

# annual report 2002

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# close to people, responsible and innovative\_

—France Telecom is always close to its customers. In 2002 we served 111.7 million customers around the world. We now have more wireless customers – 49.9 million in 20 countries – than customers of fixed-line services (49.5 million). Our Internet businesses added 2.5 million customers, with one million coming from the acquisition of eresMas.

—France Telecom respects its commitments. Wireless, Internet and international operations are driving the group's growth. Our revenues are up 8.4 percent and our operating income surged 30.9 percent. With strengthened corporate governance we are mobilizing at every level to restore our financial health.

—France Telecom innovates in every market. Behind the numbers is the passion of the people who put technology to work every day to make life better and business more efficient. This report presents their achievements and shows why they are the key to our recovery.

# “Regain control over our future\_

**Thierry Breton**

Chairman and  
Chief Executive Officer  
of France Telecom

**France Telecom experienced a singular year in 2002.**

**What is your assessment?**

— My assessment is positive with regards to our operating performance, but the year definitely merits a black mark given the net loss. It will prove to be a turning point in the history of our group, the year when we initiated the financial and operational recovery that will let us get a fresh start from healthy foundations.

**What about the operating results?**

— They were good. Revenues were up 8.4 percent, in line with forecasts. This growth was led by Orange, which posted a 12.8-percent rise in revenues, and by Wanadoo, whose revenues climbed 32.4 percent. France is now number two in Europe in broadband Internet access and our share of the fixed-line telephony market has stabilized following an offensive by competitors in the local loop segment. France Telecom ended 2002 with over 110 million customers and consolidated EBITDA of 14.9 billion euros. These results reflect strong acceleration in the fourth quarter, underscoring France Telecom's ability to rebound and mobilize.

**What was the situation when you arrived?**

— For two months a group of independent experts carried out an in-depth review of the entire enterprise. The results were contrasted. The most striking element in terms of liabilities is obviously our debt load. At the end of 2002, under French accounting principles, our net debt stood at 68 billion euros. We are paying the price of acquisitions that were made over a very short period of time in 2000 when stock prices were at their pinnacle. This means that substantial amounts, totaling about 50 billion euros, will come due between now and the end of 2005.

**Does this mean that the group's difficulties all revolve around its debt?**

— No. Another weak point, for example, is the excessively fragmented organization, which did not let the group take maximum advantage of potential synergies across different businesses. Furthermore, corporate governance procedures proved increasingly ill-suited to the needs of a fast-growing enterprise. So we have substantial room for improvement in these areas.

**What positive factors did the review identify?**

—We are one of the top companies in Europe in terms of EBITDA. We're a leader in extremely buoyant markets and we're one of the rare enterprises in our industry in a position to truly unlock synergies among these markets. We can also count on an extremely talented and skilled workforce, characterized by excellent responsiveness, as reflected in our fourth-quarter results. This capacity for mobilization requires only clear direction and an efficient organization to maximize its impact. The Ambition FT 2005 plan establishes this context, along with the new management structure I instituted two months after joining the group.

**Tell us a little more about this program.**

—Ambition FT 2005 aims to loosen the financial vise that has gripped our group and let us regain control over our future. This is the objective of what we call the "15+15+15" plan. We are mobilizing at every level of the group through a hundred TOP program projects in order to generate 15 billion euros in free cash flow from operations used to pay down debt over the coming three years. These projects have been launched and concern both operating units and horizontal initiatives such as reducing general expenses and capital expenditures, a more efficient purchasing policy, rationalizing support functions, and eliminating overlap for marketing and R&D, among other measures.

A second tranche of 15 billion euros comes from refinancing our debt through bond issues. In the weeks following the announcement of our plan we successfully launched two series of bonds for a total of nearly 9 billion euros, including one tranche with a 30-year maturity. Our immediate priority, refinancing debt that comes due in 2003 and 2004, has thus been largely achieved.

On the strength of a credible recovery strategy and relieved of the immediate financial weight that hampered us, we are thus able to increase our shareholders' equity by 15 billion euros, with the French state having declared its intention to subscribe its share of the issue. This plan will be implemented under the stewardship of a new management team. Each TOP project will be overseen by a member of the new executive committee. Furthermore, management responsibility for





the income statement, cash flow and certain balance sheet items is now the rule. The new corporate governance rules are designed to enable the Board of Directors of France Telecom to fully exercise its role.

**With the team and methods now in place,  
what are your immediate priorities?**

—The next three years will be guided by prudent and realistic management. My absolute priorities are customer satisfaction, quality of service, generating cash flow and profitability.

France Telecom has a tremendous advantage in that we are a full-service operator, truly able to integrate the full spectrum of technologies and services. We have leadership positions in wireless, the Internet, fixed-line services and business services. Experience clearly shows that these different telecommunications resources are not substitutes: broadband and dial-up access, fixed and wireless, national and local networks all complement one another. Being an integrated, full-service operator lets us combine the strengths of our different networks to bring our customers the benefits of technologies and services that are both diversified and complementary. The ability to provide customers with the same personalized communications environment by adapting it to different devices creates enormous growth potential. Integration also means drawing on our combined expertise to maximize the inherent efficiencies created by complementary services, especially in research and development. R&D is another major asset for France Telecom. With 3,000 researchers and engineers, our R&D teams are constantly driving innovation to make life simpler and easier for our customers. We aim to better unlock the value of this asset and our portfolio of intellectual property rights. Our labs are shaping the cutting edge of trends in everything from high-speed networks and network security to WiFi and broadband Internet, and they will spearhead the group's renaissance.

Like all enterprises in the technology and service industries, France Telecom obviously operates in an open world. This is why our R&D initiatives are accompanied by a proactive policy of partnerships spanning innovation and content in all strategic areas where our group alone cannot achieve critical mass. This is something that I will personally oversee.

## “France Telecom is clearly a good investment for the future”

France Telecom is a “global” operator in terms of its comprehensive mix of businesses, but what about in terms of worldwide presence?

—Our strategy does not require a presence across the entire world. We will focus on national markets where we can leverage the strong image of our brands – France Telecom, Orange, Wanadoo and Equant. In other countries we will maintain operations provided that our subsidiaries record positive EBITDA in 2003 and positive cash flow in 2004. Equant, on the other hand, serves multinational corporate customers across the globe. This is an asset we aim to develop, while closely tracking profit performance.

### What is your vision of France Telecom for 2005?

—We will be an enterprise that cultivates excellence and offers the most innovative, high-performance services for its customers. By 2005 France Telecom will have regained control over its future and will return to its legitimate position as one of the world’s top telecommunications operators. Having refocused on what we do best, and with fresh financial resources, we will continue to deploy an impressive array of assets in multiple businesses, but they will be better unified in a coherent entity. Our technologies, products and services will be more customer-centric than ever, backed by the excellence and commitment of our people. This is what you, our shareholders, expect, and you can count on my determination and my commitment to make this vision a reality. Our group has in the past demonstrated its ability to meet challenges. The Ambition FT 2005 plan is the roadmap to meeting the challenges we face today. We are a powerful, innovative enterprise in a good position to seize opportunities in a market that is enjoying structural growth. France Telecom is clearly a good investment for the future. I am wholeheartedly convinced that the financial markets, which have already given our plan a favorable reception, will recognize the potential of our enterprise and value us accordingly.

Paris, March 21, 2003



# Ambition 2005

France Telecom launched the Ambition FT 2005 plan to regain control of its future and provide the resources needed to impact directly on its recovery. Our objective is to be one of the top-performing operators in Europe by 2005

To regain the confidence of financial markets, France Telecom had to regain control over its future.

Following a meticulous and detailed review, in January 2003 we kicked off a plan to boost our performance called TOP, for Total Operational Performance. This plan is ambitious yet realistic. It aims to provide 15

billion euros in free cash in three years to reduce our debt. With this plan, the company itself is committed to making financial contributions comparable to those we are asking our shareholders to make. At the same time, the rescheduling of our bond debt is well under way. A new management team is in place to oversee these initiatives.

This commitment lets us return to financial markets for additional resources to fuel our development.

## an in-depth review

Upon his arrival at France Telecom, Thierry Breton commissioned an in-depth review of the group by a team of independent experts. For two months between 120 and 150 specialists held numerous meetings with France Telecom managers. They created a database of over 3,000 documents covering the various aspects of the existing situation – legal, accounting and fiscal, financial, regulatory, operational, human resources and mergers and acquisitions.

On December 4, 2002 the main conclusions of the review were presented to the France Telecom Board of Directors. The company amassed a huge amount of debt during the first half of 2000 in order to regain international positions following the break with Deutsche Telekom. Our external growth cost a total of 100 billion euros. Given the legal requirement that the French government retain a majority stake in the company, coupled with the bursting of the Internet bubble, about 80 percent of this amount had to be paid in cash. This resulted in a debt load of 70 billion euros, of which 50 billion was due in 36 months.

The company's operating performance was satisfactory but showed room for improvement, particularly in terms of capital expenditures. The same was true for the organization. These avenues of progress will enable the company to rebound with the TOP plan.

The bottom line is that our group is extremely competitive. Our operational potential is intact, we hold leadership positions and we have powerful brands in France Telecom, Orange, Wanadoo and Equant. Our ability to meet major challenges – technical in the past, financial and management-related today – remains our strongest asset.

# ambitious vision for 2005

## “15+15+15” plan

**Under the stewardship of a completely revamped management team leading a streamlined organization, the Ambition FT 2005 plan comprises three components.**

- The TOP program to boost operational performance aims to generate over 15 billion euros in free cash flow, which will be used to reduce debt.
- The “15+15+15” plan, which will strengthen the group's financial structure. In addition to the 15 billion euros from the TOP initiative, shareholders' equity will be increased by 15 billion euros, and another 15 billion euros will come from refinancing of current debt. All three actions will be pursued concurrently in order to bring the debt/EBITDA ratio to between 1.5 and 2 by 2005, thus increasing the group's financial margins of maneuver.
- A strategy focused on customer satisfaction and integrated operational management of the assets underpins the group's leadership. Assets characterized by weak strategic or financial positions or those for which majority control is not possible will be divested. We will also pursue strategic partnerships in areas outside our core activities or those where we cannot achieve critical mass.

## TOP program

### 15 billion euros to reduce debt

Returning France Telecom to a healthy financial position begins with improving operational performance. These improvements are expected to generate over 15 billion euros in free cash flow for the period 2003-2005. This amount will be used to pay down debt. About 20 percent to 25 percent of the additional cash generated by improved operational performance is expected in 2003, followed by 35 percent to 40 percent in 2004, and 35 percent to 40 percent in 2005. For the period 2003-2005 the main source of savings will be the reduction and optimization of investments, representing 40 to 45 percent of the savings in the TOP program. A further 35 to 40 percent will come from cuts in operating costs, while optimization of working capital requirements will account for 20 to 25 percent of the total. The majority of savings in 2003 will concern optimization of investments and working capital requirements, given the lead time required to deploy initiatives to lower operating expenses. Additional free cash flow for the 2003-2005 period will be generated primarily from fixed-line activities in France (40 to 45 percent) and by Orange (35 to 45 percent). The contribution from fixed voice and data activities outside France will represent approximately 12 to 17 percent and Wanadoo will account for less than 3 percent of the total savings.

### 100 projects

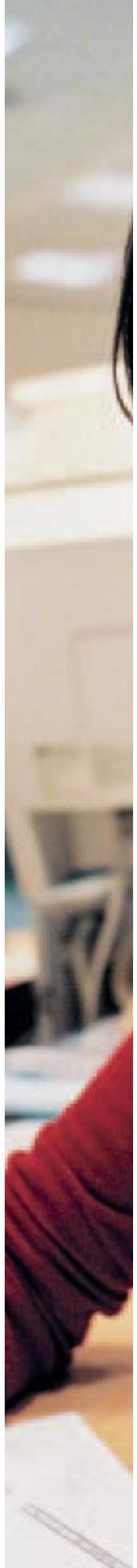
The entire enterprise mobilized to execute the Ambition FT 2005 plan as soon as it was announced. Each member of the Executive Committee is responsible for a program, which in turn encompasses a hundred distinct projects.

Certain of these projects will be defined and implemented by the operating divisions: Corporate Solutions, Fixed-line Services and Distribution France, Networks and Operators, International, Orange and Wanadoo.

Other cross-functional corporate projects will impact the entire group. These include purchasing, capital expenditure, general expenses, working capital, information systems, research and development, marketing expenses and the reorganization of support functions (finance, legal affairs, human resources and communications).

All 100 projects had been launched by the end of February 2003, with clearly defined objectives and project leaders.

The detailed 2003 action plans for each project have been defined, with priority placed on those actions capable of delivering near-term results.



## purchasing policy

Purchasing represents substantial amounts and has a strategic impact on our activities, making this a key focus for progress. More global, rational purchasing and efforts to unlock synergies will thus make a decisive contribution to enhanced profitability.

The group began to deploy a new purchasing policy in 2002, leading to a series of concrete actions including formation of a corporate purchasing steering committee, establishment of corporate-level relationships with major suppliers, negotiation of groupwide contracts, structuring of purchasing team networks, creation of new communications, training and performance measurements.

The **TOP program** identifies purchasing as a key priority and one of the prime sources for generating additional free cash flow. Purchasing is managed by a central department responsible for the entire group. This will amplify progress under way from initiatives launched in 2002.

### Strengthening shareholders' equity

The group ended 2002 with negative consolidated shareholders' equity, making a 15-billion-euro injection of fresh funds indispensable. As majority shareholder, the French state will contribute 9 billion euros, corresponding to its ownership stake. The measures planned by the state have been communicated to the European Commission, in compliance with EU rules.

### Debt refinancing

France Telecom will reschedule its bond repayment schedule for the 2003-2005 period. On January 15, 2003 it raised 5.5 billion in three tranches, including 4.5 billion euros with maturities of 10 years or more. Combined with liquidities available at end-2002, this provides more than ample resources to refinance borrowings scheduled for repayment in 2003 and 2004.

### New management team

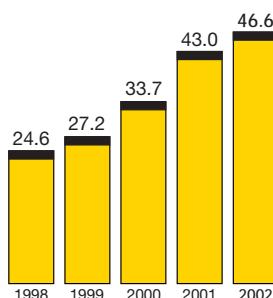
A new 16-member executive committee has been named to guide successful implementation of the Ambition FT 2005 plan. This strengthened executive team reflects a commitment to reducing the number of reporting levels to bring management closer to operations. In addition to operational and support functions, four corporate-level initiatives are being steered at the executive committee level: the Financial Rebalancing Program ("15+15+15"); Technologies, Strategic Partnerships and New Services; Marketing and Branding; and Development and Optimization of Human Competencies.

These four strategic cornerstones will make France Telecom one of the top-performing operators in Europe by 2005.

# Consolidated financial data

In 2002 France Telecom recorded an accelerated increase in operating income, spurred by growth in new businesses and international activities, coupled with the resilience of fixed-line telephony in France.

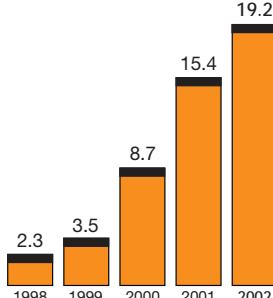
**CONSOLIDATED REVENUES**  
(in billions of euros)



In line with forecasts

Revenue growth of 8.4 percent in 2002 was in line with forecasts. The group continues to expand despite the economic slowdown.

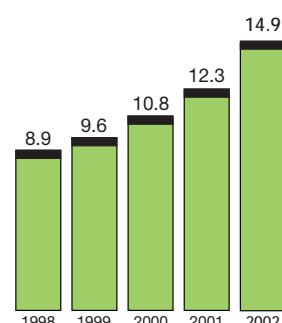
**REVENUES OUTSIDE FRANCE**  
(in billions of euros)



Contribution from Poland

The consolidation of the incumbent Polish operator pushed up revenues from operations outside France despite the sale of non-strategic assets.

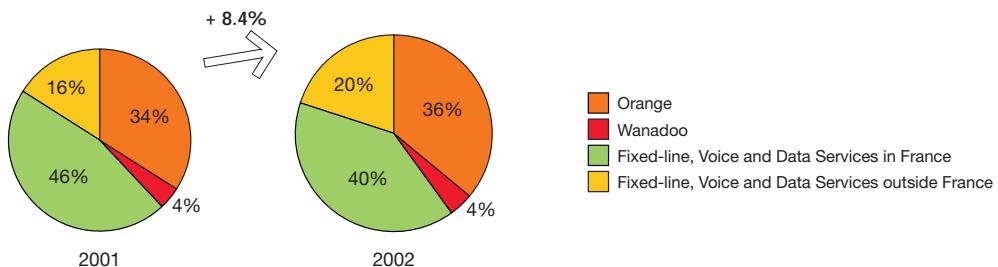
**EBITDA**  
(in billions of euros)



Good operating performance

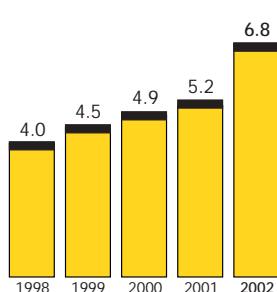
Wireless, Internet and international activities drove EBITDA growth, more than offsetting the decline in fixed-line services in France.

**REVENUES BY BUSINESS SEGMENT**



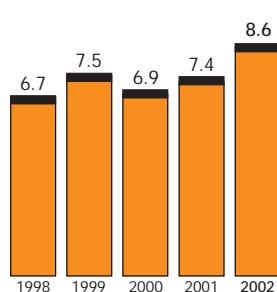
positive momentum also flowed through to a strong increase in operating free cash flow. All efforts are now focused on reducing our debt.

EBIT  
(in billions of euros)



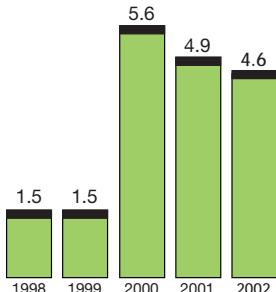
Growth in excess of 30 percent  
Positive operating performance  
coupled with control over amortizations and provisions pushed EBIT to the highest level in five years.

CASH FLOW  
(in billions of euros)



Rise in cash flow  
After remaining stable for several years, funds from operations were up significantly, reflecting improvement in the group's operating performance.

NET DEBT/EBITDA

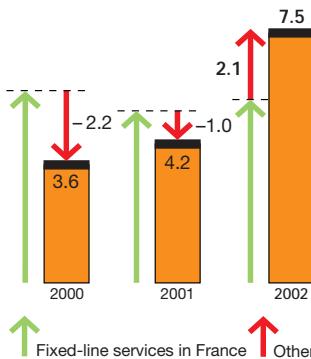


Debt reduction in progress  
The net debt/EBITDA ratio improved by 0.3 points. Following the significant investments made in 2000, debt reduction is a fundamental priority for the group.

NET LOSS BEFORE  
MINORITY INTERESTS  
20.7 billion euros

Impact of exceptional items  
Consolidated net income was significantly impacted by non-recurring provisions and goodwill amortizations. The latter totaled 18.2 billion euros.

OPERATING FREE  
CASH FLOW  
(in billions of euros)



Strong growth  
The increase in EBITDA and the reduction in tangible and intangible investments, excluding the cost of wireless licenses, resulted in an increase in free cash flow of nearly 77 percent. For the first time all group activities contributed to operating free cash flow.

# Operating highlights

Wireless, Internet and international businesses are driving France Telecom's growth. We now have more wireless than fixed-line customers \_

**EMPLOYEES**  
(full-time equivalent at December 31)

**240,145**  
(+16.5%)

GROUP

**141,061**  
(-2.9%)

FRANCE

**CUSTOMER BASE**  
(millions)

**111.7**

WORLDWIDE

**+21.8%**

8.4 million additional customers in 2002 at constant size. We added 2.7 million customers during the fourth quarter alone

**TOTAL CUSTOMERS OF COMPANIES IN WHICH FRANCE TELECOM HAS A CONTROLLING INTEREST**  
(thousands of customers)

	2001	2002	%
Wireless	43,184	<b>49,880</b>	+15.5
Internet	6,337	<b>10,108</b>	+59.5
Fixed-line	39,976	<b>49,467</b>	+23.7
Cable TV	2,175	<b>2,222</b>	+2.2
Total	91,672	<b>111,676</b>	+21.8

**CABLE TV SUBSCRIBERS**  
(millions)

**2.2**

FRANCE + NETHERLANDS

**+2.2%**

Additional broadband channel / The group divested part of its cable networks in early 2003. These networks provide a complement to ADSL broadband Internet services.

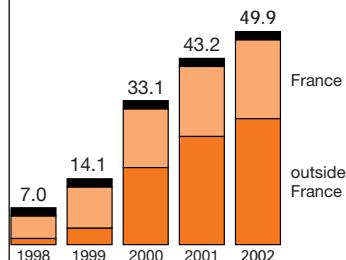
**TOTAL CUSTOMERS OF COMPANIES IN WHICH FRANCE TELECOM HAS A CONTROLLING INTEREST**  
(thousands of customers)

Cable TV	2001	2002	%
France	824	<b>854</b>	+3.7
Europe (excl. France)	1,351	<b>1,367</b>	+1.2
Total	2,175	<b>2,222</b>	+2.2

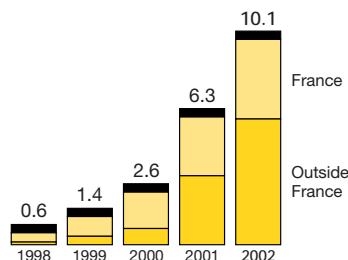
## wireless

## internet

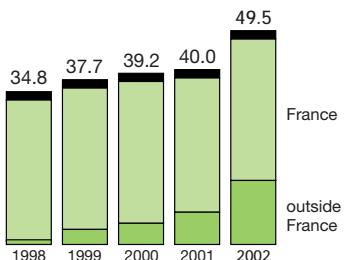
## fixed



INCREASE IN CUSTOMER BASE (millions)



INCREASE IN CUSTOMER BASE (millions)



INCREASE IN CUSTOMER BASE (millions)

TOTAL CUSTOMERS OF COMPANIES IN WHICH FRANCE TELECOM HAS A CONTROLLING INTEREST (millions)

**49.9**  
WORLDWIDE

**+15.5%**

Refocus on key markets / Following explosive growth in recent years we are emphasizing average revenue per user.

TOTAL ACTIVE SUBSCRIBERS (millions)

**10.1**  
WORLDWIDE

**+59.5%**

Profitable growth / Continuous expansion in the number of active Internet subscribers has been spurred by the success of broadband, a source of higher revenues.

TOTAL CUSTOMERS OF COMPANIES IN WHICH FRANCE TELECOM HAS A CONTROLLING INTEREST (millions)

**49.5**  
WORLDWIDE

**+23.7%**

Accelerated international business / Facing fierce competition, the group limited losses in the French market thanks to attractive offers, while benefiting from growth in Poland.

TOTAL CUSTOMERS OF COMPANIES IN WHICH FRANCE TELECOM HAS A CONTROLLING INTEREST (thousands of customers)

Wireless	2001	2002	%
France	17,823	<b>19,216</b>	+7.8
Europe (excl. France)	20,520	<b>26,718</b>	+30.2
Rest of World	4,841	<b>3,946</b>	-18.5
Total	43,184	<b>49,880</b>	+15.5

TOTAL CUSTOMERS OF COMPANIES IN WHICH FRANCE TELECOM HAS A CONTROLLING INTEREST (thousands of subscribers)

Internet	2001	2002	%
France	3,001	<b>3,924</b>	+30.8
Europe (excl. France)	3,128	<b>6,099</b>	+95.0
Rest of World	208	<b>85</b>	-59.1
Total	6,337	<b>10,108</b>	+59.5

TOTAL CUSTOMERS OF COMPANIES IN WHICH FRANCE TELECOM HAS A CONTROLLING INTEREST (thousands of subscribers)

Fixed	2001	2002	%
France	34,151	<b>34,066</b>	-0.2
Europe (excl. France)	2,516	<b>13,823</b>	+449.4
Rest of World	3,308	<b>1,578</b>	-52.3
Total	39,976	<b>49,467</b>	+23.7

14 an exemplary **corporate citizen**

16 corporate governance

20 investor information

22 human resources

24 corporate citizenship

**to meet our commitments**, the entire group is mobilizing. Building on stronger corporate governance we are making every effort to ensure the transparency our investors expect and to provide our people with the resources to boost their performance. Our business initiatives are accompanied by a proactive commitment to protecting the environment and to broad social responsibility.

an exemplary  
corporate



play  
citizen.

# A stronger role

## More efficient corporate governance, a new management team and a new organization are pivotal to regaining control over our future

We have instituted a new approach to corporate governance and simplified organizational structures. This spans tighter internal tracking and control procedures, more efficient centralization of information and decision procedures, and more direct involvement by board members.

### Significant changes in board makeup

At December 31, 2002, the Board of Directors of France Telecom comprised 13 members representing the French state, seven members elected by employees and a single member elected by the annual meeting of shareholders. This distribution corresponded to a transitional phase. At its meeting on December 19, 2002, chaired by Thierry Breton, the board approved resolutions to be submitted to the combined ordinary and extraordinary general meeting of shareholders on February 25, 2003, calling for a significant increase in the number of board members elected by the meeting of shareholders. Following this meeting the board continues to have 21 members, but seven have been named by the shareholders' meeting, seven by the French state and seven elected by employees.

France Telecom CEO Thierry Breton, who was initially named to the board as a representative of the French state, was elected to the board by the general meeting of shareholders on February 25, 2003. Jean Simonin, who had already been elected to the board by the annual general meeting of shareholders on June 21, 2000, and five other business leaders were also elected by the shareholders' meeting on February 23, 2003:

- Bernard Dufau, Strategy Consultant;
- Arnaud Lagardère, Co-Chairman of Lagardère SCA;
- Henri Martre, Honorary Chairman of the European Association of Aerospace Engineers;
- Stéphane Richard, Member of the Supervisory Board of Vivendi Environnement;
- Marcel Roulet, Honorary Chairman of France Telecom and former Chairman of Thomson.

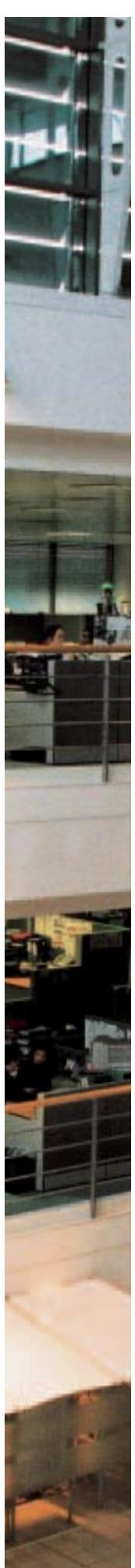
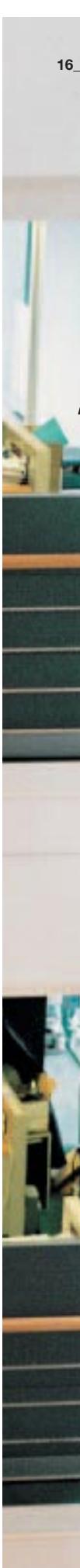
In addition to these changes in board membership, the new Chairman and CEO also initiated other actions to strengthen the contribution by the France Telecom board of directors to sound corporate governance. In 2002 the board of directors met 11 times, including five meetings chaired by Thierry

Breton in the last three months of the year. The board will also enact rules of conduct for members in 2003.

### New committees to advise Board of Directors

To assist the Board of Directors in pursuing exemplary corporate governance, three new committees have been formed: the Strategy Committee, the Compensation Committee, and the Selection and Organization Committee. These three committees join the Audit Committee.

The Audit Committee, created in 1997, reviews all finance or accounting-related issues, including half-year and full-year financial statements, accounting procedures and internal audits. It took part in the work of the Selection Committee, which will oversee the appointment of France Telecom's statutory auditors, and will submit a recommendation on the appointment of the auditors to the French finance minister. At March 1, 2003, the Audit Committee was composed of Jacques de Larosière (chairman), Yannick d'Escatha and Jean-Pierre Jouyet. The Audit Committee met 19 times in 2002.





## Board of Directors

as of March 1, 2003

### Directors elected by the Shareholders' Meeting

**Thierry Breton**  
Chairman and Chief Executive Officer of France Telecom

**Bernard Dufau**  
Strategy Consultant

**Arnaud Lagardère**  
Co-Chairman of Lagardère SCA

**Henri Martre**  
Honorary Chairman of the European Association of Aerospace Engineers

**Stéphane Richard**  
Member of the Supervisory Board of Vivendi Environnement

**Marcel Roulet**  
Honorary Chairman of France Telecom

**Jean Simonin**  
Former Managing Director, France Telecom Residential Customer Sales Office, Toulouse

### Directors representing the French State

**Alain Costes**  
Director of Technology, French Ministry of Research

**Pierre-Mathieu Duhamel**  
Budget Director, French Ministry of the Economy, Finance and Industry

**Yannick d'Escatha**  
President, CNES

**Pierre Gadonneix**  
Chairman, Gaz de France

**Jean-Pierre Jouyet**  
Treasury Director, French Ministry of the Economy, Finance and Industry

**Jacques de Larosière**  
Advisor to Chairman of BNP Paribas

**Henri Serres**  
Central Director of Information Systems Security, French Ministry of Defense

### Directors elected by employees

**Alain Baron**

**Monique Biot**

**Michel Bonneau**

**Michelle Brisson-Autret**

**Jean-Claude Desrayaud**

**René Dupuy**

**Jean-Michel Gaveau**

## Total management commitment to success of the **TOP program**

### **Increased responsibility**

Corporate governance will be improved by a reduction in the number of management and reporting levels, coupled with greater direct responsibility for managers. Managers' performance will be regularly tracked based on the income statement, cash flow and certain balance sheet items under their responsibility. There will also be more efficient coordination of teams in key areas such as technology, customer relations and regulatory issues.

In addition to the annual budget, half-year reporting will be instituted, along with more proactive deployment of motivating compensation systems.

### **New Executive Committee**

The Executive Committee has been completely revamped. There are now 17 members, whose average age is 47. The Executive Committee is structured to drive the success of the TOP program, the details of which are presented in this report. Each member of the Executive Committee is directly responsible for specific TOP projects. There will also be more regular and detailed reporting by central functions. The company's chief financial officer has also been given an operational role to enable direct liaison with other Executive Committee members in guiding the success of the TOP initiative.

### **Internal committees and transversal visibility**

Three new corporate committees have been formed: the Investments Committee, the Internal Audit Committee, and the Technologies, Innovation and New Usage Committee. These committees will provide an overview of these fundamental areas across different group entities.

The Group Investments Committee has been formed and is headed by the chairman of France Telecom. The other members are Frank E. Dangeard, Jacques Champeaux, Michel Combes and/or Jean-Pierre Mattout and two other members of the Executive Committee (depending on their availability). The committee issues recommendations in areas related to its competencies. All decisions on acquisitions or disposals of fixed assets are submitted to the Investments Committee, regardless of the amount. All major investment and business policy questions are also submitted to the Investment Committee. The minimum quorum for each meeting is four members. Decisions by the Investments Committee are submitted to the Chairman and to the Executive Committee. This creates four levels of approval: first the Investment Committee, then the Executive Committee, then the Strategy Committee, and finally the Board of Directors. This four-tier approval process ensures management commitment to decisions and in-depth assessment of all risk factors before a final decision is made. The Group Internal Audit and Risk Management Committee has also been established and is chaired by Frank E. Dangeard. The other members at March 1, 2003 were Jean-Yves Gouffes, Jean-Philippe Vanot, Jacques Champeaux and Jean-Pierre Mattout. The committee approves audit plans, oversees application of recommendations and performs internal quality control. It is also responsible for risk management for the entire group. The Research, Innovation and New Usage Committee is currently being formed.

France Telecom has also taken measures to comply with the Sar-

banes-Oxley accounting reform act, including the creation of a Disclosure Committee. This committee is responsible for ensuring the integrity and accuracy of financial statements, compliance with applicable laws, regulations and generally accepted accounting principles, and the overall consistency and quality of financial information provided by France Telecom.

The Disclosure Committee is chaired by the Chief Financial Officer. The other members are the heads of the communications, international affairs, legal affairs, management control and accounting, audit and risk management, investor relations and disclosure departments.

### **Compensation of directors and officers**

The aggregate compensation and benefits paid by France Telecom SA and companies in which it has a controlling interest to directors and members of the France Telecom SA Executive Committee amounted to 7,729,997 euros in 2002.

The directors of France Telecom do not receive any compensation for their services as directors other than reimbursement of expenses incidental to their attendance at Board of Directors meetings.

The group's senior executives – approximately 1,000 managers – are proactively involved in the success of the TOP program. Since there is no stock options policy at France Telecom, compensation policy is a major incentive. As of 2003 more than 50 percent of the variable portion of their salary – between 30 and 50 percent of their base salary – will depend on the success of the TOP program. Furthermore, the amount of this variable share will henceforth be calculated on a half-yearly basis.



# Executive Committee

## Functions >>



**Finance**  
Michel Combes



**Human Resources**  
Bernard Bresson



**Management Networks**  
Michel Davancens



**Corporate Secretary**  
Jacques Champeaux



**Technology and Innovation**  
Jean-Jacques Damlamian



**Communications**  
Marc Meyer



**Sourcing and Performance Improvement**  
Louis-Pierre Wenes

**Financial Rebalancing and Value Creation**  
Frank E. Dangeard

**Technologies, Strategic Partnerships and New Usage**  
Didier Lombard

**Thierry Breton  
Chairman and Chief Executive Officer**

**Marketing and Branding**

**Development and Optimization of Human Competencies**  
Olivier Barberot

## << Operations



**Corporate Solutions**  
Barbara Dalibard



**Fixed-line Services and Distribution France**  
Jean-Yves Gouffès



**Networks and Operators**  
Jean-Philippe Vanot



**International**  
Jean-Paul Cottet



**Orange**  
Solomon Trujillo



**Wanadoo**  
Olivier Sichel



**Information Systems**  
Jean-Paul Cottet

# Facing turbulent financial markets

## Investor information and dialogue are more important than ever

Beyond France Telecom's own situation, financial markets were extremely morose in 2002, often marked by volatile swings in share prices. The telecommunications sector has yet to fully regain the confidence of markets, and the performance of the Eurostoxx Telecom index was again disappointing for investors. The general reversal of economic trends in 2001 led to sluggish market growth in 2002, with no real signs of recovery. This unfavorable environment weighs against the performance of our share price, which also suffers from our substantial debt load.

### Generating 45 billion euros in 3 years

To rectify this situation and create fresh momentum for France Telecom we unveiled a dynamic three-year turnaround plan in December 2002. The financial component of the plan, known as "15+15+15", aims to generate additional liquidity in three 15-billion-euro tranches. The first 15 billion euros are to come from an operational improvement program launched in January 2003. An additional 15 billion euros will come from an increase in shareholders' equity. The French state has said that, in light of the action plan prepared by our group, it will fully subscribe its share of the capital increase, representing 9 billion euros.

The last 15 billion euros corresponds to refinancing of our debt by rescheduling bond repayments. This debt rescheduling had been nearly completed by early March 2003.

The combination of these three components aims to bring our net debt/EBITDA ratio to between 1.5 and 2 by 2005.

### Inform, explain

We are committed to providing all our investors – individual shareholders, institutional investors and employee shareowners – with complete information and explanations regarding the progress of these initiatives.

Our shareholder hotlines (1010 or 0800 05 1010, toll-free in France; 33 1 60 95 87 24 from other countries) fielded numerous calls concerning both strategic issues and our results. The availability and efficiency of this platform again earned it an award as one of the top call centers in France in 2002. We also revamped our investor website (<http://www.francetelecom.com/en/financials/investors>), providing more interactive tools and easier access to information, including the stock quotes, historical price data for the past five days, benchmarks, etc. The site contains financial press releases and schedules of events organized



Although financial markets have sanctioned our debt, the “15+15+15” plan launched in December 2002 should reduce debt to satisfactory levels within three years.

## 570,000 REGISTERED MEMBERS

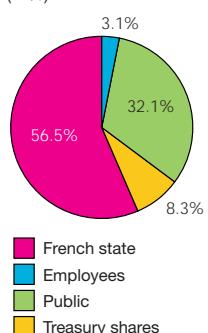
OF FRANCE TELECOM  
SHAREHOLDERS' CLUB

## 10,000 SHAREHOLDERS

ATTENDED MEETINGS WITH  
FRANCE TELECOM EXECUTIVES

## OWNERSHIP STRUCTURE

AT DECEMBER 31, 2002  
(in %)



by the France Telecom Shareholders' Club. Shareholders can sign up for the monthly shareholder newsletter "en @ctions", circulated by email to keep them abreast of developments at the group.

To nurture exchanges we continued to organize meetings with retail investors throughout the year throughout France, providing shareholders with opportunities to speak directly with company executives. This dialogue also continued at personal investing fairs, such as "Décisions Patrimoine" in Nantes, or "Actionaria" in Paris. The high point of investor communications was the annual general meeting of shareholders on May 28. In addition to the 2,600 people attending, the event was relayed on the Web and by live video feeds to 12 French cities.

### A special relationship

The France Telecom Shareholders' Club now counts 570,000 members, creating solid ties with individual investors. This special relationship is particularly important when people express legitimate concerns at seeing the share price decline. The investor newsletter "en @ctions" is sent to Club members quarterly. It spotlights the strategic advantages of the enterprise and the initiatives in progress to protect the interests of shareholders. What's more, we organized a variety of workshops, covering both the stock market – including an introduction to technical analysis for the first time last year – and the telecommunications industry. These programs help shareholders become more familiar with the Internet, ADSL, wireless multimedia and other technologies.

Nearly 10,000 shareholders took part in special France Telecom events in 2002.

We also maintain close contacts with financial analysts and institutional investors. Our Investor Relations team answers a growing number of questions from investment professionals seeking details regarding the group and its strategy. They also have multiple opportunities to meet with management, both during road shows and special meetings with institutional investors. The group reports quarterly on its revenues and business levels, and releases income and consolidated balance sheet information every six months. Information meetings are organized for all key events for the group.

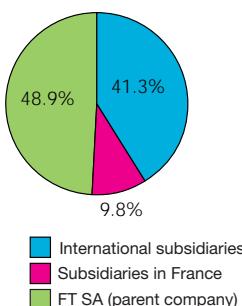
Employee shareholders have suffered in particular from the drop in the share price, since most were unable to sell their shares when the stock peaked due to legal restrictions. Consequently, within the scope of new measures governing employee savings schemes in France, they were able to benefit from a capital increase reserved to employees in July 2002. Approximately 16 percent of employees again subscribed shares in their company despite the unfavorable climate in financial markets.

# Energizing change

France Telecom's rebound will be led by the mobilization of its people\_

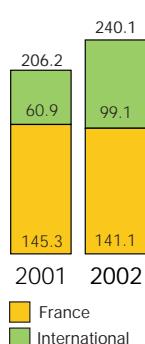
## BREAKDOWN OF WORKFORCE

AT DECEMBER 31 (in %)



## EMPLOYEES

FULL-TIME EQUIVALENT  
AT DECEMBER 31  
(in thousands)



The Ambition FT 2005 initiative to improve the group's operating performance is underpinned by a fresh approach to human resources management. As part of the TOP program, France Telecom's corporate human resources team is leading three projects, covering deployment of resources, identifying opportunities for external mobility, and rationalization of the human resources function throughout the group.

Beyond the specific issues facing France Telecom, every company in our industry must address the same challenges posed by accelerated technological change amidst a shifting and fiercely competitive business environment. France Telecom is responding by initiating fundamental cultural changes under the stewardship of our human resources teams. This puts human resources on the front lines of our efforts to meet performance targets and adapt, while nurturing all-important cohesion within the enterprise.

Natural attrition and programs already under way, including early retirement, are expected to reduce our headcount by more than 22,000 people over the coming three years. The French government has also stated that it would set up a mobility task force to address the expectations of our civil servant employees who wish to pursue their careers in the public

sector. There is a freeze on hiring in France until June 2003.

### Collective bargaining agreement

Our human resources policy is shaped by labor relations measures applicable to the entire French telecommunications industry. The industry-wide collective bargaining agreement, which took effect on November 1, 2000, establishes guidelines for all companies in the sector and thus applies to almost all France Telecom group employees. Implementation of this accord is continuing at all France Telecom entities.

### Evolving competencies

Flexibility is one of the key factors in meeting France Telecom's fundamental objective of increasing performance. This flexibility figures at the core of the group's longstanding employment policy, with a focus on optimizing the organization and insourcing of certain activities. This refocus of competencies within the group will accelerate moving forward.

Our proactive strategy places priority on competitiveness and performance, along with measures to foster the commitment of employees to these necessary transitions.

Staff redeployments strengthen our pivotal activities in customer relations, information systems and multimedia.

# Our human resources policy brings innovative responses to address the challenge of change.

At the France Telecom parent company alone nearly 9,500 people changed jobs in 2002. This migration was made possible thanks to the mobilization of managers, supported by widespread communications on internal job opportunities available. Employees at all levels increasingly use the corporate Intranet, which played an important role in the success of this process.

Flexibility also means developing and adapting skills, particularly in new types of jobs. More than 700 employees received training in the strategic areas of customer relations, multimedia and information systems. The importance of this training is reflected by the CAPP Avenir scheme to adapt the competencies of staff to France Telecom's future needs.

## Productivity

R redeployment puts people where they are most needed, and efficient human resources management contributes to higher productivity. This spans organizational changes, assessments of ways to pool back-office activities, and making benchmarking tools available to help entities track progress.

## Proactive management

Successful change must be led by management, which is why we take initiatives to support managers in their fundamental role of team leadership. Managers are expected to be demanding coaches, be available for dialogue with their teams, contribute to the overall performance of the enterprise, and support the initiatives taken at the corporate human resources level.

### Skills beyond borders

**Being a leader in innovation and value-added across Europe and the rest of the world requires a resolutely international approach to human resources management. International assignments are to a growing degree viewed as a positive career development move for managers, letting them acquire a more global business culture. This is true not only for senior executives, but also for the group's strategic activities in customer relations, information systems and multimedia. Employees of an increasingly transnational group such as ours must be able to work efficiently with people with different languages and cultural backgrounds, as well as mindsets. Group subsidiaries that work in these multicultural environments have developed a variety of specific tools and training courses. A multicultural approach to management is also encouraged by corporate initiatives such as the International Business Development Program (IBDP), Work in Synergy and Harmony (WISH) and Euroteam.**

### Identifying promising talent

While France Telecom makes substantial efforts to match the workforce to current objectives, we also continually prepare for the future by recruiting the most talented young people. Despite an overall reduction in headcount, we sustained external recruitment in 2002, focusing on new employees under the age of 30. In April 2002 the "Telecom Talents" initiative led to the recruitment of 40 young graduates from top universities. After demonstrating their capabilities during initial assignments they will be given increasingly important responsibilities within the group.

At another level, all France Telecom units increased their participation in employment programs for young people through apprenticeship and work-study schemes.

# Sustainable development and sponsorship

## France Telecom's commitment goes beyond customers, shareholders and employees\_

"Our businesses must be consistent with sustainable development and improve the quality of life of future generations." This commitment is one of our fundamental values, formulated in conjunction with all the stakeholders of the enterprise.

### Respecting the environment

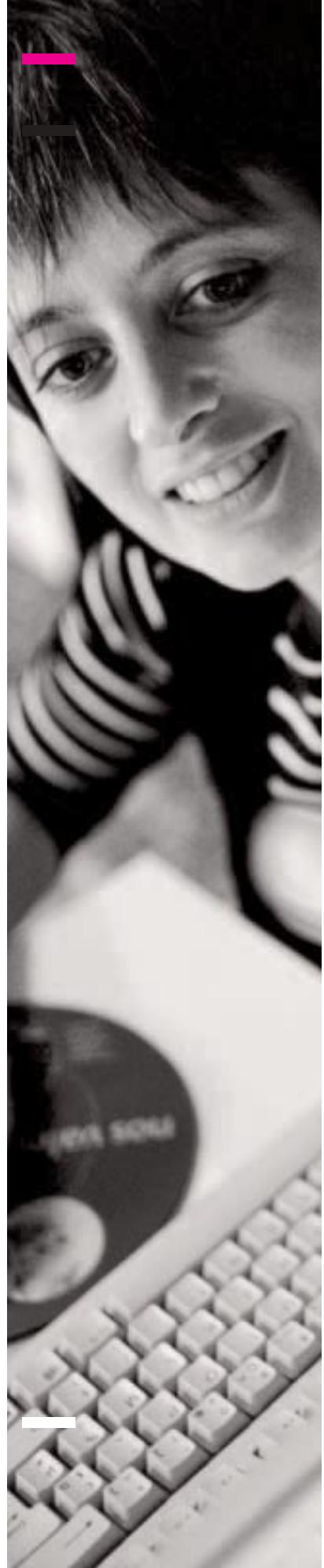
Our 2001 Environmental Report identified numerous paths to continuous improvement. Although the impact of our industry on the environment is far from being the most significant, we remain extremely attentive to key indicators such as energy consumption or greenhouse gas emissions. We systematically recover and recycle electronic equipment that has reached the end of its life cycle. A number of specific programs focus on areas such as recycling wooden telephone poles, management of hazardous materials and paper recycling, to name but a few. Some 23 tons of used batteries were collected in 2002. Several of our units have deployed a formalized Environmental Management System. France Telecom's regional operation in the Champagne-Ardenne region received ISO 14001 certification in 2002, following the lead of France Telecom Marine.

Our initiatives reflect different local contexts too. Our subsidiary Jordan Telecom, for instance, works on optimum water management, while Orange France has introduced an SMS pollution and pollen alert service.

### Social responsibility

Our teams help customers learn how to use new products and services, supporting broad changes in the ways people work. They also help children learn how to use the Internet in schools. Two subsidiaries, Sonatel in Senegal and TPSA in Poland, have been especially active in this area. These actions reflect a commitment to key values. In 2002, the Orange group adopted a corporate citizenship charter that guides the actions of the entire enterprise. Our support for local economic development takes on myriad forms, such as membership in the Auxilia association in 2002 (distance learning), partnership with organizations that assist in new business creation, work with the CCI bank network to help small businesses leverage the power of new technologies, or participation in the Plato project, which lets small businesses tap expertise from large enterprises.

France Telecom supports its own employees who seek to launch



# our development respects both people and the environment. And our vision includes support for humanitarian and cultural initiatives.



1



2



3

France Telecom's role as a corporate citizen takes on myriad forms, including sponsoring of singing (1), support for autistic children (2), and social initiatives (3).

innovative businesses, representing some 250 new companies and 2,000 jobs created to date. In the French city of Lyon we help the local government efficiently manage automobile traffic.

Many of our units are actively involved in humanitarian initiatives such as the fight against AIDS (CI Telecom in Côte d'Ivoire) or reintegration programs for people released from prison (CTE Telecom in El Salvador). We continue to support programs such as "Telecom Without Borders", which provides communications resources in areas hit by natural disasters in 2002 such as Angola, Ecuador or Southern France. France Telecom has been a member of the UN Global Compact program since 2000, reflecting our role in transmitting knowledge and promoting culture, and our recognition of the importance of corporate social responsibility. Each year, we continue to progress in better addressing the need for sustainable development.

## **Sponsorship emblematic of our values**

Sponsorship is another means of deepening our role as a socially responsible enterprise. Created in 1987, the France Telecom Foundation provides a conduit for involvement by the entire enterprise through both volunteer initiatives and special access to events. The three main areas supported by the Foundation are singing, autism and "Internet solidarity". In 2002 a total of 3.7 million euros was allocated to fund 335 different projects.

Support for singing spans a variety of levels. The "New Voices" competition helps discover new talents in France. We also contribute to training for young singers, to the development of choral ensembles, and sponsor a variety of music festivals, operas, recordings and cultural activities.

The Foundation supports autism research, and assists in the creation of support structures, as well as training for professionals. In addition, 250 France Telecom employees are volunteer members of an association that works with autistic people. Each year the Foundation France Telecom and parents' associations in France raise funds and heighten awareness through the "Autism Days". Through the "Internet Solidarity" program the Foundation encourages use of the Net for social work. It supports projects and helps spread positive initiatives. For example, "Mémoires de Quartiers", a website created in 2002 by local residents themselves, helps build bridges between two very different neighborhoods in the city of Poitiers.

26 an innovative enterprise

28 the telecommunications market

30 Research and Development

32 networks and operators

**innovation is driving** sustained growth in all the Group's markets. With strong positions in one of the most buoyant sectors of the economy, our performance draws on work from world-leading R&D centers, and our networks span the entire globe.

an inno  
enterp



innovative  
rise.

# Sustained market growth

## Wireless, Internet and data services are driving growth as broadband takes off

The global market for telecom services was valued at 1.16 trillion euros in 2002, exhibiting robust 6 percent growth over 2001. This trend is expected to continue at about 5 percent annually between now and 2006.

### Wireless, data and Internet energize the market

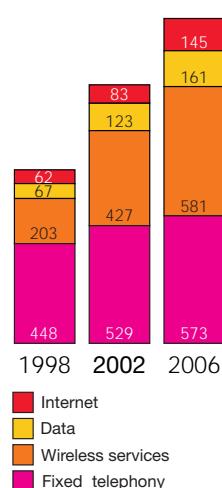
The dynamic performance of the global telecom sector is attributable to three main factors. The first is the wireless market, which experienced growth of 15 percent in value in 2002, with forecasts calling for annual growth of 8 percent over the 2003-2006 period. There are now more cellular phones in use worldwide (1.12 billion) than fixed lines (1.06 billion).

The second factor is robust expansion in the data services market, which is expected to continue to rise at 8 percent per year over the same period.

Last but not least, against a backdrop of strong demand for **broadband** access, **Internet** revenues jumped 25 percent in 2002 and should climb another 15 percent annually between now and 2006. The number of Internet users is expected to grow from 590 million in 2002 to 950 million in 2006.

### WORLD MARKET

BREAKDOWN BY SEGMENT  
(billions of euros)



### European growth outpaces North America

With more limited impact from a shifting economic environment, the

European telecom market grew faster than the North American market, and forecasts call for annual increases of 4 to 5 percent between now and 2006.

The top European markets in 2002 were Germany and the United Kingdom, each accounting for nearly 20 percent of the total, followed by Italy (14 percent) and France (13 percent).

Fixed-line telephony represented just 37 percent of the total market in Western Europe in 2002, compared with 45 percent in 2000. The wireless market expanded 11 percent in value in 2002 as cellphones took over a pivotal position in person-to-person communications, spanning both voice and text messages (**SMS**). Wireless accounted for 44 percent of total sector revenues in 2002, with a penetration rate of 78.3 percent.

Alongside the deployment of second- and third-generation wireless services, the continued dynamism of the telecom industry has been spurred by data services, which were up 9 percent in 2002, notably due to the Internet and broadband. The broadband market increased 23 percent in Europe in 2002 and could reach 12 percent of the sector in 2006. Internet penetration in Europe is progressively reaching U.S. levels: the European user base is expected to climb from 191 million users in 2002 to 221 million in 2004 and 252 million in 2006 (according to NUA).



# despite a morose economic climate, the market for telecommunications services remains robust.

## Internet and broadband in France

In France, the number of computers connected to the Internet reached nearly 16.3 million at the end of 2002. A total of 2.3 million new connections were added during the year. There are more residential Internet connections (8.3 million) than business connections (8 million). By 2006, the penetration rate for PC-based Internet access in France is expected to exceed 40 percent (source: IDC). Overall growth is being stimulated by the progressive diversification of access devices, as games consoles and TVs equipped with **digital** decoders join PCs.

Another factor driving the French market is broadband access, via cable, fiberoptic connections for business sites and above all **DSL**. The number of **ADSL** customers topped 1.4 million in France at the end of 2002. Broadband is supporting the acceleration of new uses based on data services and always-on connections, with intranets, extranets and e-commerce. Revenues from e-commerce reached nearly 2.4 billion euros in 2002 and could account for 4 percent of the retail trade by 2006. The spread of broadband and multimedia access, both fixed and wireless, has been accompanied by the growing success of messaging services, personal Web pages, directories, networking of home computers and more. Online entertainment is also increasingly popular, ushering in new business opportunities for telecom carriers and ISPs.

(Source: *Idate unless otherwise specified*).

**950**  
**MILLION**

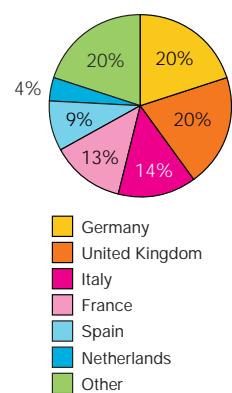
INTERNET USERS IN 2006  
(WORLDWIDE MARKET)

**1.8**  
**BILLION**  
**WIRELESS**  
**PHONES**

IN 2006 (WORLDWIDE MARKET)  
(SOURCE: OVUM)

## EUROPEAN MARKET

FOR TELECOMMUNICATIONS SERVICES IN 2002  
(in %)



# Customer-centric R&D

## Cross-disciplinary research teams on the cusp of technologies and trends\_

**5,741**  
PATENTS

**3,000**  
RESEARCHERS  
AND  
ENGINEERS

France Telecom R&D counts nearly 3,000 researchers and engineers at 12 facilities around the world – the most recent center opened in Boston in 2002 – making it one of the world's top telecom R&D platforms.

### New uses

One of the principal focuses of R&D work is to enrich the range of communications services available from the group. For example, voice solutions developed by the center are behind Top Message voicemail, the "3000" interactive customer service platform, and single contact number solutions for businesses. R&D efforts led to the introduction of several new contact services in 2002: Imprevisto (automated collect calls), @llo (Internet call waiting) and caller ID, plus the "Contact vocal" talking caller ID service. Another development now lets Orange wireless customers receive multimedia messages (**MMS**) on their handsets or send SMS text messages to a fixed number.

Businesses benefit from R&D too, thanks to innovations like the mobile VPN (Virtual Private Network) from Orange France. France Telecom is a recognized leader in security solutions as well, and has created a dedicated center of excellence to focalize security work, for example. New software for

public key infrastructure protection enables exchanges of encrypted data without sharing of confidential keys. Another application combats fraud using neural network techniques. France Telecom is also an active participant in the Liberty Alliance project, which aims to reconcile security and individual rights.

### Public service initiatives

France Telecom pursues a variety of experimental projects in partnership with associations, public sector bodies and municipal agencies. One project is improving the quality of life for the hearing impaired by using videoconferences for sign language translations. Another helps diabetics by transmitting blood sugar analyses via their **GSM** phones. The Educavision service, introduced in May, lets hospitalized children attend classes using ADSL links and "eConf" the first "hands free" videoconferencing software for PCs and PDAs. Hospitals in Marseille have deployed this solution as part of their "Hostonautes" program. France Telecom R&D cooperates extensively with local communities, testing forward-looking solutions like electronic voting in Mérignac and Vandoeuvre-lès-Nancy, or new broadband network applications in the Brittany and Loire regions. These networks carry



# France Telecom R&D is instrumental in 70 percent of the products and services marketed by the group, giving France Telecom unrivaled competitive benefits.



From new videoconferencing software to WiFi solutions, our labs are making future multimedia communications a reality.

everything from interactive 3D views of the Brittany coast to high value-added images.

#### **Broadband networks**

All these services run on networks that benefit from R&D input to keep them at the state of the art in terms of quality, security and capacity. The center's expertise covers everything from wiring smart skyscrapers – with solutions currently being tested at the Tour Montparnasse in Paris – to large-scale infrastructures like the North American Backbone Network. Thanks to xDSL technology, broadband is now available in homes, making the Internet truly convenient and user-friendly while ushering in novel services. R&D plays a pivotal role here, since upstream studies are essential to ensure the quality of large-scale deployment, along with interoperability and new applications such as video on demand. In addition to these initiatives, France Telecom has identified 11 key technologies where it aims to field best-in-class expertise, either directly or through partnerships.

#### **Value from innovation**

France Telecom R&D innovations contribute to value creation, by directly generating revenues, as well as by helping cut costs and improve processes.

The center's impressive portfolio of patents is another significant source of revenues. The number of patents held by France Telecom R&D has nearly doubled in three years, totaling 5,741 at the end of 2002. Some 265 patents were filed for new

inventions in 2002, an increase of 15 percent, coupled with 225 software patents, up 161 percent in three years. Unlocking the value of these inventions entails an expanded program of licensing. France Telecom owns fundamental patents in the MPEG-4 video and system pool, which was added to the MPEG-2 pool in 2002. The Turbocode license program led to six contracts signed by Europe and the United States last year. And France Telecom is part of the ObjectWeb consortium to develop open source middleware for business applications.

To maximize the value of our intellectual property, France Telecom is setting up a special inhouse licensing team that will guide targeted actions.

Another source of innovation is France Telecom's support for startups through equity interests in about twenty promising young enterprises. Despite the difficult business climate in 2002, second rounds of funding were secured for Telisma and Envivio, the SmartJog venture was spun off, and Euralba scored initial business wins.

# High-speed, cost-efficient networks

## Networks figure at the core of France Telecom's services

**562**  
NEW-  
GENERATION  
SWITCHES  
ACROSS  
FRANCE  
(END DECEMBER 2002)

### More bandwidth

Ever-greater Internet traffic and burgeoning e-commerce have made both consumers and businesses hungry for more and more **bandwidth**. France Telecom is meeting this demand with a constantly growing range of solutions.

First launched in France in December 1999, ADSL has transformed broadband into a mass-market solution that has become part of daily life for French consumers. At the end of 2002 more than 1.4 million customers had ADSL broadband Internet service, almost one million of them via Wanadoo. The customer base has thus tripled in one year. A total of 21 million phone lines have access to ADSL technology, reaching 71 percent of the French population.

### Modernization and rationalization

Network upgrades focus on boosting power while simplifying management and reducing costs. This has involved optimization of local exchange switches in France. Kicked off in early 2000, the program to replace second-generation switches was completed in late 2002. In addition to lower costs and enhanced efficiency, this new equipment makes possible nationwide rollout of new contact services like automatic callback to last calling number or caller ID.

For international traffic we replaced 13 international exchanges in France with three much more powerful and compact units. This entailed a revamp of the long-distance network architecture and migration of some 100,000 international voice circuits to new machines.

### Quality first

Our focus on quality of service reflects customer expectations for the same quality in new products like wireless and Internet as they enjoy with mature services, all with continual emphasis on cost-efficiency. Throughout 2002 our teams pursued maintenance, prevention and process improvement initiatives.

The introduction of new technologies has also led to a significant shift in our human resources needs. Between 1996 and 2005, the number of employees assigned to the French network was cut by half. Smaller teams must now field competencies beyond traditional voice operations to encompass new areas such as **IP**, **ATM** or ADSL. This transition is supported by major training programs.

In addition, our teams are ready to respond swiftly to restore services following natural disasters such as hurricane Dina or the storms that swept across Southern France in 2002.



# to accommodate market demand in France and around the world our networks provide more and more bandwidth at optimum cost.

## **Building a global network**

By the end of 2002 France Telecom had almost completed the buildout of its global network infrastructure, spanning every sector with strong traffic. Deployment of the European Backbone Network is being terminated and the North American Backbone Network was completed in April 2002, linking 29 major North American cities.

France Telecom also has substantial capacity on the TAT 14 transatlantic cable. The SAT3/WASC/SAFE submarine cable, with landing points serving Africa, was inaugurated in April 2002. The 15 countries served by the cable include Senegal, Côte d'Ivoire and Mauritius, where the group has operations, as well as Réunion Island. The France Telecom group owns 15 percent of the cable, of which 3,000 kilometers were laid by France Telecom Marine. Its subsidiary Chamarel Marine Services is in charge of maintenance on the cable between Dakar and Diego Garcia in the Indian Ocean, representing 70 percent of the total length.

Another submarine cable, Alpal-2, entered service between Europe and Algeria in July 2002, providing a backup route for the Sea-Me-We 2 cable segment in the Mediterranean

## **Carrier services**

**Carrier services**  
Last year saw continued consolidation of Internet Service Providers in the French market. Coupled with lower network interconnection tariffs, this drove revenues from interconnection down 18.3 percent. The year also saw the introduction of unbundling and dynamic growth in broadband Internet. France Telecom delivered 129 collocation rooms ordered by competing operators and the number of unbundled lines reached 5,845 at the end of December. France Telecom developed and delivered a range of broadband carrier-class solutions such as IP/ADSL, ADSL Connect ATM and TDSL, helping develop the French Internet market. The installed base for these carrier products totaled 325,548 lines at the end of 2002. A new "e-relation" platform was also deployed for operators and ISPs in 2002.

34 close to people and needs

36 wireless

42 internet

48 fixed services

54 business services

close to  
and needs



# people needs

France Telecom is one of the few operators with strong positions in wireless, Internet, fixed-line services and corporate solutions. Our marketers and technical staff all leverage this complementary fit thanks to a strong focus on **our customers**

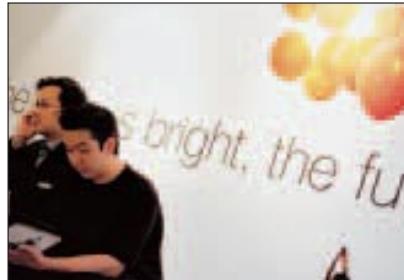
# Wireless

## Attractive rates and innovative services ease the transition from voice to multi-media and position Orange for the future.



1\_

**no. 1**  
IN FRANCE AND  
THE UNITED  
KINGDOM



2\_



3\_

Whether in La Réunion 1\_, Thailand 2\_ or London, 3\_, Orange's future continues to be very bright indeed.

## A brand flying global colors

### Creating value

Within the scope of our "Ambition France Telecom 2005" initiative, Orange's strategy is to strengthen existing assets, leveraging them to create greater value. Just as we have raised our target for EBITDA we have set ambitious objectives that call for generation of five to seven billion euros in additional free cash flow between 2003 and 2005, coupled with reduction of our debt to zero for this business by 2005.

### Deploying the Orange brand

Orange has become one of the industry's top wireless brands, backed by the promise of the best network, the best quality and the best customer service. Subsidiaries that adopt the Orange brand thus need to exhibit a dynamic commitment on the part of all their teams, since this is much more than simply a name change.

In 2002 five of our subsidiaries adopted the Orange banner, bringing the number of countries where the brand operates to eight (Denmark and France joined Orange U.K. in 2001) since the Orange group was created in December 2000. In every country the brand has generated real enthusiasm among both personnel and customers.

The carefully prepared unveiling of the new Orange brand has quickly been followed by strong brand recognition in each market. Far from hurting sales, which is generally the case in the weeks following a name change, we have either

maintained or immediately increased our market share following the rebranding.

In Slovakia, where Orange was launched in March 2002, we boosted an already dominant position, increasing our market share by a full percentage point to 60.7 percent, with 1.7 million customers. After the operation, recognition levels for the Orange brand exceeded those for Globtel, the former name of our subsidiary.

In April 2002 the Orange brand replaced Dialog in Romania. Orange immediately posted an enviable 85 percent recognition level, coupled with a rise in both satisfaction among its 2.2 million customers and in market share, which reached 45 percent.

We deployed the brand with equal success in Cameroon, Côte d'Ivoire and Thailand, where just two months after the brand change (in March 2002), our subsidiary topped 400,000 customers. Orange ended the year in Thailand with 1.3 million customers and network coverage of nearly 91 percent.

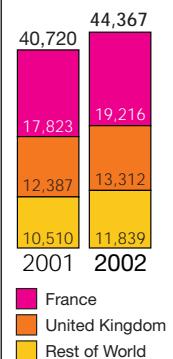
### Refocusing international operations

The deployment of the Orange brand has been accompanied by changes in the group's scope. In Germany, the Mobilcom episode is nearing a conclusion. At December 31, 2001 the group had already written down the totality of its investment in the company.

On November 20, 2002 France Telecom signed an agreement with Mobilcom for an amicable transaction to end development of **UMTS** in Germany. The agreement included a recovery plan for Mobilcom's

## Orange customer base

(in thousands)



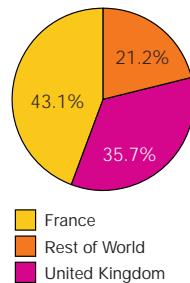
**Following robust growth in 2001, Orange consolidated its leadership in its two main markets throughout 2002 while continuing to expand in the rest of the world.**

**may 2002 > Innovative rates** for innovative technologies: Orange unveils unlimited access to non-voice services in France via WAP and/or GPRS with "Orange Sans Limite", a European first. // **november 2002 > Futuristic phones** like the SPV (Sound Photo Video) hit the market in France and the U.K. //

CONTINUED ON PAGE 41

## Breakdown of revenues by region

(in %)



**Orange posted vigorous revenue growth of 12.8 percent (average and on a historical basis), coupled with a refocus on high-value segments of the market.**

existing activities and a freeze on UMTS operations in which France Telecom was involved.

Under the terms of the accord Mobilcom and its primary shareholder agreed to waive all recourse against France Telecom and Orange, and vice versa. The agreement also includes a recovery provision for the value of Mobilcom's UMTS assets, including the license, allowing France Telecom to receive 90 percent of the proceeds from any asset sale by Mobilcom.

In Italy, we reviewed our stake in Wind, a subsidiary over which we do not have either a controlling equity interest or operational management control. Despite development during 2002 this investment has not met the profitability objectives defined by the group. In view of the company's current outlook and the state of the market we therefore decided to reduce the book value of Wind in our consolidated financial statements. On March 21, 2003 Orange SA announced the sale of its interest in Wind to Enel.

In Egypt, France Telecom transferred ownership of MobiNil to Orange on July 1, 2002. Orange now owns 71.25 percent of this operator, which itself owns 51 percent of ECMS, the leader in the Egyptian wireless market, with more than 2.28 million active customers at December 31, 2002 and over 50 percent of the market. Subsidiaries in other countries have been given specific financial targets which, if they are not met, could lead Orange to divest these operations. Restructuring is already in progress at several subsidiaries, in particular in Denmark and the Netherlands. This entails staff cuts, management

changes and in some cases a freeze on network buildout. Orange decided to withdraw from Sweden due to constraints imposed on UMTS licenses and current market conditions.

## New services, new uses

### Capitalizing on the growth in non-voice services

Data services are a prime source of value creation, accounting for a growing share of wireless revenues. Spectacular growth in SMS short text messages is emblematic of this trend, especially in the U.K.. Revenues from SMS traffic represented 14 percent of network revenues in 2002, up from 11 percent in 2001.

In addition to SMS, other **data** applications are based on geographic localization or a variety of information services, from news and sports to stock market and travel. For the entire group these services represented over 1.67 billion euros in revenues in 2002, or 10.8 percent of recurrent network revenues. This figure was 14.3 percent of recurrent network revenues in the U.K., over 12 percent in Belgium, and more than 10 percent in Switzerland, Denmark and the Netherlands.

To spur the growth of non-voice services in France we began marketing a service that is the first of its kind in Europe: "Orange Sans Limite" (OSL), or "Orange Without Limits". OSL brings our customers unlimited access to dozens of convenient services on the orange.fr

# 10.8 percent of revenues from data services



wireless portal. They can check email, get breaking news flashes, find a number in the directory, or manage their diary or leisure activities, all for a fixed charge for easy budget management. OSL costs just 6 euros a month, with no limit on duration. The offer is available to all Orange customers with a WAP or **GPRS** phone. What's more, a special PDA/PC option is available for tech-lovers and early adopters. At the end of August, just two months after its launch, OSL had won over some 100,000 customers. By the end of 2002 this number had grown to 550,000. These users spend an average of 165 minutes per month on the orange.fr portal, compared with 12 minutes for regular **WAP** customers.

#### **The right technologies stimulate**

These numbers illustrate how carefully devised rates can stimulate new uses. Of course technology also makes a fundamental contribution. Thanks to GPRS, which increases data transmission speed, we can economically transform our existing networks into full-fledged data pipes. This lets us offer more attractive rates and services for our customers, coupled with greater convenience.

Orange France introduced GPRS in May 2002, accompanied by the launch of its OSL service package. Our subsidiaries in the United Kingdom, Switzerland, Denmark, Belgium and Romania followed suit in the third quarter of 2002.

At December 31, 2002 we had 169,000 GPRS customers in France. The next step is UMTS. Here, we are taking a pragmatic approach. In



\_2

*\_Everyone contributes to superior customer care, from network operating staff and support teams to salespeople.*



## 8 COUNTRIES WITH THE ORANGE BRAND

the fiercely competitive U.K. market – where competition may be heightened by the arrival of a fifth operator – we have decided to maintain deployment of our third-generation network. We plan to launch UMTS on a limited scale in 2003 and on a broad scale in 2004. In France we are taking a more prudent approach, with full-scale trials only in the cities of Lille and Toulouse. The official launch of consumer service could take place in 2005-2006.

### Introducing multimedia services

Multimedia services are already a reality for cellphones even ahead of UMTS. The **Multimedia** Messaging System (MMS) is starting to appear on second-generation networks. Anyone with an MMS terminal can send photos to friends with text comments right from their handset. If recipients do not have the right kind of terminal they receive an SMS message and can view the photo on the Orange website. We unveiled MMS in the U.K. in August 2002, followed in the second half of the year in France, Switzerland, Denmark and Romania. By the end of the year we had 9,000 active MMS customers in France and 60,000 in the U.K. At the end of 2002 our subsidiaries had sold a total of 245,000 MMS handsets. MMS makes possible a variety of new services, including sending and receiving music and video clips. Rapid take-up by our customers indicates that mobile data has a positive future.

These new services require high-performance devices, which is why we launched the exciting SPV

phone. Developed in an exclusive partnership with Microsoft, the SPV – Sound Pictures Video – is the first cellphone to use the Windows environment that so many of our business customers use every day. This groundbreaking smartphone is packed with high-end features like a color screen, tri-band frequency compatibility (meaning it can be used in the United States), GPRS, MMS and more. In addition to mobile Internet access, it provides an Outlook diary that can be synchronized with a PC, plus a unified mailbox for SMS, MMS and email messages. The SPV is a perfect illustration of the intuitive, easy to access (one or two clicks maximum) and feature-rich solutions we provide for both business customers and consumers. This all-in-one terminal provides a real mobile office available anywhere, at any time. Marketing of the SPV began in France and the U.K. in November 2002. By the end of January 2003 nearly 40,000 customers in these markets, plus Switzerland and Denmark had purchased the phone.

### Driving growth and value

#### Targeted rates

In addition to our technological innovations, we also propose innovative rate structures designed to stimulate usage and thus average revenue per user. Moreover, measures that make our charges simple and clearer encourage our customers to use their phones as their primary means of communication. Per second billing is a perfect example of transparent costs. In



1

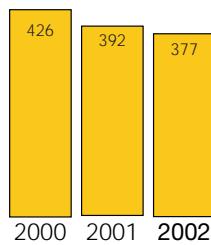
Orange packs ready for delivery 1 ... all the way to Thailand 2.



2

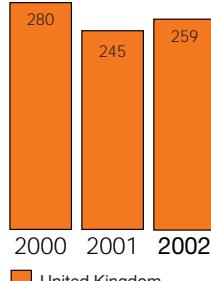
## Average revenue per user

(in euros)



France

(in pounds sterling)



United Kingdom

**The success of new non-voice services from Orange pushed up average revenue per user in the U.K. while France neared the inflection point.**

France, this has replaced the previous system of billing in 30 second increments. Our customers benefit from per second billing after the first minute, which is charged in full. Since November 2002, for just 3 euros a month, service plan customers can opt for per-second billing as of the first second. Orange France is the first operator in France to introduce this type of billing, which is both clear and flexible, reflecting strong customer demand.

In the United Kingdom, the multitude of offers available from the four operators is so vast that users tend to get lost. To make things easier for them, in September we launched the first "Create your Plan" offer, giving people total freedom to design a service plan based on how many minutes, text messages, photo messages or services they want to use each month. For example, customers can choose a bundle with 200 minutes of talk time, 60 text messages, and a package of services including news, sports and weather. This guarantees that the service plan always perfectly matches needs.

sidiaries where operations have entered a mature phase (Belgium, Romania, Slovakia).

These results show the effectiveness of the strategy pursued by Orange. We continue to make life easier for our customers with services that are simple and useful for communication, information and entertainment, combining voice, text and video. This commitment will position Orange solidly among the leaders in wireless communications.

### Wireless outside Orange group

Although Orange is the flagship wireless brand of the France Telecom group, some subsidiaries that are not part of the Orange group also provide wireless services, such as El Salvador, Jordan and Poland. In Poland, the Idea service operated by Centertel increased its subscriber base from 2.8 million customers at end 2001 to 4.5 million at the end of December 2002. The GPRS service was launched this year and the company obtained a UMTS license in 2001, with deferred payment over a 20-year period.

### An effective strategy

Orange's strategy has clearly paid off as it has exceeded the ambitious financial targets set. Revenues were up 12.2 percent in 2002 versus 2001 on a historical basis while **EBITDA** grew 56.5 percent to 5,146 billion euros.

The EBITDA margin accelerated sharply in our two main markets, France and the United Kingdom. Other markets also delivered robust performance: we are a year ahead of profit targets for both developing businesses (Denmark, the Netherlands and Switzerland) and at sub-

CONTINUED FROM PAGE 37

**// november 2002 > Our organization** changed to maximize EBITDA and cash flow. In November we divested Panafon and terminated the Mobilcom episode. In December we announced our withdrawal from the Swedish market. **// january 2003 > Our new SPV** (Sound Photo Video) phone, launched in November 2002, already counted 40,000 customers at the end of January.

# Internet

## The secret behind Wanadoo's profitability: simple, practical solutions available to everyone, for all types of use.



1\_

**8.5**  
MILLION  
CUSTOMERS  
IN EUROPE



2\_



3\_

From headquarters in Paris 1\_ to Spain 2\_ /3\_, Wanadoo teams guide Internet services to a mature and profitable business model.

## Internet matures

### Practical services for everyone

Wanadoo aims to deliver on the vast promise of the Internet, improving the daily lives of customers thanks to better communications, practical and useful services and access to an entire universe of information and knowledge. Working with its many partners, Wanadoo is building an Internet that is truly useful for everyone, with access via multiple channels from different types of devices, with a choice of bandwidth matched to needs. In addition to communications, Wanadoo makes the Internet an ideal platform for shopping, recreation, culture and information. Wanadoo benefits from the support of the France Telecom group, with a strong presence in France and other countries, coupled with a superior quality infrastructure and world-class R&D.

### A new identity

With the Internet bubble now behind us, the market has matured. Wanadoo's business model, anchored in revenue streams from subscriptions, advertising and pay services, enabled it to post positive EBITDA for operations in France for the first half of 2002. This is more than just a financial milestone as Wanadoo enters the era of "Internet for everyone", shaped by simplicity and diversity. Wanadoo underscored this new phase by unveiling its new visual identity last year. Introduced in July 2002, Wanadoo's new "Positive Generation" branding expresses a mindset open to the world, one that is resolutely optimistic and enterprising, inspired by the best of the Internet.

### A market leader

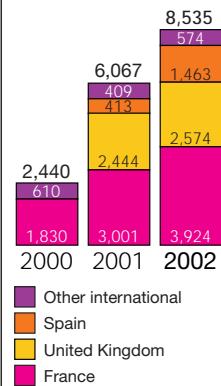
With over 8.5 million customers at the end of 2002 – up 41 percent – the Wanadoo group is now the No. 2 Internet Service Provider (ISP) in Europe and the third-largest directories company, with nearly 640,000 advertisers. Wanadoo is the leader in France (3.9 million active customers at end 2002) and the United Kingdom (2.6 million) and number two in Spain (1.5 million). Wanadoo is also an ISP in the Netherlands and Morocco.

Wanadoo's international development draws on synergies to apply its proven expertise, concept and marketing, with a positioning that revolves around making the Internet useful for everyone. Technical platforms are centralized whenever possible, but different markets retain their national characters.

Wanadoo's priority is to consolidate its positions in the markets where it currently operates. It made two major acquisitions in 2002. In June, the Dutch company MyWeb BV was taken over by EuroNet Internet, a wholly-owned subsidiary of Wanadoo. MyWeb, which has been renamed Wanadoo Nederland, adds 110,000 customers, making the new company the number three ISP in the Netherlands. In July, the acquisition of the Spanish ISP eresMas tripled the Internet access customer base and quadrupled the audience (unique users) on Wanadoo group sites in the country, which is one of Europe's fastest-growing markets. The merger will generate significant economies of scale and potential synergies, particularly with QDQ, Wanadoo's directories subsidiary in Spain. The agreement includes a fruitful technical and commercial partnership

## Customers in Europe

(in thousands)



**Wanadoo's subscriber base of active customers continued to enjoy sustained growth in all key markets.**

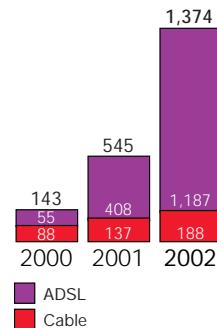
**july 2002 > Wanadoo** unveils a new visual identity and "Positive Generation" branding, announcing a mature Internet market with access for everyone. **> The acquisition of EresMas makes Wanadoo No. 2 in Spain in Internet access and online services and the No. 2 ISP in Europe. //**

CONTINUED ON PAGE 47

close to people and needs  
internet

## Wanadoo broadband customers

(in thousands)



Wanadoo's broadband services took off in 2002, representing 16 percent of the active customer base in Europe.

with Auna, the number two telecom services provider in Spain, which divested EresMas.

In addition to Wanadoo's operations, France Telecom also has international Internet operations, including El Salvador, Jordan and Poland. TP Internet is the biggest ISP in Poland with 1.5 million subscribers. This TP Group subsidiary has acquired one of the country's top two portals, Wirtualna Polska.

### Tailored Internet access

#### Access solutions for every profile

One of Wanadoo's core competitive advantages is its broad selection of access solutions, reflecting the sheer diversity of uses and customer profiles. This catalogue runs from basic dial-up service to blazing broadband, such as ADSL, cable or wireless ADSL. All customers get five email accounts, 100 MB of hosting space for a personal website and a 24-by-7 customer support hotline. Dial-up customers can choose from five "Intégrales Wanadoo" plans, with five to 60 hours of connection per month for a flat rate, including services such as free interruption of the subscription during vacation. There are also virus protection and parental control options.

The "Wanadoo Accès Libre" service lets people connect with no subscription for just 0.02 euros per minute.

#### A full lineup of broadband services

Broadband transforms the Internet experience, making it fast and easy to download large files, play network games and enjoy Internet

audio or video almost instantly. What's more, customers' phone lines remain free and the connection is always on for a single flat rate. At the end of 2002 Wanadoo had over 1.37 million broadband Internet customers in Europe, compared with just 545,000 in December 2001. In France, Wanadoo had nearly a million ADSL customers by the end of 2002.

ADSL really took off in 2002 in France, which is now the second-largest market in Europe, behind only Germany. As a network operator France Telecom has been instrumental in driving this growth. All ISPs have jumped on board to propose a wide variety of offers and promotions. As an ISP, Wanadoo markets its broadband solutions under the eXtense brand. These "all-in-one" packages provide a modem, an ADSL access account and downstream bandwidth – from the network to the customer – of 128, 512 or 1024 **kbps**. The packages cost from 30 to 80 euros a month and include the same additional services available to dial-up customers. Broadband service for small businesses includes a 1024-kbps connection designed for sharing by multiple PCs, plus special services such as a dedicated **hot line** and the Wanadoo Business **portal**, a true mine of information and contacts. Wanadoo proposes a cable broadband service as well on 15 cable networks in France. Wanadoo Cable bundles a suite of cable TV programming and convenient high-speed Internet, all for a single attractive rate. Two new unlimited access plans have been introduced, one offering 512 kbps at 45 euros and another 64 kbps service at 25 euros.

# 1.4 million broadband customers in Europe



1

### Wireless Internet for the home

Making broadband available to the largest possible number of homes is not enough. The next step is enabling everyone in the family to enjoy **high-speed** surfing under optimum conditions, without complicated wiring. Leveraging expertise from France Telecom R&D, Wanadoo is pioneering wireless broadband Internet for consumers, running trials of both **WiFi** and Bluetooth technologies in Paris and the nearby Yvelines region since August 2002. WiFi makes it possible for several computers to share the same Internet connection, with no cable and no loss of speed, regardless of the ADSL service used. **Bluetooth** technology enables wireless interconnection of all types of devices, from GSM cellphones to TV sets, or even computer keyboards and mouses. This eliminates all problems with cables.

These two innovations will soon be available to Wanadoo customers in two new packs: eXtense Pro WiFi for businesses and a Bluetooth pack for consumers.

Bluetooth technology fits with the emerging trend of making Internet access available from multiple devices. In addition to PCs and new-generation cellphones, people are increasingly using PDAs and digital TV sets to get on the Net. This trend ushers in new uses as well, with Internet telephones, broadcasting, videoconferencing and other services expected to fuel future growth.

### Content and services

#### Three areas of excellence

Wanadoo's content activities span three areas. The group's networks of portals and sites boast a large



2

Although technical platforms are shared, the Wanadoo brand is tailored to individual national markets, whether in Spain, Holland 1\_ or France 2\_.

close to people and needs  
internet



DIRECTORIES  
**640,000**  
ADVERTISERS  
INCLUDING  
**238,000**  
INTERNET  
ADVERTISERS

PORTALS  
**1.7**  
BILLION  
PAGES  
VIEWED  
IN DECEMBER  
2002

1\_Wanadoo also delivers  
excellence in directories  
and e-commerce:  
Creating Web pages  
for Pages Jaunes 1\_,  
getting orders ready for  
shipment at Alapage 2\_.

audience across Europe, attracting more than 15 million unique visitors in December 2002, who viewed more than 1.7 billion pages. Wanadoo group pages have been visited by some 65 percent of all web-surfers in France, 25 percent in the U.K., 45 percent in Spain and 23 percent in the Netherlands (source: Nielsen-NetRatings). Wanadoo is also a major player in French e-commerce, covering books, music and movies, as well as household goods and electronics. Lastly, Wanadoo is one of the top print and electronic directory companies in Europe. It is the leader in France and a very strong number two in Spain.

#### General-interest portals

Portals are divided between general-interest and specialized sites. The Wanadoo group's general-interest portals in France are led by wanadoo.fr, the home page for customers of the Internet access service, and our **search engine** voila.fr, which targets all Internet users. Both offer a full range of integrated communications services (**email**, forums, **chatrooms**, etc.), plus free and pay practical services, a powerful search engine and themed editorial content (news, games, etc.). In 2002 a special health section was introduced, plus a portal featuring content developed in partnership with French TV station TF1 around its popular "Who Wants to be a Millionaire?" show. These services combine to attract one of the largest audiences in Europe.

Wanadoo added a rich array of new content and services designed specially for broadband last year. The home page now proposes audio and video chatrooms, movie trailers, Internet radio, video and music clips, slide shows, an encyclopedia and a guide to popular

broadband sites. There are also pay services such as music downloading and news from French news channel LCI.

Outside France Wanadoo portals welcome customers of its Internet access services. In the United Kingdom, Freeserve logged 242 million page views in December 2002. Like the wanadoo.es portal in Spain, Wanadoo sites in all countries are fully localized.

#### Specialized portals

In addition to its general-interest sites, Wanadoo offers a variety of sites targeting individual communities of interest or markets. One very popular site among drivers is Mappy, the French leader in travel planning. The Site calculates itineraries, including costs, and proposes maps of cities throughout Europe. Other features include information on traffic conditions, tourist guides and map services. This offer can be accessed from WAP cellphones or PDAs as well. Mappy is produced by Wanadoo Maps, which also provides Internet photos of building facades for all listed street addresses in France's nine largest cities (end 2002), as well as for Madrid and Barcelona for qdq.com. The posting of these photos for the Spanish cities sparked explosive audience growth in the past two years. To develop this service, Wanadoo Maps has devised a structured method that lets it cover any city, producing and indexing up to 12,000 photos per day.

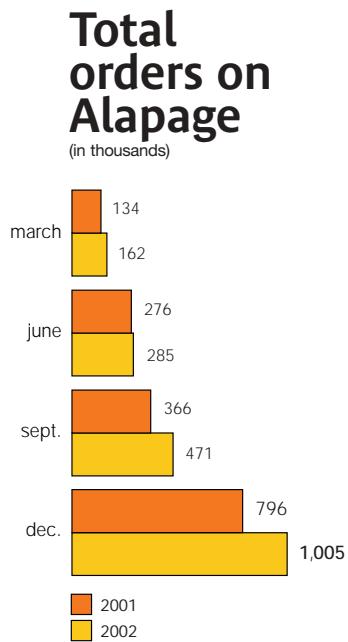
Games site Goa offers 150 online games and logged 3.8 million page views per day in December 2002. Since November 2002, 141 different local city and regional versions of the wanadoo.fr portal have been developed, covering the entire country (with the exception of the



1\_



2\_



**Alapage delivered as many orders in 2002 as it had since the site was launched in 1996. It now counts more than 700,000 customers, who can choose from 3 million products.**

Paris region). The localized information and services on these sites are enhanced by content produced with local partners. Since advertising alone cannot ensure the profitability of the Internet, Wanadoo will further develop pay services, billed directly to end users either per transaction, by duration or on a subscription basis.

#### E-commerce

**E-commerce** is another source of direct revenues for Wanadoo. Stimulated by the development of secure payment solutions such as the "Ticket Surf" – a sort of virtual credit card developed by France Telecom research labs in 2002 – this distribution channel is experiencing rapid growth. In France, Wanadoo sells books, music and movies online through Alapage, which booked over one million orders in 2002, equal to the total number of orders since the site was launched in 1996. Another Wanadoo site, Marcopoly, sells electronics and household goods

#### Directories

Wanadoo websites and portals are vehicles for development of both online advertising services and e-commerce. Wanadoo offers both ad space and e-commerce solutions for businesses. Wanadoo Régie is the leader in this market for large nationwide advertisers, while the Pages Jaunes yellow pages directories remain the top advertising vehicle for smaller local businesses. At the end of 2002, the paper and electronic versions of Wanadoo's different directories counted 640,000 paid advertisers in Europe, of which 556,000 in France and 83,000 in Spain. Over 230,000 French customers run online ads. Pages Jaunes is the top

Internet directory site in Europe in terms of audience traffic.

Wanadoo's proven expertise in directories has made pagesjaunes.fr one of the top ten most visited sites in France according to the Nielsen-NetRatings ranking, with 111 million page views in December. The Web version of the Pages Jaunes directory provides access to both residential and business listings, as well as the "Qui Donc" a reverse directory to find a name from a number, plus a host of innovations such as street address photos and maps on Mappy. The Kompass business site won the European Grand Prize for best B-to-B directory in 2002.

#### Profitable growth

This strategy has clearly paid off as Wanadoo's revenues jumped 33 percent in 2002 to 2,075 million euros. Wanadoo achieved an important milestone as EBITDA (90 million euros) and net income (30 million euros) were both positive. This demonstrates that despite the bursting of the Internet bubble there is indeed a profitable business model for Internet enterprises.

CONTINUED FROM PAGE 43

**// october 2002 > Launch of "custom-tailored" ADSL broadband packages with bandwidth ranging from 128K to 1,024K. // january 2003 > Wanadoo Belgium divested. // february 2003 > Wanadoo tops 4 million active customers in France, including 1.1 million broadband subscribers.**

# Fixed services

## Innovation and attractive rates make communicating easy and convenient for our fixed-line customers.



**49.5**  
MILLION  
CUSTOMERS  
WORLDWIDE



2\_



1/2/3\_Behind the apparent simplicity of the telephone lie non-stop actions to maintain superior network quality and respond to customers' needs.

3\_

## The phone business

### Total competition

Full competition for all telephone traffic was introduced in France as of January 1, 2002. Our share of the long-distance market – domestic and international – nevertheless stabilized at around 64 percent at yearend 2002, and we have more than 80 percent of the local call market. Our strategy is in fact quite simple: do whatever it takes to satisfy and keep our customers!

### Competitive rates

Competition has put strong pressure on rates, and our rates figure among the lowest in the market, with a complete range of attractive service plans and options. The key to services introduced in 2002 was a focus on simplicity and saving money for consumers. For example, "Les Heures France" is a selection of eight plans that let people phone anywhere in metropolitan France for the same flat, per-second rate, with no minimum time. These packages include from two to 20 hours of calls per month. For the first time we also introduced special discounts to reward loyal customers.

The range of local calling packages, known as "Les Heures Locales", was extended with more call time options, accompanied by cuts in rates.

As of April 2002 our customers enjoyed a reduction in the cost of fixed-line calls to wireless phone numbers. A further rate reduction took effect in early 2003.

For small business customers we introduced two simple and very

competitive packages, "Forfait Local Pro/PME" and "Forfait France Pro/PME". The first package spans a choice of 11 monthly service options providing between four and 160 hours of local calls. The second package also includes 11 service options for five to 210 hours of calling at a single flat rate to anywhere in France.

Reflecting economic realities, these lower call rates were accompanied by a rise in monthly service subscription fees to match the inflation rate. Despite this, France Telecom's basic service fee remains among the lowest in Europe.

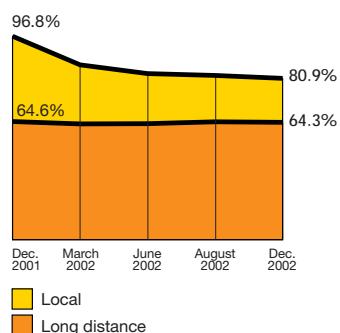
We launched a multitude of special promotions throughout the year as well. As official sponsor of the French national rugby team, we made it possible for customers to sign up for a free hour of calls over the weekend of the France-Ireland match. Customers could also sign up for a free hour of calling during the year-end holiday season.

### Living is easy with convenient phone services

Low charges are one thing, but the superior quality of our network is what sets us apart from competitors. Behind the apparent simplicity of telephone service lie a steady stream of innovations, from voice recognition to voice-over-Internet. With over 34.1 million lines installed in France – including 4.9 million Numeris/ISDN lines – our fixed network is one of the most powerful and efficient in the world, backed by best-in-class technologies. And we make sure that sophisticated technology means ever greater ease of use, accompanied by a continually growing selection of new features and services.

## France Telecom market share in France

(in %)



**France Telecom's share of the long-distance market was unchanged and our share of the local market stabilized following the introduction of local loop competition at the beginning of the year.**

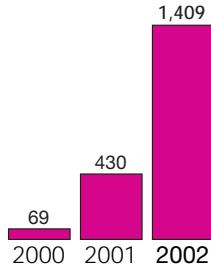
**january 2002 > Full competition** in fixed-line telephone creates both commercial and technical challenges. Thanks to meticulous preparations, the "big bang" went off flawlessly as specialized France Telecom teams mobilized their talents. // **march 2002 >** Caller ID joins a long list of services that make fixed phones more convenient. In June, we introduced a "Voice Contact" a talking caller ID box. //

CONTINUED ON PAGE 52

close to people and needs  
fixed services

## ADSL connections

(in thousands)



**Innovative rate offers from France Telecom have propelled France to No. 2 in Europe in ADSL broadband, behind Germany.**

The 14 different convenient "contact" features available to our customers proved as popular as ever. Introduced in late 1999, the "3131" last call return service counted 5.8 billion calls, while the TOP Message voice mail service now manages more than 5 million voice mailboxes. Other services like call waiting and automatic callback make it easier than ever for our customers to be contacted wherever and whenever they want. Sophisticated voice technologies helped improve different services such as the 3000 interactive customer service platform, our range of toll-free/toll-share numbers ("Numéros Vert, Azur, Indigo") and Audiotel auditex portals (32 20®, 32 40®, 32 60® and 32 23®) which let callers obtain information just by saying the name of a company. In March, the caller ID service was enhanced with a "Voice Contact" box that both displays and pronounces the name of the caller. This innovation won a prize at the Autonomic trade fair for solutions and services for the disabled. Staying reachable sometimes means paying for calls received. This is now possible with the "PCV France" collect call service introduced last year. For websurfers who use a dial-up connection, the "@llo" service notifies them of incoming calls while their line is being used for the Internet. They can either answer with a voice Internet connection, transfer the call to another line, or disconnect from the Internet session and take the call.

## Internet energizes fixed services

### Broadband for everyone

The Internet has totally rejuvenated fixed phone service, thanks in particular to ADSL broadband, now used by a quarter of Wanadoo customers in France.

Since its launch only three years ago, ADSL has continually boosted the fixed-line market. Sales have accelerated considerably, reaching over 35,000 connections a week, making a total of more than 1.4 million households with ADSL connections at the end of December 2002.

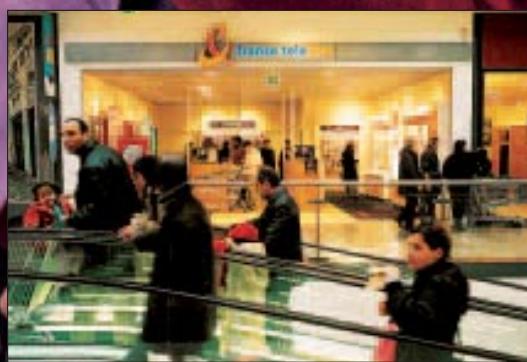
France Telecom is working hard to make sure that everyone can enjoy the benefits of broadband. By the end of last year, ADSL was available for 21 million lines, covering 71 percent of the country. For people in remote areas we are working on dedicated infrastructures in partnership with municipal and regional authorities.

Equally important, we introduced new broadband rate offers in April, with access options offering from 128 kbps to 1,024 kbps of bandwidth. This diversification was accompanied by an overall drop in charges of about 20 percent. In addition, our new **unbundling** fees make France the cheapest country in Europe.

### Internet and intranet solutions for small businesses

To sharpen their performance, businesses need to maintain close contacts with their customers, optimizing processes and giving staff access to efficiency-building tools. In the wake of large corporations, smaller enterprises are pursuing their own "e-transformation" thanks

# 6.8 million service packages sold in 2002



1



2

Whether in the Paris suburb of Argenteuil 1, or Jordan 2, the France Telecom group puts innovation to work for consumers.

to turnkey solutions that bring them high-speeds and solid security.

To address these needs, we expanded our Oléane range of small business solutions.

Oléane Open is a complete Internet access package, including email, personalized domain names, website hosting and customer support. The range contains a very attractively priced entry-level solution called Oléane Open 3010.

Oléane VPN is a variant of the Equant IP VPN service, previously reserved to large businesses. This lets smaller firms set up a virtual private network to support a full-fledged **intranet**, managed by France Telecom. This solution is perfect for small-to-midsize enterprises with two to ten sites.

The Bizao portal provides an efficient online business platform, creating a personalized working environment tailored to a company's activity. The site provides information, practical services and collaborative working applications, all just two clicks away.

## Serving the public

### Multifunction payphones

Despite the boom in wireless phones, the 202,000 payphones in service in France continue to provide an essential service for our customers. These payphones are also embracing innovation, joined by 2,000 public access Minitel videotex and Rapidofax terminals. In addition, some 2,300 Wanadoo Internet kiosks enable access to custom-tailored content based on the location or operators of the kiosks, which might be a municipal office or shopping mall, for example.

Today's phones are evolving into "multiservice" kiosks.

**15.4**  
MILLION  
FIXED LINE  
CUSTOMERS  
WORLDWIDE  
OUTSIDE  
FRANCE

including

**10.8**  
MILLION  
CUSTOMERS  
FOR TP  
GROUP

The location of payphones is determined in liaison with public authorities and is designed to contribute to universal service.

These terminals are ideally suited to credit card payment of services and will increasingly offer Internet-based services, such as email access thanks to an interactive voice interface. New "full-service payphones" are being tested in Paris and Lyon. One promising application is "Aidenoo", which provides information on local services.

Telephone tickets have become a popular and convenient way to pay for calls from any fixed-line phone in France or other countries. The latest entry in the hotly competitive market for prepaid card services, these telephone tickets now account for 50 percent of the market.

#### Commercial innovation

Our 650 sales offices focus on customer service before, during and after the purchase. A variety of commercial innovations introduced in 2002 helped us deliver on this promise, including payment in three installments, home delivery, personalized diagnostic of needs, a wider selection of phones and "all-in-one" packs. A redesign of sales offices to enable more dynamic customer service was completed at over 280 locations.

In addition to the network of consumer sales offices, 26 sales locations across France cater specifically to small business customers.

Another essential factor that enhances customer service is our information system. The system was further enhanced in 2002 to enable more personalized contacts adapted to the diversity of our customers. This is especially important for phone contacts and helps rationalize our customer service resources. In other areas, ordering

and provisioning is now fully automated for 80 percent of new ADSL lines, and the time needed to order a new cellphone was cut from 20 to 7 minutes.

#### Staying close to customers

To keep close to customers' needs we also established indirect distribution channels in addition to our own sales offices. New distribution outlets via computer, household appliances and other retail chains were set up in 2002 to reach consumers in rural areas.

Wanadoo's 2,500 indirect distribution outlets accounted for over 6 percent of broadband Internet connections in 2002. Thanks to a new website, retailers can instantly find out whether ADSL service is available for a line and sign up a new customer if it is.

"Self service" orders via online or phone services reached 7.6 percent of indirect distribution sales last year, for a total of 2.4 million sales. This rise was stimulated by special gift offers, attracting more than a million customers. The France Telecom Net store ([www.agence.francetelecom.com](http://www.agence.francetelecom.com)) enjoyed an 80-percent surge in visitors as sales via the site doubled. The "3000" interactive customer platform handled 23 million calls, representing 1.4 million deliveries, over double the year-earlier figure. Orders for home delivered products jumped 180 percent to 370,000.

#### Covering the world

France Telecom's focus on service continues when customers travel outside France, spanning some 220 countries and territories, including the vast global coverage of our Equant subsidiary.

CONTINUED FROM PAGE 49

**// april 2002 > Sharp cuts** in ADSL rates sparked a surge in France, which became Europe's No. 2 broadband market at the end of the year. The one-million-customer mark was surpassed in November. **// summer 2002 > New local and domestic long-distance call packages** make fixed phones more convenient and economical than ever.





### Third leading operator in Spain

In the growing Spanish market our wholly-owned subsidiary Uni2 was awarded the country's third fixed-line telephony license in 1998. It has since pursued growth thanks to a series of technical and marketing innovations. Uni2 was the first **alternative operator** to introduce flat-rate packages for consumer voice services. Thanks to its competitive pricing policy Uni2 boosted revenues by 50 percent in 2002, winning 60 percent of the market growth in lines on which consumers have opted for carrier preselection. The company had 1.6 million customers at the end of the year, representing 2.6 million lines.

In French Polynesia, France Telecom signed an agreement in mid March of last year with Office des Postes et Télécommunications (OPT) to create Tahiti Nui Telecom. TNT has a 20-year license for international telecommunications services. This partnership anchors our long-term presence in the region following the transfer of responsibility for international telecommunications from the French state to territorial authorities.

In El Salvador, our Telecom subsidiary unveiled new branding as it continues to develop universal, high-quality service. The country now benefits from a 100-percent digital fixed network serving 262 communities. Telecom also proposes GSM cellular and Internet access services, along with a full range of telecom services for businesses in Guatemala.

In Jordan, Jordan Telecom was listed on the stock market in September 2002 with the second-largest market capitalization on the Amman exchange. Under the stewardship of France Telecom, which has held 40 percent of the operator

since January 2000, the network has been upgraded to international standards, and both a high-speed data network and wireless service have been introduced.

In Africa, our Senegalese subsidiary Sonatel successfully bid for a license to become the second operator in Mali.

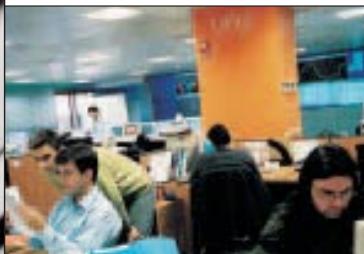
In Asia, our subsidiary FCR Vietnam intensified its cooperation with state-run operator VNPT. Plans call for FCR Vietnam to build 540,000 lines in five years. FCR Vietnam also provided technical assistance during the year covering rollout of new services, the information system and network interconnection.

### Strategic position in Poland

With a population of 39 million, a vigorous economy and a strategic position in the heart of Central Europe, the Polish market harbors great promise. In conjunction with our Polish partner Kulczyk Holding, we own 47.5 percent of the former state phone company TP (Telekomunikacja Polska). France Telecom's share is nearly 34 percent. Along with its subsidiaries, including cellular operator PTK Centerel, TP forms the TP group, which was consolidated in France Telecom accounts as of April 1, 2002.

In 2002 TP Group pushed its revenues up over 4 percent on a pro forma basis to 3.47 billion euros. The group's EBITDA surged 24.9 percent to 1.45 billion euros on a pro forma basis. TP is profitable in its fixed, wireless and Internet activities and enjoys excellent growth potential.

At year-end 2002 TP Group had over 10.8 million fixed-line customers, up from 10.4 million a year earlier. It also had over 95 percent of the long-distance market.



1\_

The France Telecom group is building strong positions in fixed, wireless and the Internet around the world, especially in Poland, Spain 1\_ and Senegal 2\_.



2\_

# Business services

## Our network services bring enterprises unmatched competitive performance.



**3,700**  
MULTINATIONALS  
ARE EQUANT  
CUSTOMERS

1\_



2\_



3\_

Equant is present in 220 countries and territories, including the Netherlands 1\_ and Germany 2\_. Equant's network provides global coverage for businesses 3\_.

## Innovative products

### Proven solutions

In a sluggish economy, businesses must work harder than ever to sharpen their performance. Efficiently putting information technology and Internet-based services to work are thus fundamental imperatives. Our networks and value-added solutions are backed by world-leading customer care to help businesses address today's challenges.

To support the e-transformation of businesses, our primary role is to bring them access to innovative solutions. For the past five years we have used IP-based resources on our own intranet – most of them developed in our labs – before proposing them to our customers. By applying our own solutions we make sure they will fully meet the expectations of demanding customers around the world.

### Tools for nomadic communication

The Internet is not our only focus for innovation. For example, we introduced new solutions in 2002 to facilitate nomadic communication in France and worldwide.

Thanks to Orange Enterprise Portal and Orange Bureau solutions, staff enjoy fully secure access to their email, diary and corporate intranet, as well as the Internet. Over 700 businesses have already signed up for these services. Since spring 2002 they have been available via the Orange GPRS network, cutting access time and optimizing costs. Outside of France these solutions are available in Belgium, Denmark, the United Kingdom and Switzerland.

### Convergent solutions

The France Telecom group is uniquely positioned to blend voice, data and video solutions, spawning a suite of innovative convergence solutions packaged with value-added. These solutions seamlessly span wireless, data, the Internet and intranets. Trials with large corporate customers will help speed a host of new applications to market in 2003, including video, IP telephony, Web conferencing, e-learning and multimedia contact centers.

### Best-in-class outsourcing solutions

As more large corporations refocus on core activities, many of them have chosen France Telecom for complete or partial outsourcing of their telecommunications operations. Club Med, Thomson, Credit Lyonnais, AGF and others benefit from our custom-tailored services as part of multi-year contracts. These services cover France and the rest of the world, with à la carte outsourcing of components – from intranets linking corporate sites to managed LAN – as well as security, hosting and contractual quality of service.

# 650

EQUANT  
IP VPN  
NETWORKS  
DEPLOYED  
WORLDWIDE

# 80,000

GPRS  
SUBSCRIPTIONS  
IN 2002

**july 2002 > Smartjog**, a venture spun off from Globecast, offers the first international platform for international digital programming distribution for broadcast professionals. The service replaces video tape with digital content. // **october 2002 > Equant** named "Best Global Carrier" by Emap and ECTA for successful integration of Global One, financial stability and superior quality customer care. //

CONTINUED ON PAGE 59

**2.6**  
MILLION  
KILOMETERS  
OF OPTICAL  
FIBERS  
IN FRANCE

**9,000**  
CUSTOMER  
SERVICE  
AGENTS

**200,000 sites  
equipped with  
high-speed links  
in France**

## Networks for every need

### Ubiquitous bandwidth without limits

Our unmatched network strength lets us provide businesses of every size with efficient communications solutions, regardless of where they are located or the volume. High-bandwidth services accelerate this process. In France, over 200,000 business sites were equipped with high-speed links at the end of 2002. Most of them use the links for connection to the Internet and data networks, providing bandwidth of up to 1 **Gbps** using optical technology. Some 80 percent of enterprise sites now have access to DSL technologies. We achieved a significant milestone in 2002 with trials of Gigabit **Ethernet** links, in partnership with Atrica. This should usher in services on mult-client metropolitan networks and even on nationwide infrastructures that tap the power and rich functionality of Gigabit Ethernet **LAN** switches. To interconnect major sites, we offer bandwidth of up to 80 Gbps. Distribution networks will leverage the widespread availability of business-class DSL technology. The Numeris Multisite ISDN solution brings fully secure fiber-optic service to large urban areas for both voice and data transport.

### Custom-tailored networks

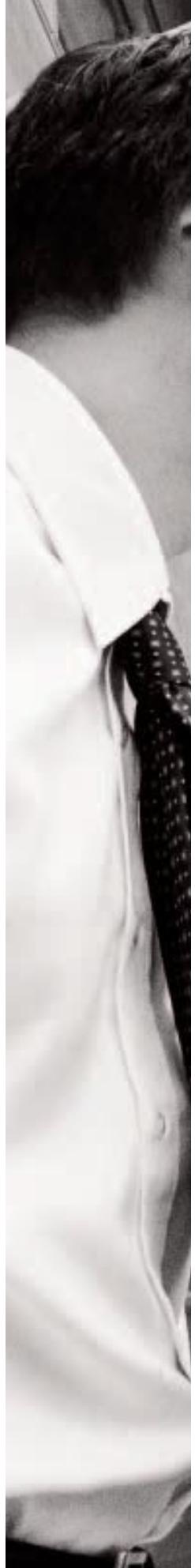
France Telecom is widely recognized for excellence in providing high-speed networks for the world's largest businesses. Our complete portfolio of solutions addresses the full spectrum of needs, including

geographic constraints, flawless reliability, scalability and, of course, security. For insurance firm Allianz, Equant deployed a virtual private network based on the Internet protocol (**IP VPN**). This network links a hundred sites on every continent and supports an intranet with a corporate directory, groupware, and a stock and bond trading application. Equant is providing project and service management, along with high-level security. Transmission speeds at the core of the network are up to 155 Mbps. Equant IP VPN is the industry's leading solution, used by more than 650 multinational businesses.

To shrink design and production cycles and share data, the European automotive industry established the European Network Exchange, or ENX. This **extranet** connects automakers with suppliers and partners. We are one of three carriers selected for deployment of the network. In 2002 we expanded our ENX offer from six to 33 countries, supported by the Equant network.

### New horizons for collaborative working

Following the success of Operation Lindbergh (a transatlantic surgical operation) in 2001, France Telecom and IRCAD (Institute for Research into Cancer of the Digestive System) pursued their partnership with the creation of the Argonaute 3D experimental platform that lets medical professionals at remote locations examine patient records together, with three-dimensional elements. A demonstration of the platform drew on existing solutions from Wanadoo and Oléane, coupled with innovations spearheaded by France Telecom R&D.





1



2

Our high-bandwidth networks enabled fluid transmission of 3D images, and the experimental collaborative working platform developed by our researchers harbors great promise for the future.

Argonaute 3D opens up tremendous opportunities to increase productivity for all those who work with complex images, such as urban planners, geologists or architects, as well as for the aerospace, automotive and other industries that rely on computer-aided design.

#### **Satellite broadcasting**

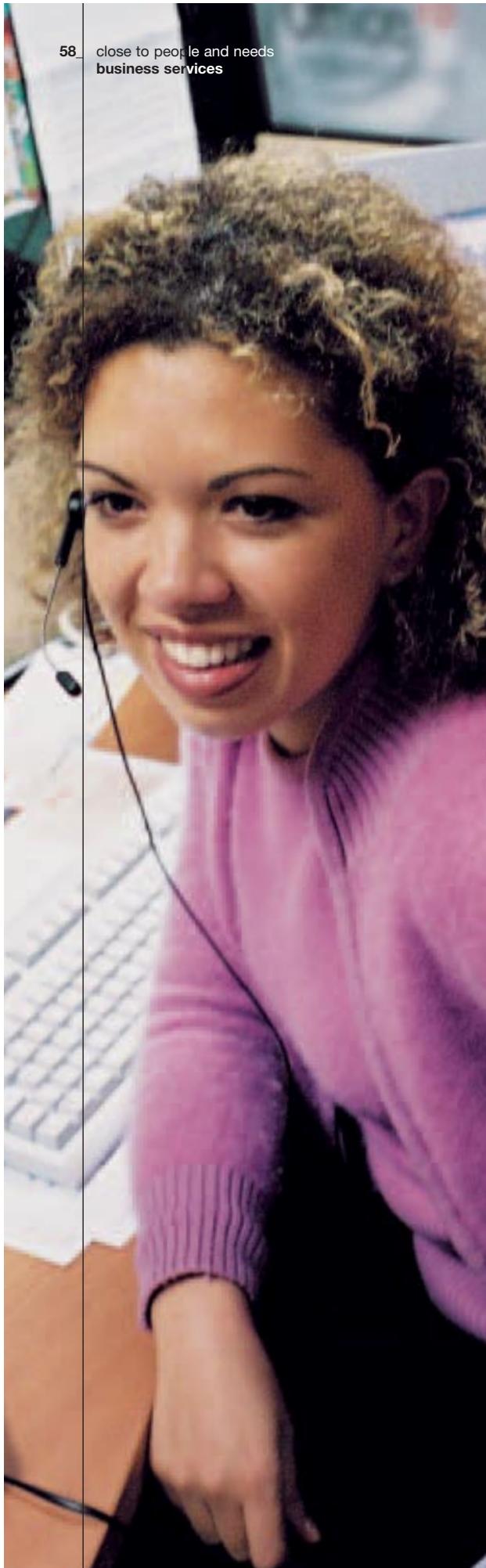
France Telecom is also recognized for its expertise in satellite broadcasting through our subsidiary Globecast, the global leader in satellite transmission services for professional broadcast, enterprise multimedia and Internet content delivery. With 16 offices and teleport earth stations on five continents, Globecast offers a complete range of satellite broadcast solutions, including TV and radio distribution, secure Internet content delivery and mobile production for sports and news events.

#### **Value-added solutions**

##### **Spearheading e-business**

Our value-added services facilitate relations both within businesses and with their customers and partners, covering everything from security and customer contact management, to hosting of servers. These services must deliver 24-by-7 performance, which is why they are an important core activity for the group in France and worldwide, available via Transpac and Equant. Staying on the cusp of the latest

Equant operates one of the world's largest data networks, especially in the United States, including facilities in New York 1 and Atlanta 2.



technologies requires significant resources, which is why more and more enterprises are opting to focus on their core activities and have specialists host their applications. With more than 20 years of experience, we have the skills and facilities to address their needs, whether basic or highly complex. Over 700 people at France Telecom work in the hosting segment.

#### **Equant, recognized leadership for data beyond borders**

**Equant is a widely acknowledged world leader in International data and IP network services for multinational businesses, operating a seamless network with unmatched global reach. Equant's network spans major business centers in 220 countries and territories, with local support services in 167 of them. Backed by over 50 years of proven experience, Equant serves thousands of top-tier multinational enterprises thanks to the industry's most comprehensive portfolio of network services.**

We currently have 25 to 35 percent of the French market and we expect growth of 35 to 40 percent per year. We aim to bolster our leadership in a market that is seeing consolidation. Our strategy is anchored in high quality of service, security, and scalable hosting solutions for websites and applications.

Our solutions encompass network connectivity, supervision, security and backup, or complete management of applications. Two emblematic examples of our expertise are hosting of the website for outdoor and sporting goods retailer "Le Vieux Campeur" – listing 10,000 items – and a collaborative working application used by aircraft manufacturer Airbus and its suppliers.

#### **Certified security**

Businesses are legitimately very concerned about the security of their information system. Our R&D center has let us develop high-level expertise in this area, which is why over 200 large enterprises rely on France Telecom for the security of all or part of their Internet accesses, as well as exchanges with their corporate intranet. In January 2002, the Equant IP VPN solution obtained "Common Criteria" certification from the French government information systems security agency DCSSI, the first time certification had been granted for an entire service. This label guarantees that data flows are fully protected against intrusion, along with the physical security of equipment and administration procedures. The norm has since been adopted by the International Standards Organization as the ISO 15408 standard. We provide customers with security solutions adapted to their needs, addressing all issues, from transport to access gateways and



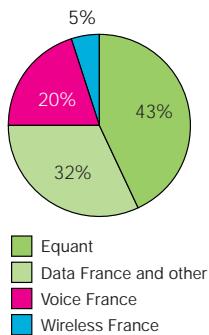
1\_



2\_

France Telecom provides support in 191 countries, assisting customers from France to Tokyo 1\_ or Munich 2\_.

## Breakdown of business services revenues



**Although data services account for the largest share of revenues, voice remains a key market, reflecting the importance of personal contacts.**

authentication. We also propose consulting and expertise to help customers improve information systems security, and propose managed security that includes **firewalls**, caches, filters and virus protection. Our security services include authentication, Public Key Infrastructure (PKI) and Internet Protocol Security (IPSEC).

Our security solutions also protect transactions and applications, including remote payment (online VAT payment, for example), exchanges for closed user groups, and micropayment (using W-HA technology).

Our Inter-SAN solution is designed for large businesses that require real-time backup of data transactions. This service is now available in all major French cities and has won over such firms as consumer credit leader Cetelem.

### Taking customer relations to a new level

Customers expect businesses to listen to their needs and provide personalized answers, leading businesses to multiply the number of contact channels. One of the key challenges for efficient Customer Relationship Management (CRM) is enabling people to contact a business however and whenever they want, regardless of the means – fixed or wireless phones or Internet. In 2002, our “Solutions i-contact” range broke new ground by making convergence of remote contact channels a reality. In addition to letting customers know what types of contact services are available, this range includes qualification of contacts to route them to the appropriate teams, contact management to make sure customers talk to the right specialist, and distribution of contacts for optimized processing.

Every aspect of customer relationship management is covered and integrated within the operational organization of each individual business.

“Click to Contact”, for example, lets web surfers select one of seven different immediate or delayed means to contact an agent – callback by phone, Internet phone or Internet chat, for example.

Another “i-contact” solution is Qualimail, which simplifies and optimizes processing email-based customer relations. The application provides companies with tools to automate, improve and simplify processing of messages, such as reception acknowledgement receipts, message qualification, standard or personalized reply messages, archiving, etc. Mail order firm Quelle, for instance, deploys this solution to handle burgeoning email traffic from its four million customers in France. The company has cut response times to a maximum of 24 hours, outside limited peak periods.

All-IP call centers are another forward-looking solution to maximize customer relationships. Mail order leader La Redoute has deployed one of these multimedia contact centers with access via its website. The 12 agents at the alloweb® platform process all customer requests, whether they arrive by email, phone or via the online forum. They can call back customers with records of orders instantly displayed on their screen. The entire platform is hosted by France Telecom, with remote administration using a standard Web browser.

These few examples are emblematic of our commitment to bringing enterprises the best technology to let them do what they know best: their business.

CONTINUED FROM PAGE 55

**// november 2002 > Argonaute 3D** lets medical specialists across France jointly consult 3D images for a more reliable diagnosis. **// december 2002 > Total-FinaElf** chooses France Telecom and Equant to interconnect 1,500 sites in 75 countries via an Equant IP VPN network.



# Consolidated financial statements

## Consolidated statements of income

(Amounts in millions of euros except per share data)	Note	Year ended December 31		
		2002	2001	2000
<b>Sales of services and products</b>		<b>46,630</b>	<b>43,026</b>	<b>33,674</b>
Cost of services and products sold (excluding items shown separately below)		(18,558)	(17,619)	(12,733)
Selling, general and administrative expenses		(12,579)	(12,520)	(9,685)
Research and development expenses		(576)	(567)	(449)
<b>Operating income before depreciation and amortization</b>		<b>14,917</b>	<b>12,320</b>	<b>10,807</b>
Depreciation and amortization (excluding goodwill)		(7,910)	(6,910)	(5,726)
Amortization of actuarial adjustments in the early retirement plan	18	(199)	(210)	(225)
<b>Operating income</b>		<b>6,808</b>	<b>5,200</b>	<b>4,856</b>
Interest expenses, net	12	(4,041)	(3,847)	(2,006)
Foreign exchange gain (loss), net		136	(337)	(141)
Discounting of early retirement plan	18	(216)	(229)	(237)
Other non-operating income/ (expense), net	25	(12,849)	(5,904)	3,957
Income taxes	26	(2,499)	2,932	(1,313)
Employee profit-sharing		(148)	(131)	(141)
Equity in net income/(loss) of affiliates	7	(367)	(890)	(275)
<b>Income/(loss) before goodwill amortization and minority interest</b>		<b>(13,176)</b>	<b>(3,206)</b>	<b>4,700</b>
Goodwill amortization	4-7	(2,352)	(2,531)	(1,092)
Exceptional goodwill amortization	4-7	(5,378)	(3,257)	–
Minority interest	20	170	714	52
<b>Net income (loss)</b>		<b>(20,736)</b>	<b>(8,280)</b>	<b>3,660</b>
<b>Earnings per share (in euros)</b>				
Earnings per share before goodwill amortization and minority interest				
• basic		(12.14)	(2.91)	4.41
• diluted		(12.14)	(2.91)	4.33
Earnings per share				
• net income (loss)		(19.11)	(7.51)	3.44
• fully diluted		(19.11)	(7.51)	3.38

## Consolidated balance sheets

		At December 31		
		Notes	2002	2001
(Amounts in millions of euros except per share data)				2000
<b>ASSETS</b>				
Goodwill, net	4	<b>27,675</b>	34,963	36,049
Other intangible assets, net	5	<b>18,411</b>	18,189	16,289
Property, plant and equipment, net	6	<b>36,268</b>	31,728	34,623
Investments accounted for under the equity method	7	<b>2,564</b>	8,912	10,506
Non consolidated investments, net	8	<b>1,418</b>	3,240	10,218
Other long term assets, net	9	<b>2,501</b>	1,936	722
Deferred income taxes, net	26	<b>3,903</b>	5,369	2,532
<b>Total long term assets</b>		<b>92,740</b>	<b>104,337</b>	<b>110,939</b>
Inventories		<b>696</b>	900	1,216
Trade accounts receivable, less allowances (1,625 at December 31, 2002, 1,475 at December 31, 2001 and 1,406 at December 31, 2000)	9	<b>5,474</b>	7,596	8,783
Deferred income taxes, net	26	<b>416</b>	1,102	1,609
Prepaid expenses and other current assets	10	<b>4,397</b>	6,653	4,782
Receivable from divestment of real estate	6	—	2,689	—
Marketable securities	12	<b>45</b>	1,138	216
Cash and cash equivalents	12	<b>2,819</b>	2,943	2,040
<b>Total current assets</b>		<b>13,847</b>	<b>23,021</b>	<b>18,646</b>
<b>TOTAL ASSETS</b>		<b>106,587</b>	<b>127,358</b>	<b>129,585</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Share capital —€4 par value —Authorized and issued: 1,190,158,724 shares effective year end		<b>4,761</b>	4,615	4,615
Additional paid-in capital		<b>24,750</b>	24,228	24,228
Retained earnings (loss)		<b>(5,434)</b>	4,682	2,748
Net income (loss) for the year		<b>(20,736)</b>	(8,280)	3,660
Foreign currency translation adjustment		<b>(3,315)</b>	844	59
Own shares		<b>(9,977)</b>	(5,002)	(2,153)
<b>Shareholders'equity</b>	21	<b>(9,951)</b>	<b>21,087</b>	<b>33,157</b>
<b>Minority interests</b>	20	<b>9,780</b>	<b>8,101</b>	<b>2,036</b>
Exchangeable or convertible notes	12	<b>8,110</b>	10,750	2,653
Other long and medium term debt, less current portion	12	<b>38,788</b>	43,793	27,894
Other long term liabilities	18	<b>14,978</b>	8,663	5,220
<b>Total long term liabilities</b>		<b>61,876</b>	<b>63,206</b>	<b>35,767</b>
Current portion of long and medium term debt	12	<b>13,495</b>	1,596	7,542
Bank overdrafts and other short term borrowings	12	<b>10,490</b>	11,365	25,165
Trade accounts payable		<b>8,503</b>	8,631	7,618
Accrued expenses and other payables	18	<b>7,395</b>	7,259	7,729
Other current liabilities	18	<b>1,712</b>	2,481	8,113
Deferred income taxes	26	<b>87</b>	374	512
Deferred income	11	<b>3,200</b>	3,258	1,946
<b>Total current liabilities</b>		<b>44,882</b>	<b>34,964</b>	<b>58,625</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>106,587</b>	<b>127,358</b>	<b>129,585</b>

The notes to Unaudited Consolidated Interim Financial Statements are available on request from France Telecom.

# Consolidated statements of cash flows

(Amounts in millions of euros)	Note	Year ended December 31		
		2002	2001	2000
<b>OPERATING ACTIVITIES</b>				
Net income/(loss)		(20,736)	(8,280)	3,660
<b>Adjustments to reconcile net income/(loss) to funds generated from operations</b>				
Depreciation & amortization of property, plant & equipment and intangible assets	4-5-6-7	15,639	12,698	6,818
Gain on divestment of real estate	25	–	(705)	–
Result on divestment of other tangible and intangible assets		(37)	(92)	(23)
Result on divestment of other assets	25	(960)	(2,093)	(7,677)
Changes in valuation allowances and other provisions	25	13,119	7,860	4,113
Undistributed earnings of affiliates		369	841	276
Deferred income taxes	26	1,586	(2,090)	(277)
Minority interests	20	(170)	(714)	(52)
Other items		(232)	(19)	25
<b>Funds generated from operations</b>		<b>8,578</b>	<b>7,406</b>	<b>6,863</b>
Decrease (increase) in inventories		193	341	(329)
Decrease (increase) in trade accounts receivable		1,219	(628)	(978)
Securitization of receivables	9	797	914	–
Impact of sales of future receivables	18	(82)	690	–
Decrease (increase) in other current assets		542	(1,974)	(1,372)
Impact of sale of carry back receivables	26	1,111	(1,111)	–
Increase (decrease) in trade accounts payable		(420)	(588)	936
Increase (decrease) in accrued expenses and other payables		(99)	2,026	1,493
<b>Other changes in operating assets and liabilities</b>		<b>3,261</b>	<b>(330)</b>	<b>(250)</b>
<b>Net cash provided by operating activities</b>		<b>11,839</b>	<b>7,076</b>	<b>6,613</b>

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Year ended December 31

(Amounts in millions of euros)	Note	2002	2001	2000
<b>INVESTING ACTIVITIES</b>				
Purchase of property, plant, and equipment and intangible assets	5-6	<b>(7,943)</b>	(8,553)	(14,313)
Income from sale of real estate	6	<b>2,550</b>	–	–
Proceeds from sale of property, plant, and equipment and intangible assets		<b>366</b>	296	274
Cash paid for Orange plc	3	–	–	(21,693)
Purchase of own shares	3-21	<b>(5,022)</b>	(8,807)	–
Orange SA IPO proceeds	3	–	6,102	–
Repurchase of Orange SA shares: exercise of E.Onputoption	3	<b>(950)</b>	–	–
Exercise of the call option on NTL preferred shares	8	<b>(1,092)</b>	–	–
Change in net cash following the full consolidation of TP Group		<b>144</b>	–	–
Cash paid for investments securities and acquired businesses, net of cash acquired	3	<b>(184)</b>	(1,071)	(10,899)
Investments in affiliates	7	<b>(146)</b>	(3,284)	(7,969)
Sale of TDF sub-group and investment in Tower Participations.	3	<b>1,290</b>	–	–
Proceeds from sale of investment securities and businesses, net of cash sold	3-8	<b>146</b>	4,524	7,930
Decrease (increase) in marketable securities and other long term assets		<b>(673)</b>	(31)	(218)
<b>Net cash used in investing activities</b>		<b>(11,514)</b>	<b>(10,824)</b>	<b>(46,888)</b>
<b>FINANCING ACTIVITIES</b>				
Issuance of long term debt	12	<b>4,394</b>	37,244	21,528
Repayment of long term debt	12	<b>(3,380)</b>	(18,174)	(3,229)
Increase (decrease) in bank overdrafts and short term borrowings	12	<b>(1,077)</b>	(13,556)	21,002
UMTS vendor financing	18	<b>271</b>	234	–
Minority interest shareholder contributions		<b>70</b>	181	1,847
Dividends paid to minority shareholders	20	<b>(77)</b>	(128)	(213)
Appropriation of earnings	21	<b>(395)</b>	(1,075)	(1,025)
<b>Net cash used in financing activities</b>		<b>(194)</b>	<b>4,726</b>	<b>39,910</b>
Net increase (decrease) in cash and cash equivalents		<b>131</b>	978	(365)
Effect of changes in exchange rates on cash and cash equivalents		<b>(255)</b>	(75)	(19)
Cash and cash equivalents at beginning of period		<b>2,943</b>	2,040	2,424
<b>Cash and cash equivalents at end of period</b>		<b>2,819</b>	<b>2,943</b>	<b>2,040</b>

**SUPPLEMENTARY DISCLOSURES**

Cash paid during the period for:

• Interest	<b>(3,681)</b>	(3,695)	(2,132)
• Income taxes	<b>(959)</b>	(610)	(1,771)

## Consolidated statements of change in shareholders' equity

(Amounts in millions of euros, except per share data)	Number of shares issued	Share capital	Additional paid-in capital	Reserves	Foreign currency translation adjustment	Own shares	Total
<b>At January 1, 2000</b>	<b>1,024,615,901</b>	<b>4,098</b>	<b>6,629</b>	<b>8,023</b>	<b>153</b>	<b>0</b>	<b>18,903</b>
Net income for the year 2000				3,660			3,660
Increase in capital (note 21)	129,216,042	517	17,599				18,116
Movements in holding of own shares (note 21)					(2,153)	(2,153)	
Adjustment on Orange plc acquisition cost (note 3)				(4,335)			(4,335)
Appropriation of earnings				(1,025)			(1,025)
Translation adjustment					(94)	(94)	
Other movements				85			85
<b>Balance at December 31, 2000</b>	<b>1,153,831,943</b>	<b>4,615</b>	<b>24,228</b>	<b>6,408</b>	<b>59</b>	<b>(2,153)</b>	<b>33,157</b>
Net loss for the year 2001				(8,280)			(8,280)
Movements in holding of own shares (Note 21)				(1,271)		(2,849)	(4,120)
Appropriation of earnings				(1,075)			(1,075)
Translation adjustment					785		785
Other movements (note 7)				620			620
<b>Balance at December 31, 2001</b>	<b>1,153,831,943</b>	<b>4,615</b>	<b>24,228</b>	<b>(3,598)</b>	<b>844</b>	<b>(5,002)</b>	<b>21,087</b>
Net loss for the year 2002				(20,736)			(20,736)
Movements in capital (Note 21)	36,326,781	146	522				668
Movements in holding of own shares (Note 21)					(4,975)	(4,975)	
Appropriation of earnings (Note 21)				(1,056)			(1,056)
Translation adjustment (Note 21)					(4,152)	(4,152)	
Other movements (Note 21)				(780)	(7)		(787)
<b>Balance at December 31, 2002</b>	<b>1,190,158,724</b>	<b>4,761</b>	<b>24,750</b>	<b>(26,170)</b>	<b>(3,315)</b>	<b>(9,977)</b>	<b>(9,951)</b>

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# Glossary

## Annual report 2002

### **ADSL (Asymmetric DSL)**

The downstream bandwidth, i.e. to the customer, is more than the upstream bandwidth, from the customer to the network. This asymmetric speed is well-suited to website access and display.

### **Alternative operator (Competitive carrier)**

A telecommunications network operator that competes with the incumbent carrier (often a former PTT).

### **ARPU (Average Revenue Per Unit)**

A decisive indicator of the value of wireless telephone customers.

### **ATM (Asynchronous Transfer Mode)**

A high-bandwidth technology for high-speed digital transmission of voice, data and video.

### **Bandwidth**

The width of the frequency spectrum on a communications channel. Often used as a synonym for speed.

### **Bluetooth**

A wireless communications specification for transmission of voice and data between various devices at up to 10 meters (named after the 10th century Danish king who united Denmark). This opens up such possibilities as "communicating household appliances".

### **Chat**

Messaging via Internet forums enabling real-time text exchanges with other users.

### **Data**

Transmitted information other than voice.

### **Data rate**

The volume of information (i.e. "bits") transmitted per second. "High-speed" means that large amounts of data can be transmitted, compared with the current norm.

### **Digital**

Recording of information (voice, data, video, etc.) in digits to make it easy to process and transport. Numeris is the brand name for

France Telecom's digital ISDN network.

### **DSL (Digital Subscriber Line)**

A transmission technology that makes it possible to send data at high speeds over a conventional copper phone line.

### **e-commerce**

Electronic commerce using the Internet.

### **EBITDA**

Earnings Before Interest, Tax, Depreciation and Amortization  
A measure of the cash generated by a company's operations, prior to deduction of amortization and provisions.

### **e-mail**

Electronic mail sent on the Internet.

### **Ethernet**

The most widely used type of local area network.

### **Extranet**

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

### **Firewall**

Security hardware and/or software between an internal network and a public network to prevent unauthorized access and neutralize attempts at piracy.

### **Gbps (or Gbit/s)**

Gigabit per second  
The equivalent of one million kilobits per second.

### **GPRS (General Packet Radio Service)**

An extension of the GSM standard that increases the data rate and enables permanent connection to the Internet.

### **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.



### **High speed**

Simultaneous transmission of large amounts of data over a single medium. This is a relative concept since speeds of several hundred kbps is currently considered "high-speed" for consumer Internet access; On a corporate local area network, high speed might mean 1,000 times fast.

### **Hosting**

Providing space for a website or personal homepage on a server to enable access to the content via the Internet.

### **Hot line**

A user support phone number.

### **Interconnection**

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

### **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.

### **IP VPN**

#### **(IP Virtual Private Network)**

A private communications network in IP mode. A VPN offers the same security and other benefits as a private network, but runs on public infrastructures. This not only costs less, but also avoids the need for network management for the company.

### **ISP (Internet Service Provider)**

An ISP lets people connect to the Internet, providing them with an IP address.

### **Kbps (or kbit/s)**

Kilobit per second. A thousand bits per second. A bit, or binary digit, is the smallest unit of information (0 or 1). 1 megabit per second equals 1,000 kbps

### **LAN (Local Area Network)**

LANs service private premises, linking computers at high speeds over short distances.

### **MMS (Multimedia Messaging Service)**

A service that lets wireless phone users exchange messages containing text, pictures, audio and video.

### **Multimedia**

The combination of voice, data and fixed or full-motion video over the same communications channel or within the same application.

### **Portal**

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

### **Search engine**

A website that searches for Web pages containing certain keywords requested.

### **SMS (Short Message Service)**

A service for sending alphanumeric messages to or from GSM mobile handsets.

### **UMTS (Universal Mobile Telecommunications System)**

A third-generation wireless communications system capable of supporting very-high-speed mobile multimedia services.

### **Unbundling**

Introduction of competition on the local loop. The phone line remains the property of the incumbent operator, but is connected to equipment belonging to a competing operator located inside the local exchange.

### **Wap (Wireless Application Protocol)**

A wireless telephony protocol that enables access to information sites (including websites) from personal wireless devices such as GSM cellphones.

### **Web**

Abbreviation of World Wide Web, the multimedia interconnected networks that make up the Internet, where information can be accessed at the click of a mouse.

### **WiFi (Wireless Fidelity)**

A local wireless network that covers a company site, a public area or a home, enabling broadband connection to the Internet with no wires.

