trade magazines.

Support for Smaller Businesses

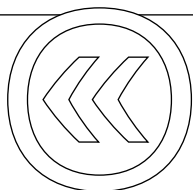
Internet take-up among small- and medium-sized enterprises in France continues to accelerate. Although only a minority are involved in e-commerce, a full 70 percent of SMEs are already online, and the number of intranets and Internet accesses in this segment rose 50 percent in 2000 (source: Idate). France Telecom proposes a full suite of solutions covering different phases of small business development, including construction of e-commerce sites or intranets, content-related services (Yellow Pages, Kompass business directories, B2B.fr, Egora.fr, etc.) and technical solutions (website hosting and creation, Pages Jaunes, Oléane).

Launched in February 2000, the "Oléane Essentiels" all-in-one packages include IP access, email, domain names, hosting, router leasing, firewalls, virus protection and everything else smaller businesses need to make efficient use of the Internet. Oléane provides permanent Internet access for over half of all French companies and is the key driver behind growth in corporate [intranets](#) and [extranets](#).

Wireless

Wireless Portals for Businesses

Wireless portals let people connect to the corporate intranet from a WAP phone, PDA or laptop computer. In June 2000 France Telecom became the first operator to



offer this personalized, secure portal solution, branded "Portail Mobile Entreprise". The portals draw on work by France Telecom R&D labs in collaboration with partners and were tested by ten pilot enterprises prior to rollout. The solution will quickly be made available on a European scale and integrate high-speed GPRS and UMTS technologies. Six months after the launch, 500 businesses had deployed "Portail Mobile Entreprise" portals.

Fixed-Wireless Convergence

A fixed-wireless convergence option was added to France Telecom's "Atout RPV" VPN offer, enabling businesses to merge their fixed-line and wireless virtual private networks. The benefits of this solution include discount rates, internal speed dialing and a single call number for wireless and fixed phones.

Faster speeds

From Megabits to Gigabits

The ubiquity of the Internet and computer applications in general are driving demand for more bandwidth. France Telecom is leveraging its expertise in optical transmission and high-speed copper **xDSL** technologies to offer a continually evolving range of high-speed solutions.

France Telecom expanded its range of connection services in 2000. The offering stretches from 2-Mbps — which is now standard — all the way to very-high-bandwidth solutions of several gigabits per second.

More and more firms are opting for direct circuits to

private metropolitan area networks (**MAN**). In April 2000 there were 1,000 such connections, offering bandwidth of up to 2.5 Gbps.

LAN **interconnection** is another booming segment, both for long-distance circuits (up to 100 Mbps) and for shorter links using **Ethernet**, Fast Ethernet and Giga Ethernet solutions.

The deployment of xDSL techniques brings businesses more bandwidth at reasonable costs. Only large sites will be connected via fiber optics, while xDSL will fill such needs as linking networks of branch offices, connection of smaller businesses or access for teleworkers.

FRANCE TELECOM "BEST SUPPLIER"

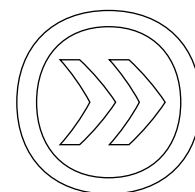
On December 14, 2000, the computer and telecom distribution industry named France Telecom the "Best Supplier" among all French operators. This award recognizes the success with which the incumbent telco has become truly customer-centric at every level.



Jean Denel

WAP Docks at Le Havre Port

"To be competitive, a port has to deliver minimum turnaround time for ships. Thanks to WAP and France Telecom's wireless enterprise portal solution, we're able to immediately coordinate all the different operations at the port. The dockers, for example, can connect directly to check docking times, the type of cargo, etc. As the port's director of information systems, I know this definitely saves a lot of time. And better information flow also enhances both personnel safety and security for the ships."





Value-added services

Customer Relationship Management

New technologies create tremendous opportunities to deepen and diversify contacts with customers. France Telecom researchers are continually developing solutions that make innovative and reliable use of the Web, email, interactive voice, mobile positioning and wireless services. France Telecom's "Numéros Accueil" range of unique number services remains far and away the leader in France. According to a study by Sofres, 93 percent of French consumers recognize "Numéros Vert", "Azur" and "Indigo" toll-free and toll-shared numbers, and seven out of ten feel they get better service thanks to these numbers. The 50,000 unique number services in service in 2000 generated one billion calls — an increase of 30 percent — to the 17,000 businesses that offer these numbers.

The Global Call Center solution enables companies to develop businesses outside their domestic market anywhere in the world without requiring a physical presence. Local call numbers are routed by Global One's international virtual private network to one or more call centers in France or another country. Call center agents answer in the caller's language.

France Telecom is preparing to deploy innovative services that enhance call centers, such as an enterprise contact center with voice recognition ("32 20" toll-free numbers

where callers are automatically connected simply by saying the company name), or "Guide Vocal"[®] voice guides, enabling automated interactivity with dynamic routing thanks to caller recognition.

Outsourcing

Given the fast pace of technological change and the growing complexity of communications systems, many companies outsource either part or all of their systems to France Telecom.

Partial **outsourcing** is based on standard solutions coupled with custom-tailored options, including consulting, enhanced features, etc. For example, following a call for tenders the European Parliament has awarded France Telecom's wholly-owned subsidiary Expertel a five-year contract to operate and maintain its internal phone network linking Strasbourg, Brussels and Luxembourg. For another customer, the Alainé transport company, France Telecom and its partner Groeneveld Information Technology developed a system to manage a fleet of 150 trucks, integrating GSM, WAP and **GPS** for vehicle location.

For a professional community of 36,000 attorneys, France Telecom provides an intranet, coupled with facilities management and management of the access network. In the healthcare sector, the "Oléane Santé Extranet" service was opened in May 2000, joining the Wanadoo Santé website for the healthcare community, "Liberalis" (an intranet for self-employed physicians) and the

Louise and Franck

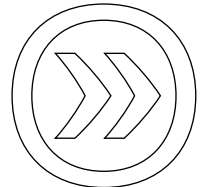
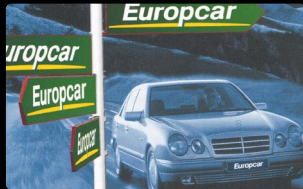
"It's always sunny somewhere!"

The unexpected adds spice to life. You wake up, look at it raining outside, then hear on the news that it's going to be sunny in the west of the country. So goodbye gray Paris for the weekend.

"When Franck said we weren't going to the movies but to the coast, I thought it was a joke."

"She didn't argue much! I just called the 3220 toll-free number, said "Europcar" and all we had to do was choose the type of convertible we wanted."

"And remember to pack our toothbrushes..."



"Egora" portal for healthcare professionals. With "Oléane Santé Extranet", clinics and hospitals can work with offsite healthcare professionals over secure networks.

Call centers are another area where businesses are increasingly seeking to outsource services. France Telecom has set up five Call Center facilities in the Paris region, Tours, Nantes and the Belgian city of Ghent. In 2000, the number of agent workstations at these centers rose from 400 to 2,000. The European call center market experienced vigorous 24-percent growth during the year. France Telecom contributed to this expansion by integrating technologies that transform facilities into full-fledged multimedia customer contact centers.

For companies that want to outsource all their telecommunications resources, France Telecom provides end-to-end support, covering audits, network supervision, network engineering, construction and operation, plus staffing. In addition to benchmarking studies, France Telecom can take over ownership of legacy assets, manage technology migrations and devise tailored financing solutions. Thomson Multimedia, for example, awarded France Telecom a contract to manage all its telecommunications resources in 28 countries around the world.

Simple and Efficient Services

A new billing system introduced in 2000 lets France Telecom's business customers consolidate billing and select billing periodicity. Xerox, for example, reduced its telecommunications bills from 200 to just five, while the Caisse d'Epargne savings bank in the Poitou region went from 600 to just a single bill! France Telecom also opened an Internet portal to provide a unified overview of its myriad business offerings (information, contacts, ordering,

billing, product support, etc.). Customers enter a single password to log into the "Web Entreprises" site and can then navigate seamlessly to all other France Telecom websites. Online ordering of products and services via the site was introduced in October.

Competitive rates

Telephone Rate Structures Tailored to Usage Profiles

Business telephone rates evolved to better match the needs and usage profiles of enterprises. Two rate cuts in 2000 resulted in an average decrease of nearly 6 percent

OPERATOR CUSTOMERS

At the end of 2000 a total of 128 licenses had been accorded to telecommunications operators in France. These competitors are also France Telecom's customers in a "carriers' carrier" market valued at three billion euros, above and beyond interconnection charges. A second carrier service center was inaugurated in Limoges for operator order fulfillment and support.

On January 17, 2000 France Telecom introduced carrier preselection for international and national long-distance calls, followed by calls from fixed-line phones to wireless phones. A one-stop shop for carriers offering preselection was opened in the French city of Besançon. Twenty-six operators proposed preselection services or were ready to launch offers at the end of 2000.

▶ High-Speed Regions

On December 7, 2000, France's Brittany region inaugurated "Megalis", the first regional high-speed service network in Europe. Ninety sites — educational institutions, regional government offices, hospitals, etc. — are already connected. The network offers numerous services developed by France Telecom R&D labs such as telemedicine, distance learning, high-definition videoconferencing, interactive multimedia and more.

In 2001, 90 sites in the Loire region will be connected to another high-speed infrastructure. All the cities in these regions and the businesses located there will have access to France Telecom high-bandwidth connections at attractive rates.

for local rates and almost 23 percent for domestic and international long-distance rates. The rate structure was also simplified by reducing the number of calling zones from five to three (local, wide area and domestic long-distance). Options adapted to the organization (single or multisite) of a business and to specific needs (volume discounts, etc.) are available with the "Avantage" range. Peak business rates now apply every day from 7 am to 10 pm and off-peak rates were lowered to enable cheaper fax and data calls outside business hours.

Costs For Data Services Continue to Decline

To get the most out of new applications, businesses need telecommunications infrastructures that provide more and more bandwidth. To support this trend, France Telecom continued to introduce significant rate cuts for digital leased lines, which dropped an average of 10 to 15 percent for subscriptions to circuits offering between 128 kbps and 1,920 kbps, and from 20 to 30 percent for circuits offering over 256 kbps of bandwidth. In 2001, additional reductions cut subscription costs an average of 11 percent for 128-kbps circuits, 10 to 15 percent for 2,048-kbps circuits and an average of 25 percent for 34-Mbps and 155-Mbps circuits.

Prices for high-speed private networks declined as well, as the total cost of the [ATM](#) High Speed service was cut by over 25 percent in mid-2000.

Broadcasting and multimedia

Terrestrial Broadcasting

France Telecom subsidiary TDF is the partner of choice for TV, radio, multimedia and broadcasting industry customers thanks to its tremendously broad and diverse range of expertise.

Canal+ and TDF signed a multiyear agreement in January 2000 for broadcasting and transport of the pay-TV channel's analog programming. Another channel, M6, renewed its confidence in TDF with a multi-year extension of its current broadcast services contract.

With support from France Telecom R&D, TDF continued trials of digital terrestrial broadcasting in Brittany in partnership with TV channels. It is also testing new broadcasting technologies to cover mountainous areas.

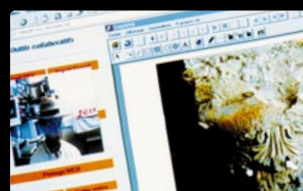
Radio France and TDF signed an agreement extending FM and AM broadcast services contracts for all Radio France programming, as well as new Digital Audio Broadcasting ([DAB](#)) content.

TDF subsidiary TV-Radio.com began operating in early 2000 and is the leading French Internet radio and TV broadcaster, with over 100 customer stations.

Outside of France, TDF designs, builds and manages broadcasting infrastructures for TV and radio stations, telcos and broadcast multimedia providers. With a focus on broadcast infrastructure services, TDF covers the entire signal transport chain, serving customers from Gibraltar to Lapland.



TDF'S EXPERTISE SPANS EVERYTHING FROM TV PRODUCTION, SHOOTING MOVIES AND RADIO BROADCASTING TO WIRELESS COMMUNICATIONS AND MULTIMEDIA INFORMATION SERVICES.





63
SATELLITES USED

2.4
MILLION KILOMETERS
OF FIBEROPTIC CABLE

TDF has operations in Spain, Poland, Estonia and Finland. Its Axion subsidiary began broadcasting programming for Spanish channels RTVA, Canal Sur and Canal Dos in 2000. In November 2000, TDF acquired a 49-percent stake in EBTC, the Estonian national broadcasting company and in December purchased 49 percent of Finnish national broadcaster Digita. At the request of the British government, TDF divested its stake in Crown Castle International Corporation (CCIC) following France Telecom's acquisition of a stake in NTL.

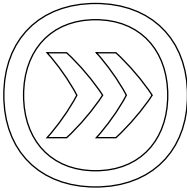
Multimedia for Enterprises

GlobeCast entered a new dimension in 2000 by integrating satellite-based Internet and multimedia in its portfolio of solutions. This France Telecom subsidiary provides end-to-end transmission and production services for video, audio and multimedia broadcasts, from and to any point on the globe. Satellite links feed ISP platforms and also enable direct connection of customers to the Internet. A new international broadcast contribution network was developed in 2000, based on France Telecom's terrestrial and submarine fiberoptic infrastructure. ■



Jean-Yves Empeur,
futuristic archeologist

"France Telecom R&D came to our rescue in the race between archeologists and property developers at the Alexandria digs. Their researchers visited the site to determine our needs and developed an array of tools including a touch-sensitive graphical tablet, a WAP portal and an intranet. We can communicate with all the digging sites by wireless high-speed videophones. We work with experts around the world, using clones and displaying objects in a virtual 3D environment. And our divers are using the world's first submarine GSM phones!"



Consolidated financial statements

Consolidated statements of income

(Amounts in millions of euros, except per share data)	Year ended December 31,		
	2000	1999	1998
Sales of services and products	33,674	27,233	24,648
Cost of services and products sold	(12,733)	(9,686)	(8,937)
Selling, general and administrative expenses	(9,685)	(7,341)	(6,115)
Research and development expenses	(449)	(593)	(658)
EBITDA ⁽¹⁾	10,807	9,613	8,938
Depreciation and amortization (goodwill excluded)	(5,726)	(4,885)	(4,584)
Operating income before special items, net	5,081	4,728	4,354
Special items, net	(225)	(238)	(379)
Operating income	4,856	4,490	3,975
Interest expense, net	(2,147)	(682)	(923)
Discounting of early retirement liability	(237)	(196)	(270)
Other non-operating income/(expense), net	3,957	767	860
Income taxes	(1,313)	(1,797)	(1,438)
Employees profit-sharing	(141)	(135)	(144)
Equity in net income of affiliates	(275)	259	189
Income before goodwill amortization and minority interest	4,700	2,706	2,249
Goodwill amortization	(1,092)	(136)	(82)
Minority interest	52	198	133
Net income	3,660	2,768	2,300
Earnings per share			
Net income	3.44	2.70	2.30
Fully diluted earnings per share	3.38	2.66	2.29

(1) EBITDA: operating income before "special items, net" and "depreciation and amortization"

See Notes to Consolidated Financial Statements.

Consolidated balance sheet

(Amounts in millions of euros)	Year ended December 31,		
	2000	1999	1998
ASSETS			
Cash and cash equivalents	2,040	2,424	2,042
Marketable securities	216	211	37
Trade accounts receivable, less allowances of € 1,070 in 1998, € 1,137 in 1999 and € 1,406 in 2000)	8,783	6,884	5,688
Inventories	1,216	621	420
Prepaid expenses and other current assets	4,782	2,676	1,785
Deferred income taxes	1,609	677	551
Total current assets	18,646	13,493	10,523
Intangible assets	52,338	2,131	1,518
Property, plant and equipment	34,623	28,964	26,577
Investments accounted for using the equity method	10,506	1,066	956
Investment securities	10,218	5,673	3,738
Other long-term assets	722	443	471
Deferred income taxes	2,532	2,285	2,375
Total long-term assets	110,939	40,562	35,635
Total assets	129,585	54,055	46,158
LIABILITIES AND SHAREHOLDERS' EQUITY			
Bank overdrafts and other short-term borrowings	25,165	2,479	1,302
Current portion of long-term debt	7,542	2,551	1,764
Trade accounts payable	7,618	5,330	4,085
Accrued expenses and other payables	7,729	4,208	3,480
Deferred income	1,946	1,130	960
Deferred income taxes	512	495	133
Other current liabilities	8,113	1,175	557
Total current liabilities	58,625	17,368	12,281
Long-term debt, less current portion	30,547	12,233	12,080
Pension plans and other long-term liabilities	5,220	4,182	4,027
Total long-term liabilities	35,767	16,415	16,107
Minority interest	2,036	1,369	779
Share capital - € 4 par value - Authorized and issued: 1,153,831,943 shares effective December 31, 2000	4,615	4,098	3,905
Additional paid-in capital	24,228	6,629	6,629
Retained earnings	2,748	5,255	4,172
Net income for the year	3,660	2,768	2,300
Foreign currency translation adjustment	59	153	(15)
Own shares	(2,153)	-	-
Shareholders' equity	33,157	18,903	16,991
Total liabilities and shareholders' equity	129,585	54,055	46,158

Consolidated statements of cash flow

(Amounts in millions of euros)	Year ended December 31,		
	2000	1999	1998
OPERATING ACTIVITIES			
Net income	3,660	2,768	2,300
Adjustments to reconcile net income to funds generated from operations			
Depreciation and amortization of property, plant and equipment and intangible assets	6,818	5,021	4,666
Gain on disposal of assets	(7,700)	(596)	(657)
Changes in valuation allowances and other provisions	4,113	79	544
Undistributed earnings of affiliates	276	82	(182)
Deferred income taxes	(277)	297	177
Minority interest	(52)	(198)	(133)
Other items	25	29	(3)
Funds generated from operations	6,863	7,482	6,712
Decrease (increase) in inventories	(329)	(176)	(20)
Decrease (increase) in trade accounts receivable	(978)	(780)	(217)
Decrease (increase) in other receivables	(1,372)	(668)	614
Increase (decrease) in trade accounts payable	936	1,084	(7)
Increase (decrease) in accrued expenses and other payables	1,493	1,167	50
Change in other operating assets and liabilities	(250)	627	420
Net cash provided by operating activities	6,613	8,109	7,132
INVESTING ACTIVITIES			
Purchase of property, plant, and equipment and intangible assets	(14,313)	(5,001)	(4,660)
Cash paid for Orange plc	(21,693)	-	-
Cash paid for investments securities and acquired businesses, net of cash acquired	(10,899)	(2,502)	(1,906)
Investments in affiliates	(7,969)	(302)	(151)
Proceeds from sale of investment securities and businesses, net of cash sold	7,930	720	1,055
Proceeds from sale of assets	274	150	163
Decrease (increase) in marketable securities and other long-term assets	(218)	288	480
Net cash used in investing activities	(46,888)	(6,647)	(5,019)

(Amounts in millions of euros)	Year ended December 31,		
	2000	1999	1998
FINANCING ACTIVITIES			
Issuance of long-term debt	21,528	1,088	5,530
Repayment of long-term debt	(3,229)	(2,389)	(3,506)
Increase (decrease) in bank overdrafts and short-term borrowings	21,002	1,092	(3,372)
Increase in capital share	-	-	1,464
Minority interest shareholder contributions	1,847	199	414
Dividends paid to minority shareholders	(213)	(71)	(8)
Appropriation of net income	(1,025)	(1,025)	(991)
Net cash provided by (used in) financing activities	39,910	(1,106)	(469)
Net increase (decrease) in cash and cash equivalents	(365)	356	1,644
Effect of changes in exchange rates on cash and cash equivalents	(19)	26	(17)
Cash and cash equivalents at beginning of period	2,424	2,042	415
Cash and cash equivalents at end of period	2,040	2,424	2,042
SUPPLEMENTARY DISCLOSURES			
<i>Cash paid during the period for:</i>			
• Interest	2,132	1,001	1,159
• Income taxes	1,771	1,106	946

Consolidated statements of changes in shareholders' equity

(Amounts in millions of euros except per share data)	Number of shares issued	Share capital	Additional paid-in capital	Retained earnings	Foreign currency translation adjustment	Own shares	Total
Balance at January 1, 1998	1,000,000,000	3,811	5,259	5,164	52	0	14,286
Net income for the year 1998				2,300			2,300
Increase in capital (see note 14)	24,614,561	94	1,370				1,464
Appropriation of net income				(991)			(991)
Translation adjustment				(1)	(67)		(68)
Balance at December 13, 1998	1,024,614,561	3,905	6,629	6,472	(15)	0	16,991
Net income for the year 1999				2,768			2,768
Increase in capital (see note 14)	1,340	193		(193)			0
Movements in holdings of own shares				1			1
Appropriation of net income				(1,025)			(1,025)
Translation adjustment					168		168
Balance at December 13, 1999	1,024,615,901	4,098	6,629	8,023	153	0	18,903
Net income for the year 2000				3,660			3,660
Increase in capital (see note 14)	129,216,042	517	17,599				18,116
Holdings of own shares (see note 14)						(2,153)	(2,153)
Adjustment on Orange plc acquisition cost (see note 3)				(4,335)			(4,335)
Appropriation of net income				(1,025)			(1,025)
Translation adjustment					(94)		(94)
Autres mouvements				85			85
Balance at December 13, 2000	1,153,831,943	4,615	24,228	6,408	59	(2,153)	33,157



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Internet (Interconnected Networks)

The system comprising all networks interconnected using the Internet Protocol (IP). The Internet supports access to databases, email, file downloading and newsgroups, for example.

Intranet A private network based on Internet software and standards reserved for use by members of an organization.

IP (Internet Protocol) The data transmission standard on which the Internet is based. It defines the way in which information packets are structured for routing on the Web.

ISDN (Integrated Services Digital Network) An end-to-end digital communications network able to transmit video, audio and data. The world's first ISDN infrastructure was deployed in France in 1987 with the brand name Numeris.

ISP (Internet Service Provider) A company that provides access for customers to the Internet. In addition to connection, ISPs often offer additional services such as email accounts and portals containing a variety of information (news, weather, etc.). Wanadoo is an ISP.

ITU International Telecommunications Union. An organization of governments and telecommunications operators that allocates radio frequency spectrum and defines standards.

MAN (Metropolitan Area Network) A high-speed fiberoptic intra-city network used to provide businesses with very-high-speed links

Marketplace: A website that acts as an intermediary between businesses, proposing services such as identification of potential partners, bids, e-commerce or Internet payment.

NGN (Next Generation Network): A future network that is expected to offer converged Internet and telephony services.

Outsourcing Contracting out of a company's information systems management functions to a specialist supplier.

Portal A Web page with links to a variety of services such as directories, search engines, email, online merchants, news, etc.

Serveur A computer that makes resources (data, software, etc.) available to other computers ("clients") over a network.

SMS (Short Message Service) A service for sending alphanumeric messages to or from GSM mobile handsets.

Streaming Step-by-step processing of data, such as audio or video delivered via the Internet.

Switch (telephone switch): The device that sorts and routes calls to connect them.

UMTS (Universal Mobile Telecommunications System) A third-generation wireless communications system capable of supporting very-high-speed mobile multimedia services.

Videotelephony A call that transmits real-time video along with voice.

VPN (Virtual Private Network): A private communications network dedicated entirely to a company that runs over an infrastructure shared with other companies.

WAP (Wireless Application Protocol) A new wireless telephony protocol that transforms a wireless handset into a mobile Internet and multimedia device.

WDM/DWDM (Wavelength Division Multiplexing / Dense Wavelength Division Multiplexing) A technique that lets a single optical fiber simultaneously carry multiple channels of digital information.

WEB Abbreviation of World Wide Web, the multimedia interconnected networks that make up the Internet.

ADSL (Asymmetric Digital Subscriber Line) A transmission technology that transforms existing copper wires from the subscriber's premises to the central office switch into an "always on" high-bandwidth line for high-speed Internet access while leaving the line available for conventional voice telephone calls.

ATM (Asynchronous Transfer Mode) A very high-speed transmission technology for transporting voice, data and video in digital format.

Bit (Binary digit) The smallest unit of information (data) a computer can process. One kilobit per second (kbps) = 1,000 bits transmitted per second. One megabit (Mbit) = 1,000 kilobits. One gigabit (Gbit) = 1,000 megabits. One terabit (Tbit) = 1,000 gigabits.

Chat Messaging via Internet forums enabling real-time exchanges with other users. A chat room is an online space where two or more people can meet.

DAB (Digital Audio Broadcasting) Radio broadcasting using digital modulation, significantly increasing frequency band capacity while enhancing reception quality.

Digital Unlike analog representations, digital information æ sound, text or video æ is coded in binary form, in a series of 1s and 0s. It is easier to transmit information in digital format

EBN (European Backbone Network) France Telecom's seamless high-speed pan-European network. The backbone network is the central infrastructure which interconnects with the access network.

e-commerce Abbreviation of electronic commerce. Transactions (ordering and payment) that are either completely or partially carried out online.

Ethernet The most widely used standard for local area networks (networks that link the workstations within a company). Fast Ethernet and Giga Ethernet are very-high-speed versions of Ethernet.

Extranet An Intranet-like network that a company makes available to employees, customers and suppliers. These networks are an indispensable part of e-business.

GPRS (General Packet Radio Service) A second-generation wireless telephone standard that supports direct mobile Internet access and data rates that are 18 times greater than GSM, and enables volume-based rate structures.

GPS (Global Positioning System) A system that enables a vehicle or a person to locate their position anywhere on the earth to within 50 meters. The system functions using a constellation of 24 satellites operated by the U.S. government.

GSM (Global System for Mobile Communications) The digital cellular telephone standard used across Europe which operates in the 900 MHz and 1800 MHz frequency bands.

Intelligent Network (IN) With an IN, telephone services (toll-free numbers, for example) are implemented by dedicated computers, as opposed to phone switches.

Interconnection Connection of two independent networks, such as the networks of other telecommunications operators in France and the France Telecom network.