



france telecom

**2003**

Annual report

**Orange: nearly**

**117.1** million customers world

*including*

**56.2** million wireless telephone cus

**49.3** million fixed-line telephone c

**10.8** active Internet customers in

> Consolidated revenues

**46.1** billion euros (+3.4%\*)

> Operating income

**9.5** billion euros (+45.5%\*)

> Net income after minority interests

**3.2** billion euros

> Proposed distribution

**0.25** euro per share

\* on a comparable basis 2002/2003



france tele**com**

dwide

customers in 20 countries  
customers in 9 countries  
10 countries

10

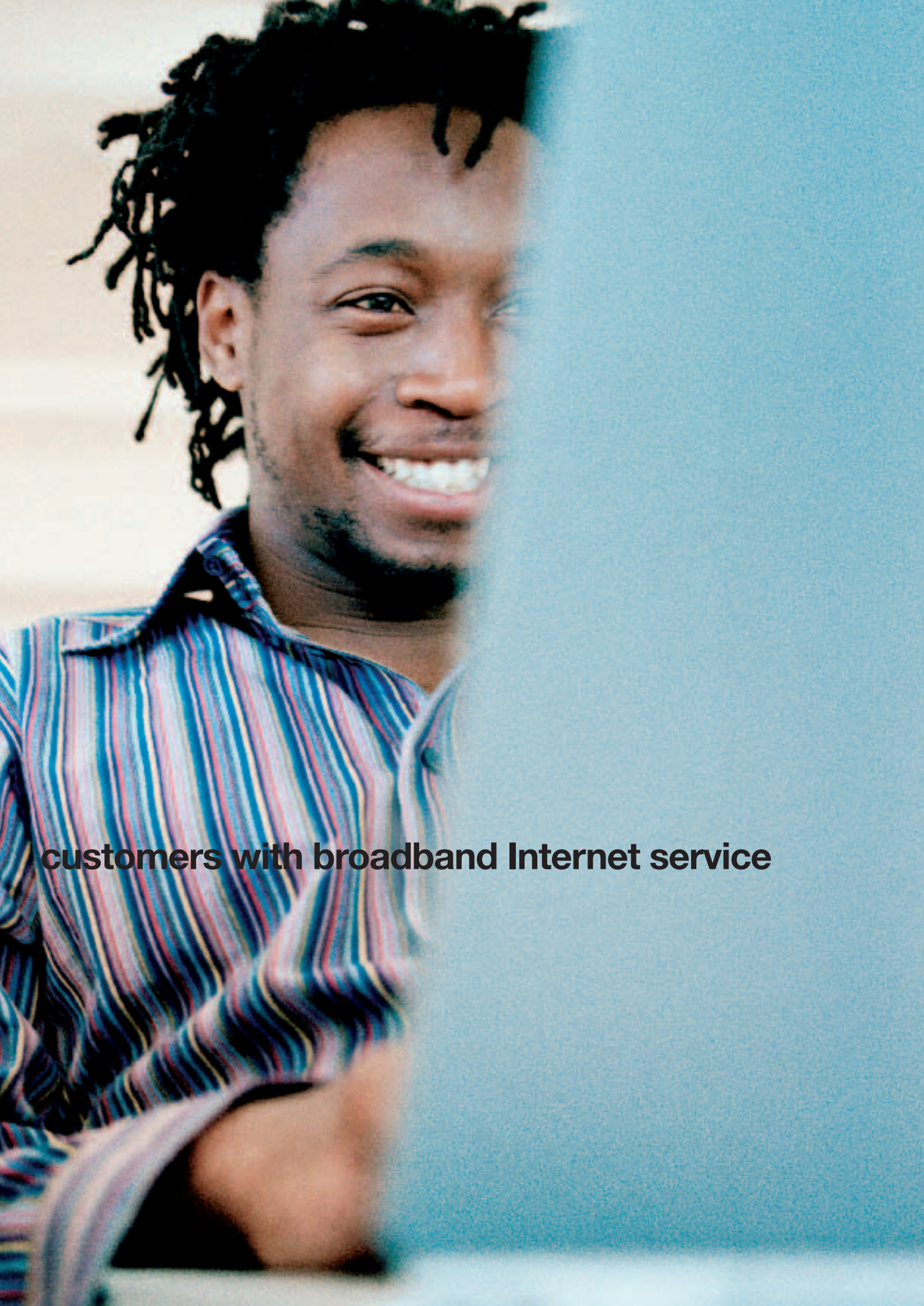
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**billion** SMS messages sent\*



A person wearing a white lab coat and a colorful striped shirt is shown from the chest up. The background is a blurred interior space with a staircase. The text "2.5 million" is prominently displayed in large, bold, black font, and "Wanadoo" is written in a smaller, black font to its right.

**2.5 million** Wanadoo



**customers with broadband Internet service**

A photograph of a man with dark hair, smiling broadly while holding a black mobile phone to his ear. A woman's hand is resting on his shoulder, and a young boy is visible in the foreground, looking towards the camera. The man is wearing a light green and yellow striped shirt and a silver watch. The woman is wearing a yellow shirt. The background shows a window with a wooden frame.

**8.8 million** of our



**customers have MaLigne residential service plans**



**3,700**



**multinational corporations are Equant customers**



The management team at the head of your company has done everything since I have been chairman to **allow France** and make each of you proud to be a France Telecom shareholder.

The growth itinerary we have mapped out will enable France Telecom to become a full-service operator and a leader in the European telecommunications industry in 2005.

**THIERRY BRETON**  
CHAIRMAN AND CHIEF EXECUTIVE OFFICER  
OF FRANCE TELECOM



**Telecom to retake control over its future**

# ...Interview with **Thierry Breton**

CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF FRANCE TELECOM



## France Telecom has the ambition and the means to be among the first to bring people truly integrated communications solutions.

### **After completing your first full year at the head of France Telecom in 2003, what are your main impressions?**

First of all, our enterprise has shown a remarkable ability to rebound. The Group's financial situation at the end of 2002 dictated energetic recovery measures and the immediate mobilization of everyone. By quickly putting the Ambition FT 2005 plan into action, last year we were able to reestablish the maneuvering room we need to build our future and continue to innovate for our customers. Our commitment to generate 15 billion euros ourselves towards the company's debt reduction efforts allowed us to regain the confidence of our shareholders and loosen the financial vise that gripped the group. We could never have regained this confidence if the entire Group had not demonstrated, through the TOP program, our ability to marshal our energies to achieve operational excellence.

### **What are the components of this plan and this program, and how were they implemented?**

Ambition FT 2005 aims first and foremost to restore our fundamental financial balance. It creates the foundations on which I intend to build a telecommunications operator capable of continual innovation to serve its customers. We had to meet our immediate commitments and reduce our debt from a record high to a level compatible with our ambitions. This is what we are in the process of achieving with the "15+15+15" program, which is ahead of our initial targets. The first tranche of 15 billion euros is the sum we expected to raise on the bond market to refinance our debt. After completing four issues between December 2002 and January 2004, we raised more than 14 billion euros on very good terms, securing our immediate future. The second tranche of 15 billion euros is the amount we wanted to obtain from our shareholders to rebuild

our share capital. The success of the capital increase in April resulted in the issuance of over a billion new shares without negatively impacting the share price. It therefore did not penalize current shareholders, which is an extremely important point. Following this recapitalization, the French state, in its capacity as an informed investor, holds 54.53 percent of our share capital.

I believe that the most significant component in the Ambition FT 2005 plan, however, is the last 15 billion euros, which is the amount contributed by the entire enterprise to its recovery. This is being achieved by the TOP operational improvement program. This program aims to generate 15 billion euros in cash flow over three years thanks to optimized investments, coupled with a reduction in operating costs and a reduction in working capital requirements. Mobilization throughout the company has generated significant results right from the first year. Results at the end of 2003 were ahead of objectives, contributing to a reduction of our debt, while consolidating our growth.

### **What about the Group's financial results and growth on a comparable basis?**

Let's start with our debt load. Remember that at the end of 2002, we were by far the most indebted company in our industry, carrying a total of 68 billion euros in debt, with 50 billion due by the end of 2005. At the end of 2003, our net financial debt was slightly over 44 billion euros, while operating income before depreciation and amortization amounted to 17.3 billion euros, up 21 percent. What's more, the net financial debt/operating income before depreciation and amortization ratio dropped to under 2.6, compared with 4.6 a year earlier. Our objective is to bring this ratio to under 2 in 2005. Operating income jumped 45.5 percent to 9.5 billion euros, and our operating margin stood at 20.7 percent, compared with 14.7 percent a year earlier.

The contribution of the TOP program to these results is reflected in investments in tangible and intangible assets, excluding licenses (CAPEX), which were efficiently managed at 5.1 billion euros, without sacrificing segments with strong growth potential like ADSL. A more selective investment policy is seen in the Group's TOP indicator "operating income before depreciation and amortization, less CAPEX", which climbed 66.1 percent to 12.2 billion euros at the end of 2003. Furthermore, the Group's new purchasing policy made a significant contribution to these results, generating 700 million euros in savings over the year and cutting the number of suppliers by about 60 percent. This allowed us to generate 6.4 billion euros in free cash in 2003, exceeding the target we had set.

**Your primary objective was debt reduction. But you paid nearly 7 billion euros in the public exchange offer to buy out Orange minority shareholders. Why?**

First of all, the Orange acquisition was paid for with shares. It therefore has no material impact on our debt. What's more, acquiring control over our subsidiary is consistent with our strategy of being the sole integrated group capable of satisfying the myriad needs of our customers at home, on the move, or at work. Orange constitutes a cornerstone in our strategy, in terms of both its financial performance and its growth outlook.

**The "financial vise", as you put it, has now been loosened. But has this been to the detriment of growth?**

Our consolidated revenues were up 3.4 percent on a comparable basis. This growth was led by dynamic performance at Orange, which posted a 9 percent rise in revenues – 5 percent on an actual basis – and by 26 percent revenue growth at Wanadoo, which consolidated its position as a top-tier player in the European Internet market. The Group is also expanding outside France, especially thanks to solid growth at TP Group in Poland, and Equant has sustained its positions in an extremely competitive market. Beyond these numbers, alongside our Ambition FT 2005 initiative we immediately defined a focused

business plan. We firmly believe that growth can be sustained only through customer-driven innovation. This is why in 2003 I immediately made the decision to reinvest the cash generated by the TOP program in one of the core elements in our growth strategy, broadband. We decided to accelerate ADSL coverage of France with the launch in June of our "broadband for everyone" plan. This plan got off to a fast start and 4,500 new towns and cities were covered. By the end of 2003, a total of 23 million phone lines – representing 79 percent of the population – had access to ADSL. In addition, satellite broadband solutions have been proposed for regions with low population density where ADSL is not viable.

We have made a commitment to bring coverage to 95 percent of the population by the end of 2005. And through the "innovative regions" initiative, we are working out agreements with local public authorities to go even further and aim for 100 percent coverage. We propose that each French department sign a tailored partnership agreement in order to exceed our already ambitious coverage objectives a year ahead of schedule. These agreements will bring complete coverage of areas where businesses are located and make it possible to introduce innovative solutions in education, healthcare, security and initiatives serving the community in general.

The Loire and Mayenne departments were the first to begin testing this type of partnership in 2003. These efforts will benefit not only our customers and the different regions of France, but also the other players in our industry – equipment vendors, subcontractors, Internet service providers, content developers and operators.

We have already begun diversifying the range of services delivered via ADSL, which can transport telephone calls, Internet and video. An exciting milestone was reached in December 2003 when we began offering TV programming and video on demand over ADSL in the city of Lyon, in partnership with TPS and soon Canal Plus. Our technological leadership has also made us a leader in deploying WiFi in France with the creation of over a thousand WiFi hotspots in public spaces. None of these technical advances would have come to fruition of course without the active commitment of all the Group's people, at every level.

# We reduced our net financial debt by nearly 24 billion euros in 2003

## **You are counting on the mobilization of the Group's people. How do you sustain motivation?**

The success of our enterprise is anchored above all in the talents and enthusiasm of the men and women throughout the Group, at every level. In our sales offices, technical facilities, call centers and elsewhere our teams have excelled in meeting the challenges we set. The Group's managers have taken charge of the different TOP projects to improve our operational performance.

The necessary reduction in our staffing levels totaled over 13,000 people in 2003, excluding the impact in changes in our consolidated size. This rationalization has been accompanied by active dialogue, with special measures negotiated to support the people concerned. At the same time, recruitment is closely tracked by the Group deployment committee and focuses on the competencies required to guarantee our continued operational excellence and innovation.

## **Although France Telecom is a private sector enterprise it employs a large number of civil servants. How does new legislation affect their status?**

The application of the European directive on universal service required the French parliament to repeal the law that made France Telecom responsible for providing this fundamental public service. Since this is one of the reasons France Telecom was able to employ civil servants, the deregulation of this service made the legitimacy of this status within the company questionable from a legal standpoint and thus called into question whether our group was authorized to have civil servant employees. Legislation passed on December 16 therefore stipulates that France Telecom's civil servant employees will retain all the basic benefits linked to their status. While putting an end to these ambiguities, the law eliminates the requirement that the French state retain a majority equity interest in France Telecom, since this is no longer pertinent. The company is thus a private sector enterprise whose employees all contribute to its performance, regardless of their status. Our enterprise is uniquely positioned to satisfy the immense need for telecommunications solutions in the years ahead.

Our objective is to establish France Telecom as the top-performing operator in Europe, and the TOP program has demonstrated that we are fully capable of achieving this.

## **What is your vision of trends in this market and how do you aim to sustain the Group's growth over the long term?**

The telecommunications market is experiencing profound transformations. Up until now, fixed, wireless and Internet services each had separate networks, platforms, sales teams and bills. These businesses did not communicate much with one another, and customers had to figure out how to combine them to meet their individual needs. The generalization of the Internet Protocol is joined by a continually growing number of more useful wireless services, by ubiquitous intelligence in the network and by a democratization of the Internet. As a result, our customers can now be reached anywhere, on the device of their choosing, over the best network infrastructure available. In other words, customers figure at the heart of their own telecommunications network. As a full-service operator with powerful research and development resources, France Telecom has the ambition and the means to be among the first to bring people truly integrated communications solutions that are independent from the terminals or networks used.

This vision is being made a reality through the Top Line program we launched in 2003. Top Line spans 14 integrated groupwide projects, plus 40 projects specific to different divisions.

Our teams are also placing priority on moving forward with five convergence projects that should let us very rapidly offer our customers simple and totally integrated services like a single address book or simple, secure online payment solutions. These advances will usher in a transition from a fragmented model to a world of unified communications, with each customer at the center.

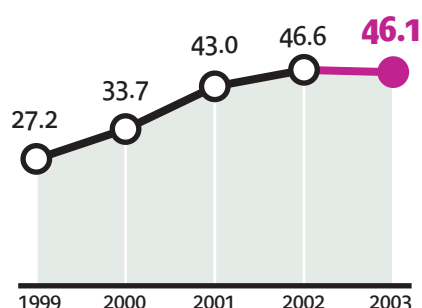
We are working to make this world an everyday reality for our customers, and we will succeed thanks to their confidence.

## Consolidated financial data. Strong growth in key indicators.

The dynamic momentum created by the Group is evident in financial results for 2003. France Telecom met all its commitments and even exceeded targets, notably in profitability and debt reduction.

### +3.4%\*

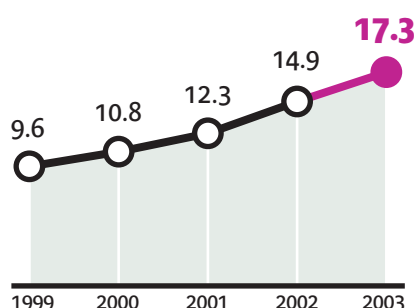
CONSOLIDATED REVENUES  
in billions of euros



Consolidated revenues for 2003 rose 3.4 percent on a comparable basis, led by growth at Orange and double-digit growth at Wanadoo. On an actual basis consolidated revenue declined 1.1 percent due mainly to the unfavorable impact of changes in exchange rates.

### +21.0%\*

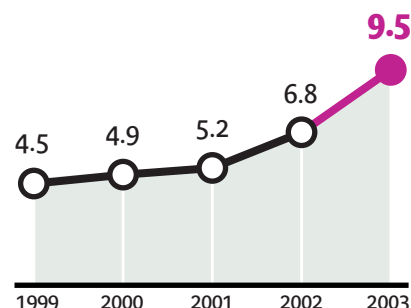
OPERATING INCOME BEFORE  
DEPRECIATION AND AMORTIZATION  
in billions of euros



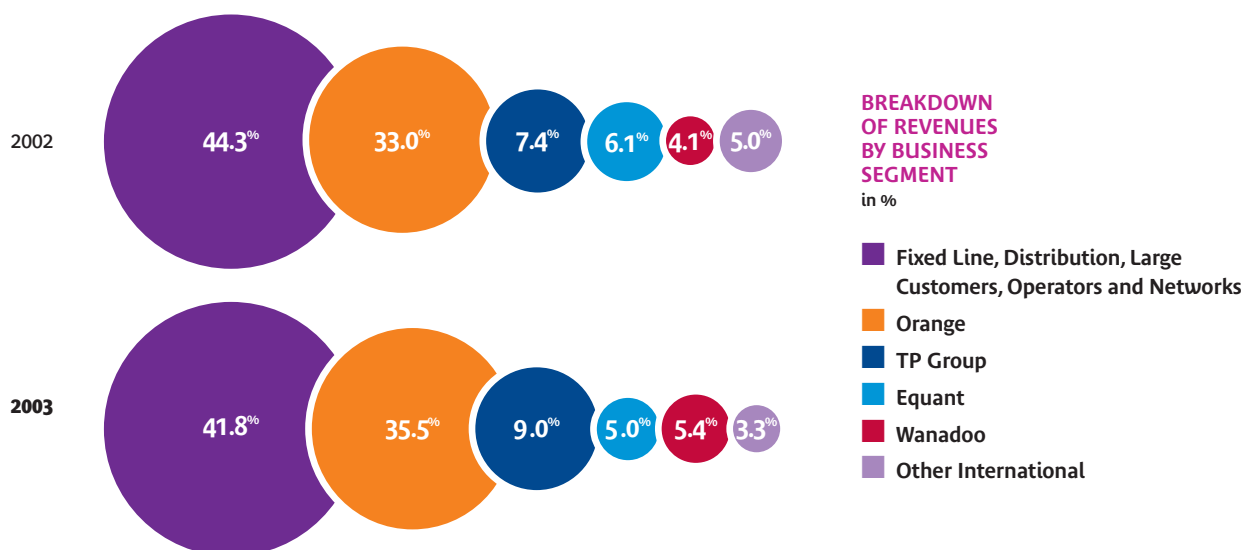
France Telecom's operating income before depreciation and amortization amounted to 17.3 billion euros in 2003, an increase of 21 percent on a comparable basis (16 percent on an actual basis). All businesses improved their profitability on a comparable basis.

### +45.5%\*

OPERATING INCOME  
in billions of euros



Group operating income increased 45.5 percent from 2002 to 2003 on a comparable basis (40.3 percent on an actual basis) to 9.5 billion euros. The operating margin jumped 6 points to 20.7 percent of revenues.

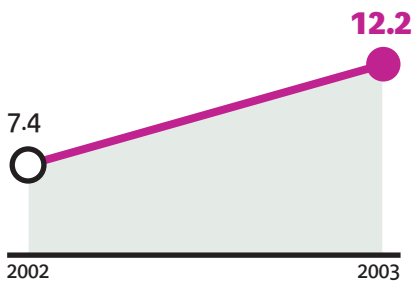


\* On a comparable basis 2002/2003

# All the Group's businesses improved their operating profitability in 2003

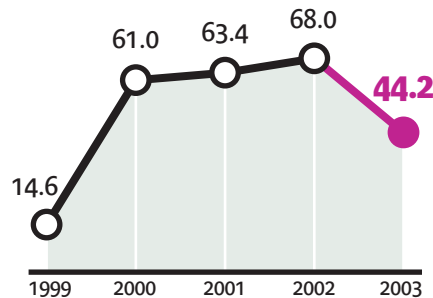
**+ €4.8 billion**      **- €23.8 billion**

**OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION LESS CAPEX**  
in billions of euros



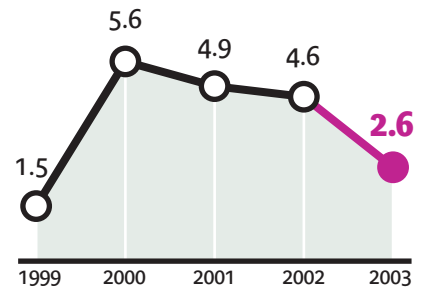
For the first time all business segments recorded positive operating income before depreciation and amortization less CAPEX.

**NET FINANCIAL DEBT**  
in billions of euros



The Group reduced its debt by 23.8 billion euros, due primarily to a capital increase of approximately 15 billion euros and free cash flow excluding asset disposals of 6.4 billion euros.

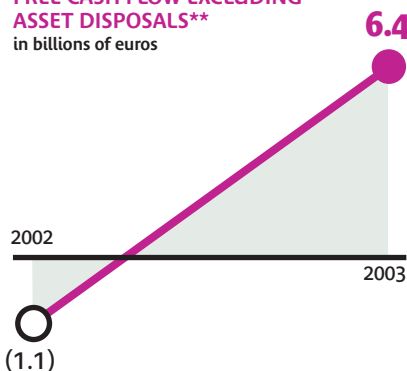
**NET FINANCIAL DEBT/OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION RATIO**



The very significant improvement in the net financial debt/operating income before depreciation and amortization ratio reflects sustained increases in operating income coupled with substantial debt reduction.

**+ €7.5 billion**

**FREE CASH FLOW EXCLUDING ASSET DISPOSALS\*\***  
in billions of euros



This significant advance reflects the dynamic operational momentum generated by the TOP program, and more selective investments.

\*\* Including cash from capital increase and short-term marketable securities.

**NET INCOME AFTER MINORITY INTERESTS**

**€3.2 billion**

Following two years of significant losses, France Telecom returned to profit, underscoring the company's recovery.

**PROPOSED DISTRIBUTION**

**€0.25 per share**

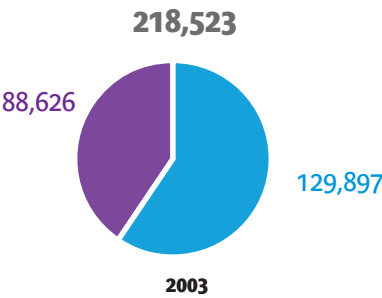
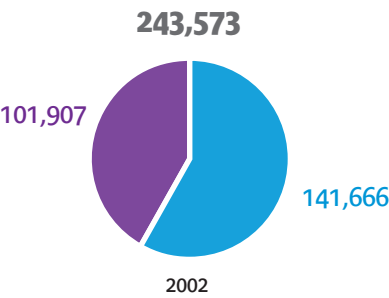
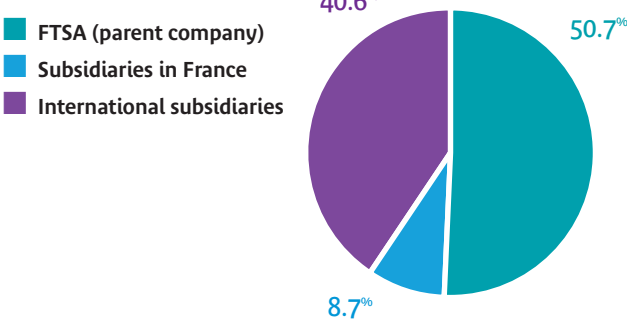
Operating highlights. Efficient staffing management.  
Growth in customer base.

Wireless, broadband and international businesses are driving the Group’s growth. International operations now account for 40 percent of the workforce. In France, nearly half of all employees have direct customer contact.

EMPLOYEES  
Full-time equivalent at December 31

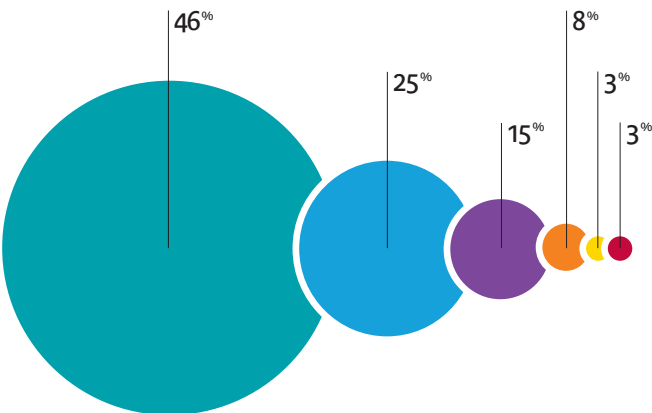
2001	211,554
2002	243,573
2003	218,523

BREAKDOWN OF WORKFORCE  
at December 31, 2003



EMPLOYEES  
Full-time equivalent at December 31, 2003

- France
- International



BREAKDOWN OF WORKFORCE  
BY JOB CATEGORY IN FRANCE  
at December 31, 2003

- Customer contact
- Network technical staff
- Management
- Information systems
- Innovation/Development
- Other

# The number of new customers rose sharply in 4<sup>th</sup> quarter 2003

The France Telecom Group added 7.7 million new customers in 2003.\* Wireless and Internet are the two main growth segments.

**117.1**  
million customers  
worldwide  
**+7.0%**

## Total customers of companies in which France Telecom had a controlling interest at December 31, 2003 (thousands of customers)

of which

<b>Wireless</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>Change (in %)</b>
France	20,329	19,216	17,823	+ 5.8
Europe (excl. France)	30,629	26,718	20,520	+ 14.6
Rest of World (excl. Europe)	5,209	3,946	4,841	+ 32.0
<b>Total</b>	<b>56,167</b>	<b>49,880</b>	<b>43,184</b>	<b>+ 12.6</b>

**56.2**

million customers  
worldwide

### Profitable growth

In a mature European market, the Group consolidated its leadership positions in France and the United Kingdom, continuing to focus on customers representing high value-added while developing usage.

<b>Fixed Line Telephony</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>Change (in %)</b>
France	33,857	34,066	34,151	- 0.6
Europe (excl. France)	14,459	13,823	2,516	+ 4.6
Rest of World (excl. Europe)	949	1,578	3,309	- 39.9
<b>Total</b>	<b>49,265</b>	<b>49,467</b>	<b>39,976</b>	<b>- 0.4</b>

**49.3**

million customers  
worldwide

### New growth segments

Fixed telephony is expanding in scope thanks to diversified offers and broadband. Data and new domestic services have rejuvenated the fixed-line segment.

<b>Internet</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>Change (in %)</b>
France	4,520	3,924	3,001	+ 15.2
Europe (excl. France)	6,191	6,100	3,128	+ 1.5
Rest of World (excl. Europe)	58	84	208	- 27.6
<b>Total</b>	<b>10,769</b>	<b>10,108</b>	<b>6,337</b>	<b>+ 6.5</b>

**10.8**

million customers  
worldwide

### Booming broadband

The growth in broadband customers was especially robust in Europe, accompanied by dynamic development of revenue-generating usage.

\* On a comparable basis 2002/2003

## Strategy. Building a European leader with global reach.

**Our growth strategy is anchored in operational excellence, new services that leverage the power of integrated networks, and simplified usage for our customers.**

### Restored credibility and new room to maneuver

#### Restoring confidence

The France Telecom Group experienced profound transformations in the past year within the framework of the Ambition FT 2005 turnaround program. This has already enabled the Group to reestablish sound financial foundations, thanks to:

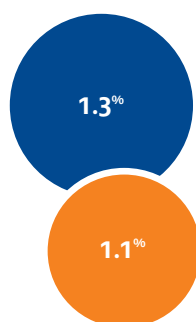
- A capital increase (nearly 15 billion euros) and refinancing of debt (more than 14 billion euros) during the first half of 2003. These two operations allowed France Telecom to clear the financial impasse it faced in 2002.

- Ongoing advances in the program to improve operational performance (more than 150 TOP projects), enabling debt to be reduced by a further 15 billion euros by 2005. This reflects the company's commitment to provide the same financial input to recovery as its shareholders and creditors ("15+15+15" plan).

Restoring confidence also means improved corporate governance rules and practices. The end of 2002 and 2003 saw the arrival of a new management team and new corporate governance practices, including the creation of board level Strategy and Policy committees. The Board of Directors has been given greater responsibilities and external communications has been strengthened for both financial issues and the Group's strategy. This led to initiatives like Investor Day, as well as press conferences on strategic developments like **WiFi**, broadband and image-enhanced communications.

#### Boosting performance

France Telecom has refocused on its core activities and on Europe. Several subsidiaries were divested in 2003, notably Telecom Argentina, Wind, Casema, CTE Salvador and Eutelsat. These moves were made on the basis of strategic criteria (synergies between businesses, equity stake in entities) and financial considerations (economic performance, impact on the Group's debt and the liquidation value of the companies concerned).



#### R&D EXPENDITURES/ REVENUES

■ 2004 (estimated)  
■ 2003

France Telecom is significantly increasing R&D investments to deliver the best service for the Group's customers.

Through the TOP program, the company at the same time pursued energetic efforts to sharpen the efficiency of its processes. These efforts will continue in 2004 and 2005, with the objective of achieving best in class performance in every area. TOP projects span all of France Telecom's markets, units and functions. They focus in particular on leveraging our purchasing power, coordinating customer relationships, optimizing production resources and rationalizing information systems.

All the Group's teams have mobilized to achieve these objectives. The initial results now give France Telecom additional room to maneuver, coupled with the resources needed to spur renewed growth against the backdrop of regained confidence.

### Accelerating growth

France Telecom enjoys a comprehensive portfolio of fixed, wireless and **Internet** products and services. This puts us in a unique position to develop integrated solutions that address the wants and needs of all our clientele segments – from consumers and small businesses to larger corporations – for personal, home and business communications.

France Telecom is the leader in France and Poland, number one in wireless in the United Kingdom and the second-largest Internet service provider in Europe. The Group aims to build on its top-tier positions in Europe to accelerate its growth and sustain a distinctive edge in all its markets.

#### Make life easier for our customers

The variety and efficiency of today's communications resources have multiplied the types of usage, as voice calls on fixed and wireless phones have been joined by **email**, **SMS**, messaging and online media. The market remains artificially compartmentalized by technologies, between fixed and mobile services, for example. Furthermore, the offer is fragmented, with multiple bills and customer support contacts. Customers are therefore required to manage this lack of integration,

# Continuous innovation to serve our customers

remembering multiple numbers and passwords, or searching through separate directories and contact lists. Obliging consumers to deal with this type of complexity risks holding back market growth and the take-up of new services. France Telecom is working to counter such risks and anticipating structural changes in the industry:

- by eliminating barriers between networks to simplify and integrate the use of services in the home, personal communications services, and services designed for businesses;
- by putting people at the center of their communications universe through services that are easily personalized as their needs change;
- by making seamless cooperation across fixed, wireless and Internet networks a reality, bringing greater benefits to customers.

## Technology firepower to meet ambitions

To achieve its growth strategy France Telecom is focusing its innovation efforts on five key technology areas:

- Generalized implementation of the **Internet Protocol** on all networks to drive convergence and advances for fixed and wireless networks;
- Generalized deployment of **broadband** on fixed and wireless networks, with coverage of 95 percent of the French population by **ADSL** by the end of 2005, large-scale deployment of WiFi wireless Internet, and the launch of third-generation wireless networks (**UMTS**) in late 2004;
- Ubiquitous mobility, meaning the ability to access all services from anywhere at any time;
- Development of “multiple access” devices that eliminate the longstanding required association of “one use, one device, one network”;
- Deployment of open information systems that facilitate network interoperability.

By sharing service platforms (authentication, online transactions, etc.), these innovations will let customers use different services transparently and enjoy the

## INFORMATION SYSTEM

### Complete upgrade of information system

France Telecom is one of the first major enterprises in France to have rebuilt its information system with all-IP technology. Completed in early 2004, this 5-year program gives the group a technological advantage by making the information system more flexible.

France Telecom can now focus on deeper automation of processes.

convenience of a single number, a single access code, and a single bill.

These innovations are moving forward as part of the Top Line action plan launched in 2003.

This program spans 40 projects specific to individual units, plus 14 transversal projects that drive the Group's three growth priorities:

- Deployment of broadband on fixed and wireless networks along with associated services: television and video on demand (**VoD**) via **ADSL**, **videophones**, etc.
- Easy use of services thanks to integration on fixed, wireless and Internet networks, and interoperability across different devices;
- Adding mobility to solutions for businesses (remote access via multiple networks to corporate **Intranets** and business applications) and providing businesses with operational control over their information system and communications infrastructure.

Five of the transversal projects involve development of integrated solutions across the France Telecom Group, in order to offer compelling new services for customers:

- A unique individual identifier for easy, secure access to all services;
- A unified list of personal contacts for all services, whether fixed, wireless or Internet;
- Easy communications within closed user Groups (family, clubs, business, etc.) thanks to online presence and availability information;
- A single call number and mailbox available via any media to contact a person wherever they are;
- Simple, integrated online payment applications.

To accelerate growth and strengthen the Group's distinctive competitive advantages, France Telecom also forges strategic partnerships in technology, distribution, hardware, software and content.

France Telecom is thus proactively focused on reducing costs, efficiently restructuring its organization, reducing debt and achieving organic growth. The Group will continue to exploit the benefits of its comprehensive portfolio of businesses and anticipate structural changes in the telecommunications industry.

## Corporate governance. Resources for efficient management.

**France Telecom's new dynamic is underpinned by stronger corporate governance and deeper involvement by the Board of Directors.**

### Five new independent board members

France Telecom set up a new internal organization in 2003, reducing the number of reporting levels and increasing the responsibilities of managers. This has improved centralization of information and focused decision procedures while creating more direct involvement by members of the Board of Directors. The board met sixteen times in 2003. Meetings were attended by an average of 16 directors out of the total of 21 members. The combined ordinary and extraordinary general meeting of shareholders on February 25, 2003 approved significant changes in the board makeup. At December 31, 2003 the board comprised seven directors representing the French state, seven directors elected by employees and seven directors elected by the shareholders' meeting. Chairman Thierry Breton, who had previously been named to the board as a representative of the French state, was elected to the board by the general meeting of shareholders. In addition to Jean Simonin, who had already been reelected to the board, five new independent board members were elected by the shareholders' meeting. These business leaders do not hold any position within France Telecom and have no relationship of any kind with the Group or its management that might compromise their freedom to exercise their best judgement. These independent members are Marcel Roulet, Stéphane Richard, Arnaud Lagardère, Henri Martre and Bernard Dufau. The other board members are either representatives of the French state, or current or former employees of France Telecom.

### Board internal guidelines

On July 17, 2003, the Board of Directors adopted new internal guidelines, within the framework of recommendations made in the Bouton report on improved corporate governance. A copy of these internal guidelines is posted on the France Telecom website and will be appended to the report by the Chairman of the Board of Directors as stipulated by article 117 of French law on financial security regarding

conditions for preparing and organizing the work of the board and internal control procedures implemented by the company. The four board committees also adopted specific internal rules.

### Adoption of France Telecom Code of Ethics

On December 3, 2003 the Board of Directors adopted the France Telecom Code of Ethics, in compliance with the guidelines laid out in the Sarbanes-Oxley act. This Code of Ethics details the values and principles that guide the Group's actions and behavior. It also presents the principles and rules that all employees are required to respect in terms of ethics and compliance with respect to financial markets.

A corporate Ethics and Compliance Committee comprising three members appointed by the Chairman oversees respect for the commitments made in the France Telecom Code of Ethics.

The Ethics and Compliance Committee submits an annual report to the Group Chairman and to the chairman of the Compensation, Selection and Organization Committee.

### Audit Committee conform to Sarbanes-Oxley Act

The **Audit Committee** assists the Board of Directors in the following areas in particular:

- reviews drafts of individual and consolidated half-year and annual financial statements, as well as drafts of management reports, activity and income tables;
- ensures compliance with the accounting rules adopted for preparation of individual and consolidated financial statements;
- verifies that internal information gathering and control procedures are properly applied;
- ensures the quality and relevance of information provided to shareholders;
- organizes procedures for selection of the company's statutory auditors.

The Audit Committee met ten times in 2003. With effect from March 24, 2003, the five members of the committee are Bernard Dufau, Yannick d'Escatha, Jean-Pierre Jouyet, Jacques de Larosière and

# Executive Committee

## Functions



**Michel Combes**  
Finance



**Bernard Bresson**  
Human Resources



**Michel Davancens**  
Management Networks



**Jacques Champeaux**  
Corporate Secretary



**Jean-Jacques Damlamian**  
Technology and Innovation



**Marc Meyer**  
Communications



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



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



**Didier Lombard**  
**Deputy Marc Fossier**  
Technologies,  
Strategic Partnerships  
and New Usage



**Thierry Breton**  
Chairman  
and Chief Executive Officer



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



**Barbara Dalibard**  
Corporate Solutions



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



**Jean-Philippe Vanot**  
Networks and Carriers



**Jean-Paul Cottet**  
International



**Solomon Trujillo**  
Orange



**Olivier Sichel**  
Wanadoo



**Jean-Paul Cottet**  
Information Systems

## Operations

Stéphane Richard. Mr. Dufau chairs the committee. At its meeting on December 3, 2003, the board determined that Stéphane Richard qualifies as "financial expert" as stipulated by the Sarbanes-Oxley Act.

### New committees

The Board of Directors created three new committees in 2003. **The Compensation, Selection and Organization Committee** replaced the Compensation Committee, created in 1997. The new committee was set up in March 2003. The four members are Thierry Breton (only for Selection and Organization issues), Arnaud Lagardère, Marcel Roulet and Henri Serres. The Committee Chairman is Marcel Roulet. The Compensation, Selection and Organization Committee submits proposals for nominations to the Board of Directors, for nomination of the chairman of the board, and nominations to board committees. The Chairman of the Board of Directors also informs this committee of appointments to the Group's Executive Committee. The Committee submits proposals to the Board of Directors for compensation of senior executives who serve as board members and, at the Chairman's request, may be consulted for advice on the methods used for setting compensation (fixed and variable components, means for calculation of compensation and indexing) for Group executive officers.

The Compensation, Selection and Organization Committee met five times in 2003.

The **Strategy Committee** was also created in March 2003. The members are Thierry Breton, Pierre-Mathieu Duhamel, Jean-Jacques Gagnepain, Henri Martre, Denis Samuel-Lajeunesse and Jean Simonin. The Committee Chairman is Thierry Breton. The Strategy Committee reviews projects linked to the development of the Group. It also reviews projects for strategic agreements and alliances.

It is consulted in particular for projects involving alliances and technological and industrial cooperation, as well as plans for material acquisitions or disposal of assets.

The Strategy Committee met once in 2003.

**MEMBERS ELECTED BY THE GENERAL SHAREHOLDERS' MEETING**

<b>Thierry Breton</b>	Chairman and Chief Executive Officer of France Telecom
<b>Bernard Dufau</b>	Strategy Consultant
<b>Arnaud Lagardère</b>	Chairman of Lagardère SCA
<b>Henri Martre</b>	Honorary Chairman of Aerospatiale
<b>Stéphane Richard</b>	Chief Operating Officer of Veolia Environnement
<b>Marcel Roulet</b>	Honorary Chairman of France Telecom
<b>Jean Simonin</b>	Former Managing Director, France Telecom Residential Branch, Toulouse

**MEMBERS APPOINTED BY DECREE**

<b>Pierre-Mathieu Duhamel</b>	Budget Director, French Ministry of the Economy, Finance and Industry
<b>Yannick d'Escatha</b>	President, CNES
<b>Jean-Jacques Gagnepain</b>	Director of Technology, French Ministry of Research and New Technologies
<b>Jean-Pierre Jouyet</b>	Treasury Director, French Ministry of the Economy, Finance and Industry
<b>Jacques de Larosière</b>	Advisor to Chairman of BNP Paribas
<b>Denis Samuel-Lajeunesse</b>	Managing Director, State Owned Assets Agency
<b>Henri Serres</b>	Central Director of Information Systems Security, French Ministry of Defense

**MEMBERS ELECTED BY EMPLOYEES**

<b>Alain Baron</b>	Director representing employees
<b>Monique Biot</b>	Director representing employees
<b>Michel Bonneau</b>	Director representing employees
<b>Michelle Brisson-Autret</b>	Director representing employees
<b>Jean-Claude Desrayaud</b>	Director representing employees
<b>Jean-Michel Gaveau</b>	Director representing employees
<b>Sandrine Le Roy</b>	Director representing employees

# Board of Directors

The **Policy Committee** comprises seven board members elected by employees and is chaired by the Chairman of the Board of Directors. It reviews the main economic, social and technological policies pursued by the company. In particular, this committee reviews the impact of changes in the regulatory environment on the company's strategy. The Policy Committee met nine times in 2003.

**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 11.8 million euros in 2003. The change in this amount in comparison to 2002 is due to the increase in the number of board members and to calculation of the variable portion of compensation on a half-yearly basis.

This led to the payment in 2003 of the variable portion for 2002, in addition to the variable portion for the first half of 2003.

The annual general meeting of shareholders on May 27, 2003 approved payment of directors' fees for the members of the France Telecom board elected by the shareholders. France Telecom Chairman Thierry Breton declined payment of these fees.

The Group's senior executives – approximately 600 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. In 2003, more than 50 percent of the variable portion of their salary – between 30 and 50 percent of their base salary – was linked to the success of the TOP program. Furthermore, the amount of this variable share was calculated on a half-yearly basis, taking into account TOP results.

## Sustainable development. Responsible growth.

**The very nature of France Telecom's businesses and the corporate governance principles we have adopted heighten our commitment to sustainable development. This commitment is illustrated in countless daily initiatives pursued by the company and by our people. Backed by formal policy, these actions allow us to better meet the challenges inherent to sustainable development.**

### Meeting needs without compromising the future: fundamental principles to guide the company's actions

As a telecommunications operator, France Telecom faces clear challenges. We strive to facilitate access to communications solutions, to make services easy to use while deepening interoperability between fixed, wireless and Internet services, and to anticipate future needs through research and partnerships. Supported by a strong corporate culture, France Telecom will pursue its development while fully assuming its economic, environmental and social responsibilities. The sustainable development principles embraced by France Telecom are based on the charter defined by ETNO, the European Telecommunications Network Operators' Association, as well as the Group's membership in the UN Global Compact program. Through ETNO, France Telecom is an active participant in the Global e.Sustainable Initiative, or GeSI, which coordinates efforts by telecommunications operators and manufacturers to promote information and communications technologies as tools that benefit sustainable development. These principles are an integral part of our Ethics and Compliance charter. All France Telecom Group employees are encouraged to embrace the charter's values and guidelines. Our principles underpin a positive relationship between the interests of the enterprise, its customers, and society in general.

### Ambition 2005 and TOP program

The Ambition 2005 plan allowed France Telecom to regain the confidence of its shareholders. The company made a commitment to achieving savings equivalent to funds raised from investors. The TOP operational improvement program exceeded its objectives in 2003, underscoring the dynamic energies that irrigate the entire Group. TOP is one of our core priorities,

accompanied by a strategic focus on innovation to guarantee that we address the expectations of all our stakeholders over the long term. Our commitments to partnerships help meet this objective and sustain value creation. The accelerated rollout of broadband access across France, in collaboration with municipal governments, is a perfect illustration of this win-win approach.

### Unity forged through environmental commitment

The activities of a full-service telecommunications operator are by nature "clean", and can indeed contribute to sustainable development. France Telecom plays a very concrete role in helping protect the environment. Priority action plans include management of products at the end of their life cycle (paper, batteries, telephone poles, cables, terminals, etc.), reduction of energy consumption (electricity and fuels), elimination of certain components and monitoring of fuel tanks and other environmentally-sensitive facilities, such as cooling units. Some actions are pursued through nationwide agreements, in particular to integrate eco-design components right from the research and purchasing phase. Other initiatives stretch beyond borders, like the European Greenlight project to cut electricity consumption. The Orange Group works closely with local government authorities to optimize the integration of its transmitters and preserve the quality of both natural and urban environments. It also promotes recycling of its handsets. Numerous France Telecom business units have implemented their own Environmental Management System (EMS) and several have received certification to international standards. These achievements lay the groundwork for sound environmental management anchored in methods and objectives shared by the entire Group and applicable to every context.

...

## Proactive social responsibility

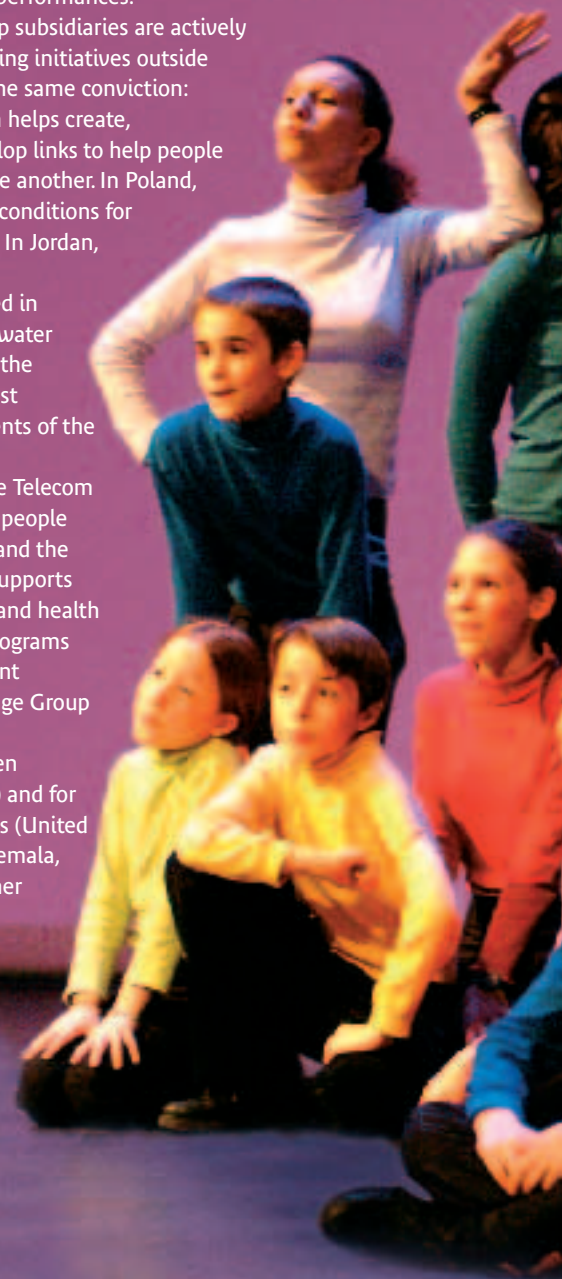
### Local community ties

Initiatives in diverse cultural and economic contexts afford France Telecom an opportunity to apply its competencies to support local economies. In France, agreements with businesses promote employment of the disabled, and other initiatives help develop new skills and employment opportunities. There are also special offers available to people with special needs and healthcare professionals. A "seed" program in Poland supports new business creation to sustain the group's progress, while Wanadoo employees can take special "solidarity" sabbaticals to help people in emerging countries adopt new communications technologies. Orange employees can benefit from special support as part of "OrangeSolidarity" action plans for participation in humanitarian initiatives. In Australia, Equant has a groundbreaking program to improve the quality of the working environment. In another important area, France Telecom contributes to studies on electromagnetic waves and supports France's Comobio Plus research program on wireless handsets and health, as well as the European Reflex program. Through both AFOM (French association of wireless operators) and GSM Europe (European cellphone manufacturers), Orange maintains ongoing dialogue with users and public authorities. France Telecom is also involved in Europe's "Alizé" program to coordinate job creation in local employment catchment areas. With the "cyberbus" and "cybervillages" initiatives the Group has increased the number of public Internet access points in both urban and rural areas, providing everyone with access to new technologies.

### Corporate patronage

Through the France Telecom Foundation, the Group has for the past 15 years expressed its solidarity for the broader community through support for singing, and for people affected by autism. In conjunction with "Volunteers to aid the autistic", an association of 250 company employees, the Foundation regularly supports autistic youth, adults and their families. In 2003, "Autism Solidarity" days drew 100,000 participants at 218 different events to raise

funds. In 2003, support for research enabled identification of two genes associated with autism. The France Telecom Foundation has long been a loyal supporter of singing, providing aid for choral Groups, festivals and young singers. The "Jeune Chœur de Paris" has evolved into a pilot educational institution for talented young people. The Foundation is also involved with teaching and social initiatives that facilitate access for audiences that might not otherwise enjoy live performances. France Telecom Group subsidiaries are actively involved in coordinating initiatives outside France that express the same conviction: more communication helps create, reconstruct and develop links to help people better understand one another. In Poland, TP SA helps improve conditions for hospitalized children. In Jordan, the Jordan Telecom Foundation is involved in a program to protect water resources and aids in the integration of the most disadvantaged segments of the population. In Africa, Côte d'Ivoire Telecom fosters integration of people suffering from AIDS, and the Sonatel Foundation supports educational, cultural and health programs. Through programs pursued by its different subsidiaries, the Orange Group provides support for disadvantaged children (orphans in Romania) and for educational initiatives (United Kingdom, India, Guatemala, Vietnam, Iraq and other countries).



**DEVELOPING LINKS**

Each spring the France Telecom Foundation organizes "A Night of Song" at a Paris venue to promote the different vocal ensembles it supports. The Sotte Voce children's choir pictured here is directed by Scott Alan Pruty.



## Investor Information. France Telecom regains favor with stock markets.

Between January 1 and December 31, 2003, the rise in the France Telecom share price was more than three times the increase in the French Bourse CAC 40 index. Markets saluted the swift and energetic execution of recovery measures pursued since the beginning of the year

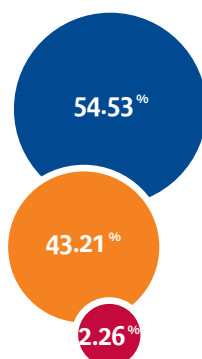
### Commitments respected, confidence regained

In the space of just a few months, the success of the initial components in the "15+15+15" recovery plan enabled France Telecom to regain the confidence of financial markets.

Refinancing of the Group's debt early in the year relieved financial pressures. The success of bond issues in January and February further strengthened investor confidence in France Telecom's ability to meet the commitments defined in its plan. Likewise, the success of the 15 billion euro capital increase in March reflects the direct contribution of shareholders to the company's recovery: 94 percent of warrants were converted to new shares, a particularly significant result in a period of great instability in financial markets. Equally important, the dynamic commitment of all France Telecom teams to the success of TOP initiatives made it possible to exceed the program's 2003 objectives for improvements in operational performance. The additional free cash helped further reduce debt, creating additional room to maneuver and enabling the Group to accelerate its growth strategy. By meeting its commitments, France Telecom gave itself the means to retake control over its future. Following the closing of the exchange offer for outstanding Orange shares in October 2003, France Telecom held 98.78 percent of the capital of its subsidiary. The capital increase and Orange share buyback significantly increased France Telecom's share capital. However, the increase in the share price during the year showed that the additional shares were fully absorbed by the market, a sign of the Group's regained credibility.

The stock market thus contributed to the company's fresh impetus in 2003.

At December 31, 2003 the France Telecom share closed at 22.66 euros, up 56.28 percent since the beginning of the year. This compares with a 16.12 percent increase for the CAC 40 index and 19 percent for the Euro Stoxx Telecom index of European telecommunications stocks.



#### OWNERSHIP STRUCTURE

at December 31, 2003

- French state (27.96%) and ERAP state holding company (26.57%)
- Public
- Employees

### Clear, precise and complete information for shareholders

France Telecom marked a turning point in 2003 as we made every effort to provide the most comprehensive possible information for all our shareholders – individuals, institutional investors and employees. Our investor information resources demonstrated both quality and efficiency in fostering ongoing dialogue with shareowners. This contributed to the success of the capital increase – which was subscribed in record time – and to the exchange offer for Orange shares in October.

Both transactions were supported by extensive print and radio advertising, especially in France and the United Kingdom, where France Telecom and Orange counted the largest number of retail investors. Agents were added at toll-free investor relations call centers (10 10 or 0800 05 10 10, toll-free in France; 33 160 95 87 24 from other countries) to provide immediate answers to all questions from shareholders. To assist them in making decisions, a subscription simulation application was available on the investors section of the website

(<http://www.francetelecom.com/en/financials/investor/>). The investor newsletter "en@ctions" emailed to 30,000 subscribers was updated with more interactive features.

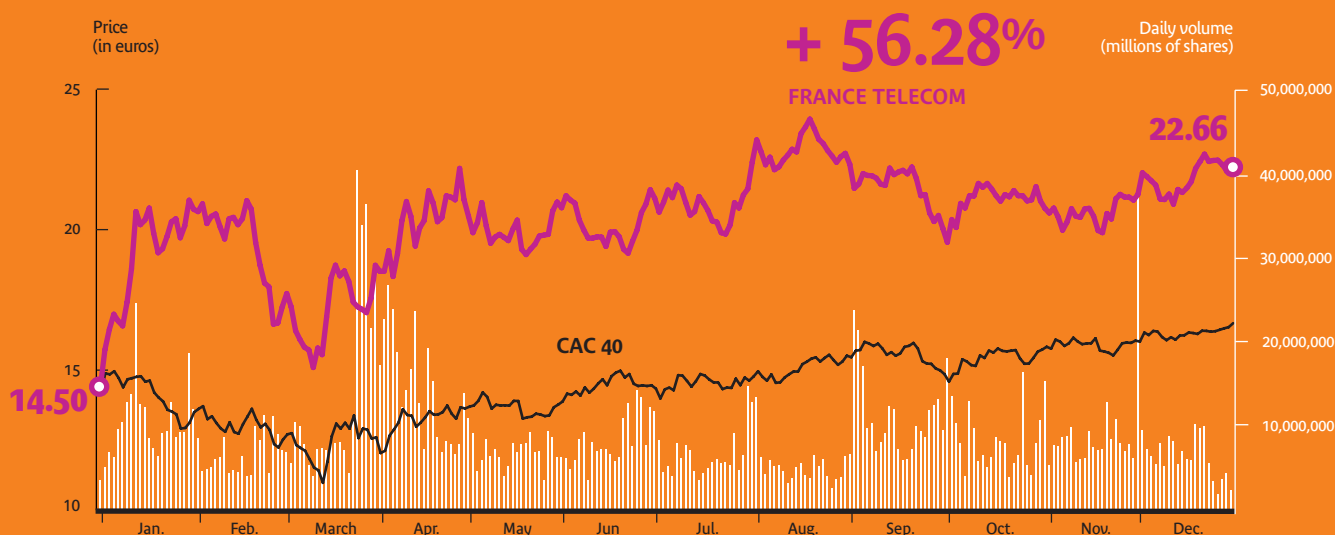
This commitment to dialogue with shareholders was also expanded through direct contacts. Chairman Thierry Breton attended a shareholder information meeting in Lyon on September 29, and Group executives discussed the company with individual investors at numerous events in Paris and other major French cities.

The Club France Telecom investor club exemplifies the company's close relations with shareowners, providing a focal point for multiple events during the year. A variety of other initiatives also serve to nurture long-term relations with shareholders, including the magazine "En Actions", information meetings, tours of facilities, and training sessions on the stock market and the Internet. Shareholders had an opportunity to vote directly on

# Market capitalization tripled in one year

## FRANCE TELECOM SHARE

closing price – Dec. 31, 2002 to Dec. 31, 2003



issues facing the company throughout the year, reflecting France Telecom's commitment to sound corporate governance. Three general meetings of shareholders – in February, May and October – provided forums for fruitful dialogue between the Group and its shareholders.

### Deeper relations with investors

Right from his arrival at the head of France Telecom, Chairman and Chief Executive Officer Thierry Breton made strong commitments to investors to further improve information provided to the financial community, within a framework of complete transparency. This proved fundamental to restoring the confidence of markets and ensuring support for the restructuring plan initiated. Six conference calls or face-to-face meetings with analysts took place during the year, along with numerous individual meetings. These contacts culminated with Investor Day in November 2003, giving investors and analysts an even closer look at the structural changes undertaken at the Group. Investor road shows were also organized throughout the year in France and other countries.

This policy will continue over the long term to sustain the credibility France Telecom has once again earned from financial markets.

### Extended eligibility for employee savings plan

Employees who hold France Telecom shares within the framework of the company's corporate savings plan were allocated warrants convertible into shares as part of the capital increase. They were also able to subscribe shares as part of a capital increase reserved to employees. Approximately 15 percent of the Group's employees took advantage of this offer, and the average amount invested reached a record high. For the first time, a share subscription website was created for employees. Following the Orange share buyback the Orange and France Telecom company mutual funds were merged. A new company mutual fund invested in Equant shares was also created in 2003. Employees can now use the corporate savings plan as a vehicle to invest in all listed France Telecom Group companies.

## Human Resources. Promoting mobility and competencies.

**Thanks to the mobilization of people across the Group, France Telecom regained confidence and retook control of its future in 2003. The multicultural wealth of our teams, their enterprising spirit and their capacity for innovation give us unique advantages as we build Europe's premier telecommunications group.**

### Dialogue

#### **Mobilization bears fruit**

France Telecom met or exceeded all the 2003 objectives defined by its growth plan. This success reflects the commitment of all our people in serving our customers. The exemplary responsiveness delivered by France Telecom's employees throughout the year gives us decisive advantages in our hotly competitive industry.

The Group's managers, with support from the network of Human Resources specialists, stewarded TOP projects to improve operating performance. Measures to support mobility were negotiated with employee representatives as part of sustained dialogue, enabling the Group to reduce its workforce by 16,000 people, not including changes in consolidated size.

There was a freeze on new hiring in France during the first six months of the year, with direct oversight by a corporate-level committee. New recruitment centered on the skills needed to guarantee operational excellence, especially in marketing and sales, as well as specialized competencies that underpin the ability to anticipate future needs in R&D, networks and information systems.

#### **Measures to facilitate mobility**

In March 2003 the French government set up a Mobility task group to transfer some personnel to public sector entities. France Telecom set up its own national job mobility agency and deployed regional "Mobility Centers" across France in May. All employees now have access to information on job openings within the Group or in the public sector, as well as offers in different regions. In 2003 a total of 710 France Telecom employees transferred out of the Group to public sector jobs and 800 people from French subsidiaries joined the parent company.

#### **Framework agreement for group employment**

A framework agreement on employment and skills planning was set up as well. The accord was signed on June 5, 2003 with labor unions (CFDT, CFTC, CFE-CGC and FO) and for the first time covers all employees of parent company France Telecom SA and its subsidiaries in France.

The agreement institutes vehicles to ensure cooperation at every level of the Group through employee/management bodies. This structure covers employees who choose internal mobility or public sector transfers, as well as decisions made by the employer within the scope of reorganization or redeployment. Concrete support measures are provided, including individual skills audits or help in preparing resumes.

#### **Legislation on France Telecom**

The transposition of principles in European Directives to national law creates a new framework for telecommunications markets in Europe and calls into question legislation dictating the terms of France Telecom's universal service obligations. This has been one of the cornerstones of France Telecom's operation as a state-owned service staffed by public sector employees. Universal service obligations were the basis for France Telecom's employment of staff with civil service status. These changes made it necessary to prepare and pass new legislation on December 31, 2003. This new legislation guarantees that France Telecom's state sector employees retain their civil servant status, regardless of future changes in the company's ownership structure.

The legislation also calls for progressive establishment of employee representative bodies for all employees, whether they have civil servant status or private sector employment contracts. This covers local and company



employee/management committees, personnel representatives and union representatives. A legislative amendment was also adopted to facilitate the transfer of France Telecom state sector employees to other public entities. These measures follow the signing of a framework agreement on employment and mobility in June.

**Broader employee/management bodies**

Membership of the Group-level employee/management committee created in 2002 was extended. This fundamental forum for dialogue was opened to all personnel representatives from labor unions representing France Telecom in France. The committee now meets after each board meeting to ensure that it is immediately informed of the main decisions made by executive management.

Initial negotiations to allow the formation of a European employee/management committee also began in 2003.

In Poland, TP Group cut 5,800 jobs within the framework of an employment agreement negotiated with labor unions. Orange initiated a major reorganization in the different countries where it operates. This led to an increase in the workforce in the United Kingdom and Romania and decreases in Switzerland, Sweden and Denmark. There was no significant impact on the total headcount.

**Increased performance-based incentives**

FT S.A. signed a new three-year incentive agreement in 2003, reflecting France Telecom's commitment to strengthening motivation by giving employees a more direct stake in operational performance. The sums allocated to incentives increased significantly, representing 4 percent of total annual payroll in 2003, compared to 2.6 percent in 2002. In exchange, objectives are extremely ambitious and incentives are paid only when performance has been completely achieved.

## The market. Sustained growth driven by innovative services.

Despite an unfavorable economic environment, the market for telecommunications services remained dynamic in 2003, especially in Europe. Wireless and Internet were again the key growth drivers, fueled by the broadband boom, which opened paths to innovation and new services.

### Promising potential

#### Global growth continues

Despite a flat business climate, the global market for telecommunications services continued to post growth at virtually the same rate as the previous year, expanding 5.6 percent in 2003, compared to 5.2 percent in 2002. The total market for telecom services was valued at \$1.128 trillion\*. This trend is expected to continue at about 5 percent annual growth between now and 2007.

For several years now, this dynamic momentum has been spurred primarily by the Internet and demand for broadband access (17 percent increase in value in 2003), by wireless (up 11 percent) and, to a lesser degree, by data services (the value of which rose 6 percent). There were 1.3 billion wireless telephony customers worldwide in 2003, surpassing the number of fixed-line customers (1.2 billion).

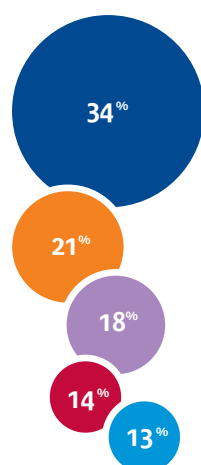
The Internet market is expected to grow a further 50 percent by 2007, from 700 million users in 2003 to 1.1 billion users. In the global market, the relative share of fixed-line telephones will continue to contract and should account for 36 percent of sector revenues in 2007, down from 57 percent in 1999.

#### European market led by wireless and broadband

These growth patterns and market structure are the same in France and the rest of Europe, with even stronger growth in broadband.

The European market grew 4 percent in value in 2003 and continues to outpace growth in North America (up 1 percent). Although this gap should narrow, it is expected to remain significant in the years ahead as forecasts call for annual growth of 3.4 percent in Europe and 4.9 percent in France between now and 2007, compared to 2.9 annual growth in North America. The Asia-Pacific also confirmed its fast-paced development in 2003, posting 6.4-percent growth.

With 82.5 percent penetration in Europe, wireless telephony is the industry's top segment in value, accounting for 46 percent of the market in 2003. Expansion is expected to continue, fueled by increases



EUROPEAN MARKET  
by country, in %



in mobile bandwidth (with GPRS and UMTS), coupled with the introduction of new services like multimedia messaging (MMS).

But the strongest growth will come from Internet services, which should see annual increases in value averaging 14 percent between 2004 and 2007. The number of Internet users is rising rapidly (up 17 percent in France in 2003) and customers are massively adopting broadband.

Germany remains the number one market in Europe, accounting for 21 percent of telecom service revenues, ahead of the United Kingdom (18 percent), Italy (14 percent) and France (13 percent). France is second in broadband, however, behind only Germany.

#### Strong growth potential

New applications like mobile voice, SMS, email and instant messaging have added usage, rather than replacing existing services. This means that primary demand is not saturated. In France, person-to-person communications volumes quadrupled in ten years and continue to increase.

Demand is also very robust for information, access to media, personal exchanges of content and e-commerce. Nearly 40 percent of Internet users made an online purchase in 2003 (source: Médiamétrie) and the average total transaction amount is doubling annually. In the business market, there is ever-growing demand for online management of internal and external processes. This in turn drives demand for personal and collective connectivity and services (professional messaging, business-specific applications, etc.). Data traffic on corporate networks is thus rising 25 percent annually.

#### New uses nourish growth

Combined with service innovations, the expected development of access networks (ADSL, UMTS, WiFi) and networking of domestic and professional devices should lead to sustained growth in use and thus revenue streams.

- In France, at the end of 2003, 79 percent of the population had access to broadband. ADSL will cover

# 1.5 billion wireless and 1.1 billion Internet customers in 2007

virtually the entire country by 2005.

These developments will rapidly expand market potential. They reflect very strong consumer expectations: Wanadoo, for example, saw a 60 percent increase in the number of ADSL subscribers in Europe in 2003. What's more, the number of computers connected to the Internet increased from 17 million to 20 million.

At the same time – thanks in particular to home wireless networks – there will be more devices connected in homes, from computers and games consoles to TV sets, **webcams** and stereos.

- Broadband accelerates the introduction of new home services, especially “image” services, whether television, video on demand, sharing photo albums, videosurveillance, or videophones, ushering in a rich new dimension in interpersonal communications.
- **Multimedia** connectivity is a reality in the wireless realm too, thanks to new mobile devices with video capabilities.

## Benefits of convergence

Nearly a million cellphones with integrated digital cameras were sold in France in 2003.

- New advances will shape the market in 2004, such as integrated communications services across the fixed network, wireless and Internet. Videophones, email,

SMS, MMS and instant messaging will be available regardless of the communications network – fixed phones, cellphones, PC, etc.

This convergence will take advantage of seamless cooperation across networks and terminals, simplifying use and facilitating the introduction of new services like unique user ID or single address books.

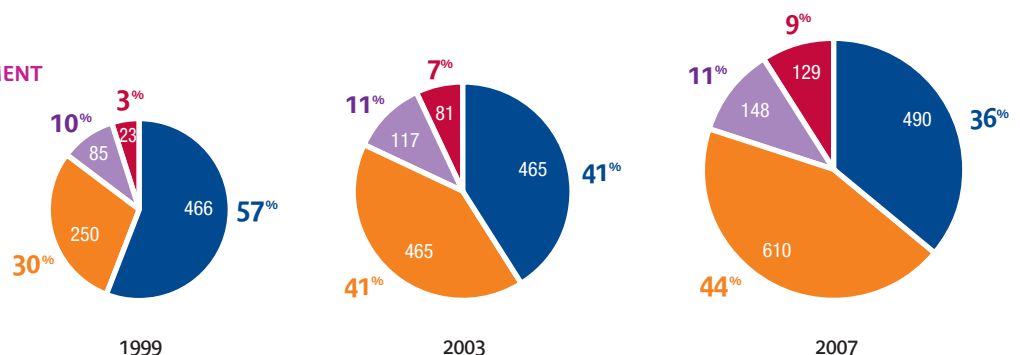
- In 2003, amidst a difficult economic climate, businesses focused on sharpening their operational performance and cutting costs, particularly for information systems and telecommunications. They are now again setting their sights on growth and innovation. This shift in mindset will encourage a recovery in telecommunications services, particularly in three areas:

- Intranet and **Extranet** solutions that provide uninterrupted links with staff and closer relationships with customers, business partners and suppliers;
- secure multi-access solutions (fixed, wireless, Internet), allowing connection from anywhere, any device and any network to corporate email and other applications;
- outsourcing and **hosting** services (web servers, security solutions, email servers, call centers), which harbor substantial growth potential in the years ahead.

*\* Source (unless otherwise specified): Idate*

**WORLD MARKET  
BREAKDOWN BY SEGMENT**  
billions of dollars

■ Fixed  
■ Wireless  
■ Data  
■ Internet



## Research and Development. Focusing R&D on the Group's growth paths.

France Telecom has 3,400 researchers working on three continents and figures among the European leaders in telecom R&D. A new organization introduced in 2003 sharpens performance and unlocks greater synergies across all units. The overarching objective is customer-focused innovation, one of our fundamental competitive advantages.

### R&D: a pillar for growth

France Telecom R&D (formerly CNET) is Europe's top telecommunications research organization, home to 90 percent of the company's 3,400 researchers. It spans 12 facilities, four of them outside France (in San Francisco, Boston, London and Tokyo), plus the research labs of TP S.A. in Poland and teams in Beijing and New Delhi. France Telecom R&D contributes to the design of 70 percent of the new products and services marketed by the group, and has seeded some 15 start-ups by "intrapreneurs". In 2003 alone its work underpinned the launch of multiple innovations, most notably:

- New image services like MaLigne TV (television on ADSL phone lines), Wanadoo Visio (Internet videophone using the eConf software) and Streaming Orange World (enhanced mobile video and media, developed in liaison with the start-up Streamezzo);
- Services that exploit fixed/wireless/Internet convergence, such as Mini Message (SMS messages on fixed phones) or instant messaging on any device;
- Broadband Internet services: Wanadoo eXtense WiFi package for wireless connection and access sharing anywhere in the home, and the Orange WiFi solution for Internet access from outside the office or home;
- Advanced business services (e-telephony, unified VPN, etc.);
- Advanced technology projects such as voice recognition and synthesis applications.

### New organization boosts efficiency

R&D has been reorganized to focus assets on driving the Group's growth through innovation, with enhanced performance and closer links to the business units. This policy is anchored in four aspects:


**New governance for R&D** to achieve a better match between R&D work and market needs in the near and medium term. A Policy committee has been formed, as well as committees to define broad research themes and a project steering committee.

**Concentration of resources on projects with strong growth potential.** Defined in close liaison with the Group's business units, these projects cover key areas like consumer videophones, TV on ADSL, voice and Web services for targeted publics and IP videophone and voice services for businesses.

**Creation of competency centers** that deploy a network to ensure access to expertise available throughout the Group in key areas: customer relationship management, e-commerce, home networks, messaging, security, voice services, terminals, Internet services, very-high-speed services (Gigabit Ethernet) and the new version of the IP protocol, IPv6. These one-stop shops facilitate access by all business units to R&D expertise.

### Strengthen our international presence.

France Telecom R&D has created a new center in China, ramped up work at the Tokyo lab and consolidated centers in Boston and San Francisco, all while nurturing innovative start-ups.



Telepresence: 3D audio and video for "full-scale" dialogue transcending distance.

**Innovation at the heart of a "full-service" operator strategy**

Cutting across different segments of the business, R&D is fundamental to the creation of convergent services available on different networks from multiple access devices. France Telecom R&D teams mobilize their talents in collaboration with all group entities to make innovation a pivotal growth driver within the framework of the Top Line program initiated in 2003.

**World class research in 15 areas**

A closer match between R&D and the objectives pursued by the Group's business units is accompanied by ongoing initiatives to advance the future. Research is now structured according to fifteen "world class" areas determined by a jury of independent experts. These teams explore important developments in security, ergonomics, man-machine dialogue, video, voice, audio, communicating objects, knowledge management, anticipative tools, distributed software architectures, software engineering, traffic modeling, network optimization, optical technologies, digital technologies and antennas. Research resulted in 400 publications in 2003.

**Fresh impetus for intellectual property**

Greater emphasis has been placed on unlocking the value of innovation. France Telecom filed patents for 415 new inventions in 2003, a 40 percent increase

in the size of a portfolio that now counts nearly 6,300 patents.

Revenues from industrial property rose significantly, notably due to a major contract with Qualcomm concerning licensing of France Telecom's Turbo Code patents for use in the company's third-generation cellphones. This France Telecom innovation marks a major advance in a fundamental aspect of digital communications, error correction codes. The basic patents held by the Group in MPEG and MP3 compression are another significant source of value. France Telecom has a high profile in standardization initiatives as well. By contributing to the definition of international standards, it ensures the long-term viability of its technical choices, and of its customers' investments. When the global telecommunications community adopts one of our innovations as the industry standard, new potential revenue streams are created. The Group's strategic push in this area is beginning to pay dividends.

## Networks. Transforming subscriber lines into high-speed, multiservice pipelines.

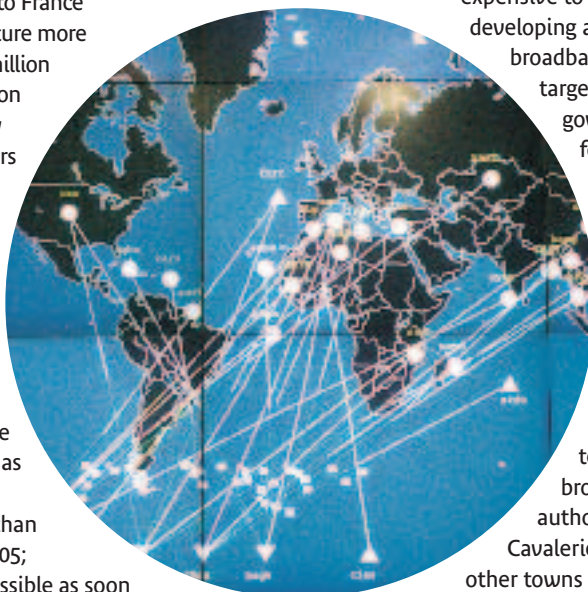
Realizing the potential of converged, multimedia services means making broadband available throughout the country. Working closely with municipal authorities, France Telecom is applying its technological expertise to make this happen.

### Broadband: responding to exploding demand everywhere

The number of customers connected to France Telecom's ADSL broadband infrastructure more than doubled in 2003, topping three million at year end, compared to just 1.4 million in December 2002. Demand is up very sharply from businesses and consumers alike for ubiquitous, anytime personal communications resources. The Group's overriding priority is to meet these expectations with solutions that are simple, tailored to the needs of each clientele segment, and competitively priced. In June 2003 France Telecom announced five commitments to make broadband access available as quickly as possible everywhere in France:

- equip all central offices with more than 1,000 lines with ADSL modems by 2005;
- deploy ADSL access as rapidly as possible as soon as at least 100 customers in a given local service area request the service;
- provide satellite broadband access for isolated customers as of September 2003;
- test alternative broadband technologies to meet customer demand regardless of the location;
- work closely with local and regional authorities to identify customer expectations and provide solutions adapted to their broadband Internet needs.

This action plan was deployed immediately and the rate of ADSL deployment doubled as of the third quarter of 2003, doubling again in the last three months of the year. At the end of December 2003 there were 23 million phone lines compatible with ADSL service, equivalent to 79 percent of the population. This should increase to 95 percent by the end of 2005.



**11 network supervision sites across Europe.**

### Solutions for rural areas

For regions where low population density makes it too expensive to equip central offices, France Telecom is developing alternative solutions. Three satellite broadband offers were introduced in 2003, mainly targeting businesses and municipal governments.

Oléane Sat proposes solutions for Internet and corporate Intranet access, with up to 2 Mbps of bandwidth. "Satellite Surf" is a bundled solution that lets customers choose their Internet Service Provider and provides 2 Mbps of bandwidth. Wanadoo Pro Sat provides the same services as Wanadoo ADSL without any geographic limits.

Broadband is also reaching out to rural areas. The Group is trialing WiFi wireless technology interfaced with satellite broadband, working closely with local public authorities. Tests began in October in La

Cavalerie (in the Aveyron region), followed by nine other towns in eight regions. At each site 30 customers enjoy broadband Internet access via a satellite dish and connection kit.

Another initiative in conjunction with local authorities and ISPs is identifying demand from residential users in sparsely populated areas. This will make it possible to quickly open ADSL service when the threshold of 100 requests is reached.

### Delivering video over standard phone lines

The "Multiservice ADSL" project will make it possible to simultaneously watch TV, surf the Internet, phone a friend and send an SMS, all over a customer's ADSL phone line. Behind this tremendous wealth of easily available features is a vast array of complex technology. The Multiservice ADSL project aims to define a convergent network infrastructure to bring our

# Nearly 15,000 towns and cities had ADSL service at the end of 2003

customers an ever-richer suite of services with greater integration and ease of use. Project teams formed in September 2003 immediately moved forward with the December 2003 launch of "MaLigne TV" in the city of Lyon. In addition to Video on Demand (VoD), this service provides access to a package of TV channels, in partnership with satellite TV company TPS. MaLigne TV will be launched in the Paris region in spring 2004 before progressive rollout in other large French cities.

## High performance, lower costs

The TOP initiative to optimize performance was launched in 2003, providing fresh impetus to efforts in progress for several years to lower costs while maintaining the superior quality of service of France Telecom networks. Optimization of investments combined with more efficient work methods led to significant cuts in operating expenses and network development costs. Several initiatives led to spectacular drops in purchasing costs, especially for ADSL equipment. Different group entities also improved their marketing and sales actions, demonstrating the Group's ability to bring ADSL accesses into service faster and more efficiently.

All these actions provide additional margins of maneuver to accelerate deployment of the broadband and network convergence plan.

## Industrial processes for unbundling

Since January 1, 2002 **alternative operators** are entitled to direct access to customers' phone lines. France Telecom is required to provide "unbundled" access to operators that request it. This requires installation of competing operators' equipment at France Telecom group central offices, along with various technical adjustments. Over 275,000 lines were unbundled in 2003, compared to fewer than 6,000 the previous year. France Telecom defined precise work methods to manage **unbundling work** on an industrial scale. Over 300 group sites are now equipped to execute these tasks in the Paris region and 20 other major French cities. Deadlines have been met, with 5,000 to 10,000 lines unbundled on average each week since July 2003.

## PURCHASING

### Objective: Save €4 billion by 2005

In 2003, France Telecom launched the first two waves of its TOP Sourcing program, designed to reduce the total cost of purchasing while improving the overall service delivered by suppliers. Gains have already exceeded projections. This purchasing initiative is supervised at the top management level and supported by new strategies, organizations and purchasing methods. A series of actions was taken to drive further progress in 2003, including deployment of information and transaction systems and groupwide consolidation. A "Purchasing" training unit was also created, along with an internal organization to sharpen professionalism.

France Telecom also continues to build out its Global Backbone Network, enabling it to provide seamless very-high bandwidth service across the world, including the opening of a new Point of Presence (PoP) in the Czech Republic in June. Last year also saw deployment of the Quatuor program, a major initiative launched in 2000 to completely upgrade the transmission network information system.

## Support customers under all circumstances

France Telecom teams are mobilized around the clock, seven days a week, to guarantee the availability of communications services for our customers. Our teams also work under all circumstances. The earthquake that ravaged the Algiers region in Algeria on May 22 also broke several submarine cables. Telephone traffic was cut off to Algeria, the Middle East and Asia. Nearly 200 France Telecom technicians immediately set to work opening temporary routes and repairing the severed cables 2,500 meters beneath the Mediterranean. By June 2, almost all traffic had been restored.

The network was also tested by nature in France with violent storms, a heat wave, forest fires during the summer and floods in the southeast of the country at the end of the year. In each case, France Telecom teams were immediately available to get service back up and running as fast as possible. When 20,000 lines were knocked out by floodwaters in the Arles and Marseille regions on December 3, a thousand group employees sprang into action to repair lines. They also increased capacity on the Orange cellular network and helped people affected by the disaster by handing out 30,000 telephone tickets to let them make calls from any phone or payphone still in service.

The availability of all teams and their commitment to service continuity and quality are a constant source of pride at France Telecom.

## Distribution. Sales and marketing power to serve customers

**We deploy powerful direct distribution networks in France, Poland, Jordan and Senegal, markets where France Telecom enjoys top-tier positions. We also make our solutions available through fast-growing diversified indirect sales channels. Our marketing and sales teams are continually sharpening their efficiency to provide better service for all customers – residential, small business or corporate.**

### 620 France Telecom stores in France for close customer relations

France Telecom has about 620 sales outlets across France, providing a dense network for face-to-face customer service. We work to develop close relationships with customers and provide them with efficient support to get the most out of innovations, explaining the many benefits of different new services. In October 2003 four pilot stores began holding demonstrations of new uses. Some 140 sales outlets were redesigned last year and 180 stores that feature Internet solutions have new displays for Wanadoo services.

Coupled with the sleek displays of MaLigne and Orange products, this gives the stores a dynamic, contemporary look. These changes have boosted sales by about 15 percent for existing outlets and 25 percent for stores that have been moved to areas with higher customer traffic. The "Multimedia" sections in stores have proved very efficient in explaining the concrete benefits of convergence to customers. These Multimedia corners will be set up in all sales outlets with high potential in 2004. Ten new stores were opened in 2003 and 22 others moved to locations more convenient for customers. In the small business segment, where France Telecom counts 2.3 million customers, a sales force of 1,900 trained professionals provide advice and a comprehensive analysis of customers' needs, covering fixed, wireless and Internet.

Another initiative is a special sales team for disabled customers. There are four "Rainbow" centers designed specially to welcome and advise these customers, plus 18 stores that sell solutions for customers with special needs, staffed by expert sales staff.

**Sales teams who know what business is all about**  
France Telecom has 28 specialized sales outlets and

2,700 sales staff to serve five main categories of business customers. Each business customer is covered by a dedicated sales team that is fully conversant with the challenges in a given sector and the impact of telecom resources on strategy. The Group also works closely with municipal government entities and public sector organizations, helping them develop multimedia applications by setting up broadband networks and dedicated services.

### Multiple contact channels with telephone service and sales

In addition to face-to-face relations, France Telecom develops quality telephone contacts with customers. Forty agencies in France are staffed by 7,000 agents and salespeople who manage the customer portfolio for different geographic regions, as well as customer relations via the 1014 customer service line. This organization also includes telemarketing platforms for retail customers.

A specific sales platform for small business customers combines the 1016 customer service, telemarketing and sales teams who meet directly with customers. Each specialized Business sales office has a toll-free number to make it easy for companies to contact France Telecom, especially smaller firms. A special organization will be set up in 2004 for disabled customers including a website, toll-free number, specially-trained marketers and telemarketing to associations to promote the Group's solutions.

### francetelecom.com: customer service center on the Web

There was strong growth in online sales in 2003 as retail customers purchased 700,000 products and services directly from the Group's website.



The France Telecom Web boutique for consumers logged 18 million visits last year, up 60 percent over 2002. What's more, the new "customer corner" added to the francetelecom.com site in March 2003 lets customers track usage, check and modify features and rate options, and pay their phone bill online. This service immediately proved tremendously popular and 390,000 Internet users have logged on to create a personal customer profile.

For small businesses, the "Boutique Pro" reopened in June after a complete makeover, featuring new contact channels and pioneering services. Corporate customers also have a special section on francetelecom.com where they can find information, execute transactions and manage services in a personalized online environment. Nearly 20,000 customers use online services, especially for placing orders, which doubled to 50,000 in 2003.

#### **Interactive platform creates "virtual" boutique**

France Telecom's "3000" interactive customer service platform provides a full-fledged telephone boutique. With 30.8 million calls in 2003, volume jumped 33 percent versus 2002. The "3000" platform added new features like easier call forwarding, bill payment using credit cards, access to the 3103 voicemail service and activation of lines in vacation homes. As of summer 2003, customers can also check on the Web whether their line is compatible with ADSL service and subscribe to caller ID and fixed-line SMS services.

#### **Local access to indirect distribution channels**

In addition to coverage by its own stores, the France Telecom Group also markets its services through nearly 50,000 local partners who belong to the "Relais France Telecom" network. This includes neighborhood retailers, department stores and specialized stores. For small and mid-sized businesses the Group has a network of 4,000 certified partners – information systems specialists and telecom installers – identified

by the "Partenaire Expert France Telecom" label. These partners recommend and install different group solutions.

#### **Continuous improvement for customer support**

The customer support organization was completely restructured in 2003 to enhance service quality, increase revenues and accommodate explosive demand from deployment of ADSL access and unbundling. The new organization is based on dedicated service and maintenance units, pooling of technical teams, specialized marketing teams, a new rate structure and an in-depth upgrading of the service and maintenance skills base.

#### **Strong international presence**

##### **Case study in success in Poland**

As in France, Polish incumbent carrier TP Group pursued aggressive brand development. This France Telecom subsidiary fields a broad and diversified marketing and sales organization. The creation in 2003 of a new network of 148 "Telepunkt" stores with a high-impact concept gives the company a prime competitive advantage. These stores now sell the complete TP range of fixed-line, wireless and Internet solutions. Deployment will continue to cover the country with 270 Telepunkt stores by the end of 2004. They will progressively replace the legacy TP customer service centers, reducing the current 180 locations to about 50. TP Group is also developing indirect distribution through a network of door-to-door sales teams, department store corners, telephone sales and resellers for wireless services from its Centertel subsidiary. Customers can also order low bandwidth dial-up or ADSL Internet service via the Web. TP Group is energizing sales with dedicated call centers for retail customers (9393) and businesses (9330). It has thus significantly strengthened links with customers with the biggest customer relationship management (CRM) platform in Europe, involving several thousand people.



**We're seeing a generalization of the Internet protocol, a rising number of truly useful mobile services, intelligence irrigating all networks components, and democratization of the Internet. People can be contacted anywhere on any device they choose via the best infrastructure, whether they are at home, travelling or at work.**

**This puts people right at the heart**

of their own telecommunications network.

**THIERRY BRETON**  
CHAIRMAN AND CHIEF EXECUTIVE  
OFFICER OF FRANCE TELECOM



## Residential services. Convergent solutions for every member of the family.

**New applications, new terminals, new rates: France Telecom introduced an exciting array of fixed-line and Internet innovations in 2003 to create convergent services that every member of the family can mix and match to their wants and needs. With widespread take-up of broadband access, these new solutions have sparked a revival for fixed phone lines, with voice calls but one of many services delivered.**

### Strategic transformation for fixed lines

Fixed phone lines got a whole new start in 2003, transformed by new rate structures, new services and a range of feature-rich phones, all symbolized by a fresh visual identity. Facing extremely fierce competition, France Telecom stabilized its market shares (76 percent of the local call market and 62 percent of domestic and international long distance calls), as well as the number of fixed lines, which stood at 33.9 million at year-end. Fixed-line service has a bright future thanks to innovative services and devices and the generalization of **broadband** access.

### Broadband for everyone

ADSL transforms "plain old telephone" lines into powerful broadband pipelines. Residential lines can now carry not only voice, but also text, data and even television programs – all at the same time. Equally important, the convergence of networks and devices introduces a world of integrated and easy to use services. As a "full-service" operator, the France Telecom Group is leveraging its leadership in technological innovation, marketing and distribution to make these exciting possibilities a reality for its customers. Quite simply, the new services and devices available from France Telecom will radically change the way customers think about their phone line.

### Personal messaging for every member of the family

In May 2003, France Telecom introduced the first telephone-based text communications service. Customers can send SMS text messages from a fixed phone to another fixed phone, cellphone, email address or fax. Messages can be sent to the entire family or an individual mailbox. Over 300,000 customers were already enjoying the "Mini Message" service just seven months after its launch. The new "Message

Express" service introduced in December makes it possible to send voice messages to the personal mailbox of each member of the family without ringing the phone.

Based on their success in France, both of these services will be rolled out in Poland, Spain and Jordan, where the Group has fixed-line units.

### New high-tech phones

Renewed momentum for fixed-line service is supported by a complete line of feature-rich phones. Some 25 new phones were introduced in 2003. In addition to phones with an integrated SMS message feature, **DECT** cordless phones with multiple handsets and a phone worn around the neck, France Telecom introduced the first phone with a color screen in December.

Another step towards seamless services and greater convenience is a MaLigne feature that copies address books from a cellphone to the fixed phone memory using the **SIM** card.

### Economical, straightforward rates

Attractive rates are a key part of the innovative MaLigne fixed service. Each customer can select personalized plans and features with competitive rates tailored to actual needs.

The simple, economical MaLigne offering spans a broad selection of 16 different plans for local and national long-distance calls at a single rate, with per second billing and no call setup charge for minimum call time. For example, the new Duo plans combine the benefits of "Heures France" flat rate nationwide calling with "Three Unlimited Numbers". Calls on weekends and holidays to three favorite fixed-line numbers in metropolitan France are not deducted from the inclusive call time in the plan, regardless of their duration.

For customer who like to settle down for lengthy phone calls, MaLigne introduced a flat-rate call option in

I want her to know she  
can call me as soon as I've  
finished my homework!

I'll get the movie tickets...  
with just a click.



# Wanadoo, Europe's second-largest Internet brand

...

February 2003. All calls in metropolitan France on weekdays after 6 p.m. and all day on weekends and holidays are billed at a flat rate.

France Telecom is continually offering more competitive rates. Residential customers enjoyed new rate cuts in 2003 for calls to fixed-line numbers, as well as to Orange and SFR wireless numbers. This trend continued in January 2004 with an average 9 percent cut in the cost of calls from fixed phones to Orange and SFR cellphone numbers.

## France Telecom committed to "broadband for everyone"

France Telecom is firmly committed to making unlimited information available to everyone through ubiquitous broadband access. Making it possible for everyone in the country to obtain broadband Internet access is a key priority, backed by five commitments announced by Thierry Breton in June to accelerate deployment of the underlying technical equipment.

## TV on the phone line

Since December 2003 residents of Lyon have been able to use their phone to make calls, surf the Internet... and watch TV, all at the same time. Developed in association with broadcaster TPS, this new service is emblematic of France Telecom's strategic partnerships to benefit customers. The "MaLigne TV" bundle is quickly hooked up to the phone line and TV set for digital quality access to an extensive line-up of movies – thanks to Video on Demand (VoD) service – and TV programming. The service is billed per use with a kiosk model similar to the Minitel videotex system. Customers can also sign up for the TPS L suite of channels with a TPS subscription. These offers will drive the growth of MaLigne fixed-line services, taking advantage of the excellent quality of France Telecom's network infrastructure and its cutting-edge expertise in image communications. These services will be available in spring 2004 in the Paris region, followed by the rest of France.

## NOMADIC RESOURCES FOR SHARPER SERVICE

Thanks to their cellphone and the Orange Enterprise portal, 300 France Telecom technicians can instantly access resources right from a maintenance site. They use the system to check their schedule and report on operations in real time. This nomadic application boosts their efficiency and lets them concentrate on complex service operations while enjoying greater autonomy and less travel.

The system will ultimately be adopted by 8,000 maintenance technicians and will soon be available via PDA and laptops via the Orange GPRS network.

## Wanadoo, an Internet leader in Europe

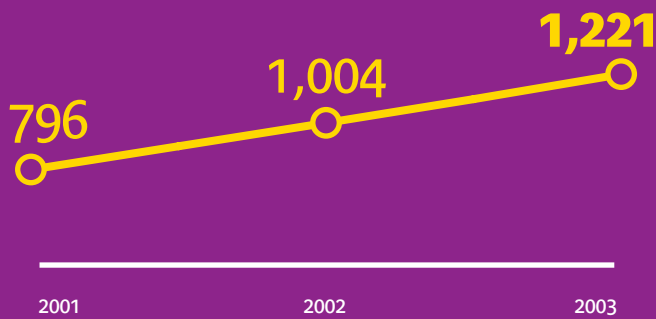
To connect to the Internet, consumers need both a telephone carrier or cable company to provide the physical line that transports data, and an Internet Service Provider, or ISP. As a major player in the European Internet market, France Telecom is present in both these markets in France and other countries.

The Group markets capacity on its network infrastructure to ISPs for either low bandwidth dial-up service or broadband ADSL access, as well as on its cable systems. France Telecom also proposes integrated solutions via its Wanadoo subsidiary in France and three other European countries.

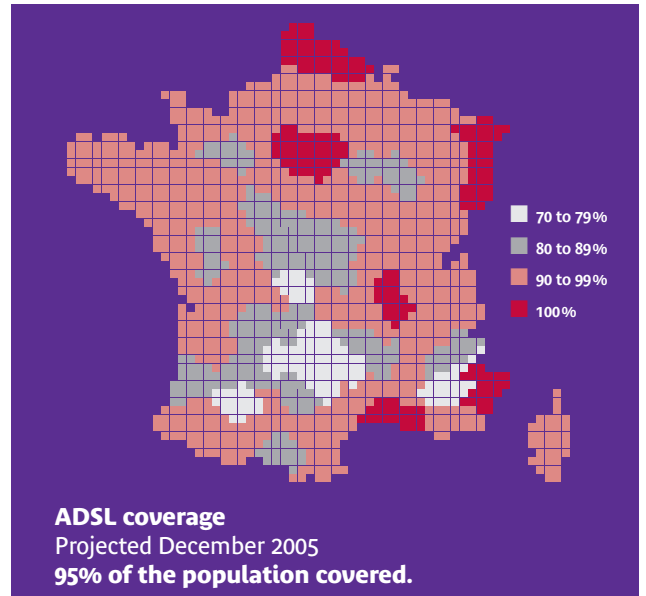
Wanadoo is the second-largest Internet service provider in Europe, with over 9 million customers. The unit consolidated its positions in 2003, led by very strong growth in broadband: nearly 2.5 million customers had chosen Wanadoo's ADSL solutions at the end of the year, an increase of 60 percent in just 12 months. A "no risk" ADSL offer was launched in the United Kingdom in 2003 with a one-month free trial. Wanadoo also began marketing WiFi wireless access in the Netherlands and expanded its range of cable broadband services.

With a new organization in six business units to tighten the integration of the Internet access and portals business in France, Wanadoo refocused on its core Internet and directories operations. The Pagesjaunes.fr site is the top online directory in Europe in terms of revenues, audience and advertising. Wanadoo's PagesJaunes directories business is number three in Europe, with top-tier positions in France and Spain. These two countries counted 275,000 Internet advertisers at the end of 2003, up from 238,000 a year earlier. Wanadoo enjoys equally significant positions in portals, with the French, Spanish and Dutch versions of the Wanadoo portal, as well as freeserve.com, voila.fr and the goa.com online games portal. In electronic commerce, alapage.com and marcopoly.com recorded a 22 percent rise in orders, consolidating their strong positions.

**E-commerce:** increase in total orders on alapage.com  
(in thousands)



**December 2003.** Maligne introduces Message Express personal voicemail boxes.



**December 2003.** France Telecom and TPS team up to launch **television over phone lines.**



**Broadband:**  
**Nearly 2.5 million**  
**customers in Europe**



**October 2003.** The eXtense PlayStation 2 pack lets surfers play network games from their console using a wireless broadband Internet connection.



**Amarys 1500.**  
A new generation fixed phone with SMS capability.



**July 2003.** Neostada, the ADSL solution from TP Group, has signed up **over 5,000 customers a day in Poland.**

## “Paying on line is as simple

With a virtual wallet I don't even need to enter my credit card number! I can use a computer, cellphone or PDA to make reservations and buy tickets for a concert or show. Plus I keep track of my budget.

...

Wanadoo benefits from the quality of the France Telecom network and its research and development edge to provide customers with a steady stream of innovative Internet services. Services are matched to every need and are easy to access from any type of terminal – computers, fixed phones, wireless phones, etc. Throughout the year, Wanadoo expanded its range of specific broadband services in all the countries where it operates.

### Sharing broadband at home with WiFi

In France, Wanadoo began marketing the eXtense WiFi pack in May 2003. This wireless Internet connection between the modem and the computer lets people share a broadband connection on several computers. Internet becomes easily accessible from anywhere in the home to the entire family at the same time, with no wires and a single service subscription. For Internet gaming fans, the eXtense PlayStation®2 solution was introduced in October. Developed in partnership with Sony, it provides a WiFi broadband Internet connection for the PlayStation®2 console, plus a headset and microphone to communicate with other players. Equally important, the rest of the family can continue to use the Internet connection on their computers. All avid broadband gamers, whether or not they are Wanadoo customers, can take advantage of another groundbreaking service from France Telecom called Ping. Developed by France Telecom R&D as part of a European project, this software and hardware platform reduces response times, making the online gaming experience more fluid and efficient.

Customer convenience is also enhanced by Wanadoo's range of WiFi accessories for easy WiFi connection of laptops in Orange “hotspots”. Hotspots are public areas equipped for WiFi Internet access, including hotels in the Accor group and airports.

### Deeper convergence

Demand for converged services grows every day. A good example is the 24/7 email service that alerts people that they have new mail by sending an SMS to their cellphone. Video is an increasingly important part of communications too. The Wanadoo Visio service lets Internet users who have a webcam make videophone calls with exceptional image quality thanks to the eConf software from France Telecom R&D. And the Wanadoo Photo Album is the perfect way to post photos online to share them with family and friends and even order prints via Internet.

### International

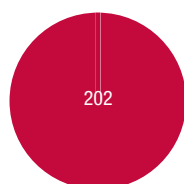
#### ADSL takes off in Poland

The Group's main fixed-line business outside France is in Poland. A consortium comprising France Telecom and its local partner Kulczyk Holding owns 47.5 percent of incumbent phone company TP (Telekomunikacja Polska). TP and its subsidiaries, including cellular operator PTK Centertel, constitute TP Group, which has been consolidated in the France Telecom Group since 2002.

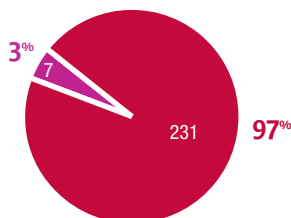
TP Group is the number one telecom company in Central Europe in both revenues and customers. It had over 10.89 million fixed-line customers at the

**DIRECTORIES:  
INTERNET ADVERTISERS**  
in thousands

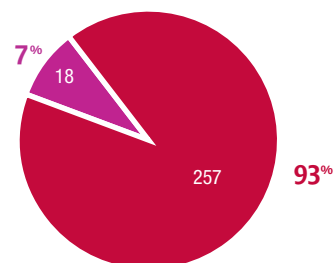
■ France  
■ Spain



2001

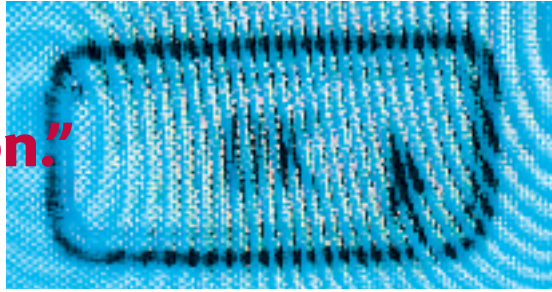


2002



2003

as pressing a button.”



end of 2003 and continues to post steady growth. The highlight of the year was the success of new ADSL Internet access solutions, that won over 150,000 Polish customers.

#### **Solid positions around the world**

France Telecom also operates in Spain and Portugal. Outside Europe, the Group has businesses in six countries in Africa (Senegal, Côte d'Ivoire, Equatorial Guinea, Central African Republic, Madagascar and Mauritius), as well as Vietnam and Jordan.

Rationalization initiatives announced in late 2002 led to the divestment in 2003 of the Group's interest in Telecom Argentina and CTE Salvador.

In the Spanish market, France Telecom's wholly-owned subsidiary Uni2 has established a position as a leading alternative operator. Uni2 began to deploy its own network in 2003 following unbundling negotiations with the incumbent carrier in the country. In addition, Wanadoo and Uni2 jointly developed a range of services that include combined Internet and telephone solutions.

In March 2003, Senegalese operator Sonatel, another France Telecom subsidiary, introduced its ADSL Internet service and will distribute Wanadoo solutions under a franchise agreement.

Another franchise agreement was signed in October with Global One, an Internet service provider in Jordan that now distributes Wanadoo services in the country under the French operator's brand.

Friends and family always know whether we're available or not, and with a glance at the screen on our phone we can see who's available to talk to us. With a single click we can contact everyone and maybe decide to go to a movie. And if we don't want to be disturbed, the network knows when to route calls to the messaging system.

**“I'm available...  
when I want!”**



## Personal communications services. Communications is more than words.

**Always at your fingertips, wireless phones are the ultimate personal communications device, continually enriched with an incredible variety of features. No other technological innovation so quickly and completely conquered its market: 83 percent of Europeans now have a cellphone. New-generation wireless handsets not only let people talk, but also send text messages and video, check email, pay for transportation tickets, access local information related to wherever they happen to be, or even control devices back in their home. In short, wireless phones are gradually becoming both personal assistant and universal communications device.**

### Customers at the center of their network

The convergence of wireless, fixed and Internet communications creates immense possibilities for personal contact. People constantly keep their cellphones close at hand to stay in touch with family and friends, customers and the office, wherever they are, making it easy to discreetly call. They also use their phones for a constantly growing range of tasks that change with their wants and needs. More mobile bandwidth thanks to GPRS – and UMTS in 2004 – will trigger a profusion of new services like instant messaging, sharing photos, radio guidance, videophone calls, TV reception, video on demand and more, all addressing seemingly insatiable demand. All these forward-looking services, however, have to make life easier, not more complicated! France Telecom is known for anticipating customers' expectations for solutions that are simple and flexible, and has developed a suite of services that people can adapt and personalize when they want. The Group is focusing its considerable resources on delivering the promise customers expect from a "full-service" operator. Integration starts with greater interoperability across networks, making the same service available on a fixed or wireless phone, for example. To achieve this, France Telecom has begun rationalizing transmission infrastructures in conjunction with Orange, Wanadoo and Equant. Group entities are also unlocking synergies by coordinating investments in billing and customer relationship management systems. They also of course take advantage of the Group's R&D resources to design innovative services and devices that free customers from now outmoded constraints, requiring that a given service be used only from one type of equipment, or a specialized network.

### Sharper focus and accelerated growth for Orange

Orange is one of the world's leading wireless communications companies, with operations in 19 countries, primarily in Europe. At the end of 2003, France Telecom's flagship wireless brand had 49.1 million customers worldwide. Orange enjoys very strong positions in Europe, especially France and the United Kingdom, and is number one in both countries in terms of active customers.

The new Orange management team at the helm since March 2003 is pursuing accelerated growth anchored in a distinctive offering to precisely meet customer needs and deliver an innovative array of services. This strategy has led to a steady increase in the customer base, which climbed towards the 50 million mark at the end of 2003, fueled by robust fourth-quarter growth. In 2002 Orange announced its intention to concentrate on countries where it already had an established presence, and to be either number one or number two in the wireless market in each of them. At the end of 2003, this objective had already been achieved in 10 of the 14 markets where the France Telecom subsidiary operates. Orange completed its withdrawal from Italy, where it did not have operational control over its subsidiary Wind, selling its stake to the majority shareholder, Italian electricity utility Enel.

### Network buildout supports integrated services

More bandwidth on wireless networks opens the path to a range of compelling services. Already, the GPRS standard allows Orange customers to send and receive MMS multimedia messages, enriched with photos or video. Since November 24 of last year they can also watch or download on-demand video sequences. Moving forward, third-generation UMTS technology will

I want everyone I like  
with me all the time!  
All in a single address  
book to contact them...  
and on my handset  
screen to see them!



# Orange, the No. 1 wireless brand in France and the United Kingdom

...

enhance this offer. Customers will be able to see one another while talking on their handsets, surf the Net or connect to a corporate network with the same convenience as ADSL on fixed lines. The development of these 3G services will fuel growth, making them a key priority at Orange. Non-voice services such as SMS represented 12.7 percent of Orange network revenues in 2003. In a single day on January 1, 2004, an astounding 42.5 million SMS messages were sent on the Orange network in France – 30 percent more than the previous year. UMTS takes the potential introduced by GPRS into an exciting new dimension. This technology is designed for high-speed transport of text, data and images, creating almost unlimited possibilities for new usage alongside conventional voice services. The Group continued deployment of UMTS networks in France, the United Kingdom and Switzerland. Following tests of the new services at the end of the year, rollout of commercial 3G service is expected in 2004, taking into account market demand and expectations. In 2004, Orange plans to launch its UMTS network in the United Kingdom – where the arrival of a fifth operator, Hutchison 3G, heightens competitive pressures – as well as in France. Initially, the service will cover ten major cities, mainline rail routes and airports in both countries.

## From Poland to Mali

In Poland, Jordan, Senegal, Mauritius and Mali, France Telecom subsidiaries market wireless telecommunications outside the Orange brand. PTK Centertel, a subsidiary of Polish operator TP Group, continued to log sustained growth. At the end of 2003, PTK Centertel had 5.7 million customers, up 27 percent over the previous year. The unit's growth strategy is now focused on value-added services, enabling it to move from third to second position, behind market leader Era. PTC Centertel now has 33.4 percent of the market and is steadily expanding its customer base and value. The company also plans to open a UMTS network in 2005. Taking advantage of strong positions in fixed

telephony and corporate services, TP Group aims to develop mobility solutions with innovative integrated offers. Services like integrated SMS messaging on fixed and wireless phones deliver concrete benefits for customers.

In Jordan, the MobileCom network now covers 99 percent of the country's population. The company saw its market share rise from 26 percent at the end of 2002 to 30 percent at end 2003. Three years after the service was introduced it counts 356,000 customers. In Senegal, in addition to its domestic wireless business, Sonatel launched a GSM network in Mali via its local subsidiary Ikatel.

## Orange innovation continually enhances the customer experience

Orange's operations are inspired by a focus on customer intimacy. In-depth upstream studies of customer behavior and usage profiles allows Orange to anticipate expectations and identify promising new services. And downstream, Orange supports customers with a novel concept called "Mobile Coach", helping people discover and get the most out of the myriad innovations unveiled in 2003. Already in place in the United Kingdom, the Mobile Coach program is now being rolled out in France. Experts at main France Telecom sales outlets present services, run personalized tests and help customers get started in using new applications. A team of 500 coaches will also give public demonstrations of Orange solutions in seven major French cities. What's more, all Orange employees have gone on the offensive to explain new services in their personal circle of acquaintances.

This program was announced at the launch in October 2003 of a new phase in the Orange Experience: Orange World. This mobile portal lets customers send and receive email, download pictures and audio and navigate the Internet from a laptop or PDA via the Orange network, from wherever they are. Available on all handsets in the Orange range, Orange World includes easy to understand rates. After France and

**May 2003.**  
Wanadoo  
launches  
broadband  
WiFi solution.



## MULTIMEDIA

New wireless phones provide  
“always on” Internet  
connection.



**Orange World had over 1.9 million customers in France, the United Kingdom and Switzerland at the end of 2003.**



**United Kingdom.**  
Tremendous  
success for the  
“Mobile Coach”  
campaign, which  
helps customers  
discover new Orange  
World multimedia  
handsets.



**1,000 WiFi  
hotspots  
available to  
nomadic users  
in hotels, airports,  
cafés and other  
public places.**

**Non-voice services represented  
12.7% of 2003 revenues.**

**End December 2003.**

PTK Centertel had 5.7 million customers in Poland.  
The wireless subsidiary of TP Group posted **annual  
growth of 27%.**



**4th quarter 2003.**  
**Over 4 million  
MMS messages  
sent in France  
and the U.K. on  
the Orange network.**



## Delivering the UMTS promise

Soon you'll be able to see people's reactions, let them see you, and share surprises, all right on your wireless phone screen!

the United Kingdom, the service will be introduced in six other European markets by the end of 2004.

### Orange WiFi, broadband Internet for nomads

Whether in a hotel, airport, train station or café, people on the move can now easily connect to the Internet at broadband speeds from a laptop or PDA with no cables or plugs thanks to the new WiFi wireless standard. Any public area can be transformed into a "hotspot" by installing terminals that are connected to the phone network and set up radio links with personal devices. A thousand Orange WiFi hotspots were already in service at the end of 2003. Two strategic partnerships last year accelerated deployment. Under the terms of an agreement signed in the spring, France Telecom will create Orange WiFi hotspots at 1,300 Accor group hotels across France by the end of 2004. By December 2003, some 350 hotels had already been outfitted.

The second agreement, with Air France, will see hotspots installed in the airline's 54 airport lounges around the world. Marseille Provence airport also selected Orange WiFi for its two boarding lounges. The Group is adding new hotspots at a rate of 15 to 20 daily. There should be some 2,500 Orange hotspots around the world by the end of 2004. What's more, the Wanadoo eXtense Pro WiFi bundle lets any business – café, restaurant, hotel, etc. – easily set up its own Orange hotspot.

This service is as efficient as it is easy to use.

To connect to Orange WiFi, people simply buy a prepaid WiFi Pass, enter the password on the scratch card and connect.

Also, as part of ongoing convergence, the Wanadoo Orange WiFi PC Card allows broadband Internet access via a fixed home network or from any Orange hotspot.

### Road warriors beyond borders

In April, Orange introduced Orange Pro, a new range of call plans designed specially for people who need a wireless phone for business. This is the first truly "everything included" plan available in France,

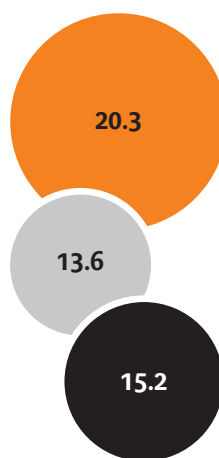
comprising a suite of free efficiency-boosting services, guarantees and a dedicated help desk. The different plans cover unlimited calls from metropolitan France to domestic fixed or wireless numbers, international calls, special numbers, email, SMS, MMS, WAP and more. For people who travel frequently outside the country, Orange offers two "Orange Beyond Borders" plans. Thanks to agreements with other European operators these services are available in most European countries. Customers enjoy access to a host of exclusive services in other countries, including rollover minutes, access to voicemail and calls to the customer support hotline.

### Pictures calling!

Multimedia Messaging, or MMS, makes it possible to send or receive messages enriched with audio and video on a wireless handset or PC. This service met with terrific success, with over two million MMS messages sent by Orange customers in France since the launch. Camera handsets account for 70 percent of MMS traffic. In 2004 Orange plans to unveil an MMS Video service, making it possible to shoot and send short videos from a wireless phone.

Introduced in June 2003, network games on wireless handsets also met with an enthusiastic welcome with nearly 1.5 million games downloaded in less than six months. Games can be downloaded to a dozen different handset models, with the same excellent quality screen resolution as a games console. Customers connected to the Internet via their cellphone will soon be able to play network games with their regular gaming community.

The Orange World streaming video service lets users view on-demand video content (sports, movie trailers, music videos, news and comedy) on their phones. Looking ahead, the Orange Visio service will introduce videophone calls using wireless handsets or computers over the wireless or fixed network, in combination with the MaLigne Visio domestic videophone service. Trials of these exciting new features will begin in the first half of 2004.



ORANGE CUSTOMERS  
in millions, end 2003

- France
- United Kingdom
- Rest of World

### The promise of convergence

Five of the projects within the TOP Line growth initiative that involve all group entities center on development of integrated solutions that bring our customers greater flexibility and convenience: a unique customer identifier for all services, single integrated contact list, unique numbers and mailboxes, and secure and easy online payment for all services. Some services are already paving the way for these breakthroughs, putting customers at the center of their own personal communications system.

Since November 2003 customers have been able to buy tickets to plays, concerts, museums, sports events, tourist attractions and more via their Orange phone. Reservations and online payment are secure and extremely simple. No more waiting in line: customers just connect to the Orange World portal at any time, day or night. Tickets are delivered by mail or picked up at the ticket window before the event.

Another handy innovation is Orange Back-Up, introduced last year in the United Kingdom to let customers quickly save their contact lists and personal information. The data is no longer stored only on the handset, but securely saved on the network and available any time, regardless of the handset used. This feature will soon be available in France.

Orange was the first operator in France to offer "localized" service. Available on a WAP-enabled handset or PDA, these services can, for example, display the florist or movie theater nearest the place where the call is made. Services like these show how Orange is shaping tomorrow's mobile world. Soon, it will even be possible to call people on a list of friends or business contacts and see where they are on a map to make an appointment or give them directions.

No more lost notes or lists of numbers to be copied. With a single online address book you can check and update contact information from anywhere, on any network – wireless or fixed. In fact, the very concept of "dialing" may disappear since calls will be set up with the touch of the finger or speaking a name. And just say "bridge", for example, and your personal portal will send the voice or text message to everyone on a list. Now that's playing trump!

**"To reach them  
anywhere I just touch  
the screen...or say  
the magic word!"**



## Business services. Partnerships forged for the long term.

**Networks and telecommunications are fundamental performance drivers for all businesses. By deepening the convergence of technologies, delivering services with real value-added, and making solid commitments to security, simplicity and service quality, France Telecom provides pivotal support for businesses of all sizes, in France and around the world. This partnership is designed to meet the individual needs of each company with a long-term vision. By unlocking synergies across the Group's core expertise in voice, Internet and wireless – backed by powerful R&D to anticipate emerging standards – France Telecom crafts solutions that are truly forward-looking.**

### Innovation boosts business: boundless opportunities from IP

The Internet Protocol has transformed promise into reality, transporting all manner of information in digital form over networks. This convergence makes it easier to share services and applications, and to use them on a variety of devices. It ushers in a world of pioneering services for greater efficiency and competitiveness. "Voice over IP" uses the same network for telephone and data services, creating a host of opportunities. Companies can improve and streamline relationships internally, and with customers, thanks to integrated applications like videoconferencing or multichannel call centers. Plus, of course, this innovation cuts costs.

### Equant, a world leader in integrated communications services for multinational businesses

Equant provides global integrated communications services tailored to the needs of corporate customers, spearheaded by its worldwide leadership in IP VPN solutions.

Based on IP technology, these solutions enable enterprises to build virtual private networks. In February, France Telecom and Equant signed a major contract with oil company TotalFinaElf to create a global IP VPN for voice and data services, linking 1,500 sites in 75 countries.

Equant scored other business wins in 2003 with its IP VPN service, including deployment in China of an IP VPN with converged voice and data services for APL, and another contract to build a global telecommunications architecture for hotel group Le Méridien.

An industry leader in global IP and data services for multinationals, Equant was recently named "Best Global Carrier 2003" and its Equant IP VPN

solution "Best Managed Service 2003" at the prestigious World Communication Awards. Equant was also ranked as "the leading Enterprise Service Provider in Europe" in 2003 by Yankee Group. Equally important, Equant regularly figures at the top of the list in customer satisfaction surveys.

### Satellite IP from GlobeCast

France Telecom is present across five continents through its subsidiary GlobeCast, the world's leading provider of satellite content distribution services. With 16 offices, teleports and operating centers, GlobeCast provides TV and radio broadcast services, secure Internet content delivery and mobile access to satellites for news events and sports coverage. GlobeCast has developed an IP satellite solution for low-cost simultaneous distribution of files of any size from a central site to one or more sites worldwide. This "push" application is used for the "ChronoShoot" service that sends news photos from 25 media agencies to subscriber publications at the rate of about 1,500 photos daily. Created by photo agency Maxppp, the service was launched in September 2003 in collaboration with multimedia company Infoway and GlobeCast. Among the first customers are French magazines Paris Match and L'Express.

### Serving our customers' customers

The "all-IP" world ushers in an array of services that sharpen the efficiency of businesses and create closer relationships with their customers. Integrated directories ensure continuous synchronization of internal information sources, for example. And unified messaging lets staff check emails, faxes and voicemail with a single access, in the office or on the move.

To create closer ties with customers, businesses can now deploy IP contact solutions for integrated management of telephone and Web contacts. This gives the company

**In my office,  
at a hotel, with  
a client, I'm always  
reachable...**

**and my office is with me  
all the time.**



# 1,000 multinationals have chosen Equant IP VPN solutions

...

an intelligent tool to warehouse this information and distribute contacts to the right people. Staff skills and availability are fluidly managed across a single platform, multiple sites, or even a network of standalone agents. Customer relations take on a personal dimension thanks to i-contact® Solutions. The "Click to Contact" feature lets people visiting a website decide how they want to contact a company: email, [chat](#), Internet phone or a phone call from an agent. Secure and easy online payment from any terminal is fundamental to the development of electronic commerce. To address this need, France Telecom initiated a TOP Line project on advanced payment solutions in 2003, involving experts from different group entities.

## Convergence power for smaller businesses

Demand from small and mid-sized businesses for communications solutions is expected to rise 10 percent annually through 2010, driven by lower costs and ease of use. These smaller firms can now enjoy the benefits of "all-IP", once reserved to large enterprises. Complete turnkey voice and data solutions from France Telecom make it easier for even small businesses to adopt these innovative services.

Regular innovations enrich the modular Oléane Open range, which provides a high- or very-high speed Internet connection, plus security applications, email, mobile access and other advanced applications.

Oléane also proposes a range of collaborative work resources designed for smaller enterprises. "Bizao" is a virtual office available in France and Poland, with a suite of personalized communications tools and applications (appointment scheduler, expense account management, etc.). Oléane is the market leader in Internet solutions for small- and mid-sized companies with 10 to 500 employees.

To address customer needs with targeted solutions France Telecom works in partnership with industry leaders. The "Ready Office" service, developed with Hewlett-Packard and Alcatel, will bring small businesses a complete information systems and telecom solution, and has been available across France since March 2004. The three partners will deliver the service through a joint one-stop shop.

In late 2003 France Telecom introduced a forward-looking service that networks a company's entire phone system, including fixed and wireless phones, with a single speed dialing plan. This competitively priced "Unified VPN"

service is tailored to mid-sized enterprises and subsidiaries of large groups.

Another service that simplifies management for multisite enterprises generates a single aggregate itemized bill, along with reporting indicators. This lets companies deploy a uniform and simple numbering plan and reduce costs by optimized call routing.

These offers are joined by a line of bundled solutions for smaller businesses that met with solid market success in 2003.

## Mobility a must

As a "full-service" operator, France Telecom is uniquely positioned to propose comprehensive solutions that address the multiple needs of small and large businesses alike. At the office, employees are connected via the Transpac network in France and the Equant network around the world. When they work at home, they stay in touch with their company thanks to Wanadoo's ADSL broadband connections. While travelling they can check email and the corporate Intranet from Orange WiFi hotspots or the Equant "Access Companion" solution, available in major airports worldwide.

## Efficiency anywhere, all the time

Employees are spending more and more time outside their office – surveys show that 20 percent of staff are regularly on the move. This makes it essential for companies to give people the resources they need to remain productive all the time, wherever they are. Likewise, people who run their own one-person operation need to be able to maintain direct contact with customers and suppliers when they travel, without hauling around countless devices and cables. The France Telecom Group has developed a complete range of services for nomadic businesspeople so they can stay in touch via any network or device. With GPRS and especially WiFi and ADSL – plus the 2004 rollout of UMTS – Orange enriches the mobility experience with data services. Using the Orange Entreprises portal, people on the move with an Oléane or Wanadoo email account can check their email from anywhere. With Orange Bureau they enjoy instant access to their "home" desktop environment. Orange also offers solutions tailored to specific industries like "Road on Line" for transport companies, or "Orange City" for municipal governments. This commitment to personalized services matched to individual customer needs is an integral part



**June 2003.**  
France Telecom  
and Accor hotel  
group sign  
agreement  
for creation of  
1,300 WiFi hotspots  
around the world.

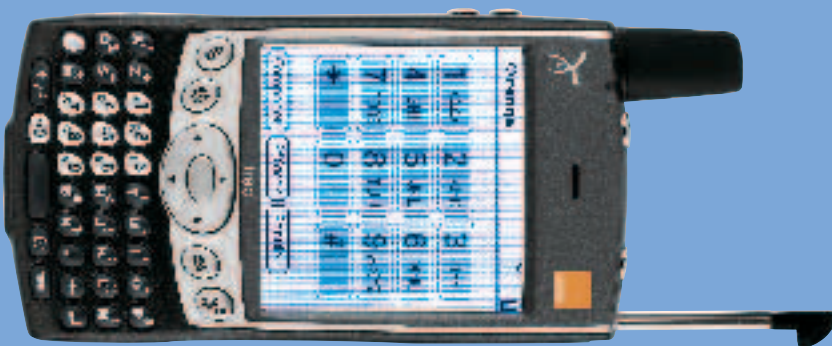
**Equant** has operations in  
220 countries and territories.

**Two-thirds of the world's largest  
corporations are Equant customers.**

*Source: Business Week*

**November 2003.**  
**Launch of new small  
business solutions.**  
Three new bundled  
GPRS/WiFi services.

**September 2003.**  
**Launch of Satellite Surf  
and Oléane SAT solutions**  
to bring broadband to rural  
communities and businesses.



**Treo 600**

New Orange phones let sales staff stay connected to the corporate network.

**December 2003.**  
**Major contract from Axa.**  
Insurance group Axa  
selected France Telecom  
and Equant for a global  
telecommunications  
solution.

# “... And soon I’ll have all my

...

of marketing strategy too. The new “Orange Adjustable Solution” range is tailored to small businesses with between two and ten wireless phones. The firm pays a single monthly rate that is automatically adjusted to the lowest price depending on actual usage. For data services, Orange proposes plans that are billed according to volume transmitted, applying progressive discounts.

## Mobile Internet made easy

Expertise across the France Telecom Group focused on WiFi technology in 2003, making it possible for people to instantly log onto the corporate Intranet from a laptop, cellphone or PDA from a wireless-enabled hotspot. France Telecom now has a thousand hotspots worldwide, notably through agreements with hotel group Accor and Air France. In late 2003 the Orange Entreprises offer was enhanced with new features, including secure wireless broadband access.

As an instrumental force in “broadband for everyone”, France Telecom is also running trials of satellite broadband for areas not covered by ADSL.

## Close to customers

### Security first

Security is an increasingly critical concern for businesses, and 2003 saw a rising number of threats to information systems. France Telecom has marketed managed security services since 1997. Today we propose services that address the full range of security issues, helping companies guarantee continuity for their communications systems and protecting data flows. France Telecom provides comprehensive security solutions through an end-to-end contract covering network services and specific security functions, as well as specialized audits. Some 70 experts at France Telecom R&D focus on security issues, along with specialists at different group entities to make sure that our customers are on the cusp of innovation in this fundamental area.

France Telecom subsidiary Etrali, for example, supplies telecom solutions for trading rooms in the world’s main financial hubs. It has designed a communications system that guarantees the indispensable reliability and efficiency dictated by financial transactions.

For Global Equities, Etrali developed a custom-designed security solution with transfer of operations to a France Telecom hosted backup facility in the event of an emergency.

### A full suite of value-added services

In addition to its extensive portfolio of standard solutions, France Telecom provides specific expertise for demanding customers such as Thomson Multimedia or Crédit Lyonnais. Such custom offers span consulting, hosting, security, multisite integration and communications [outsourcing](#).

In October 2003 Equant signed a long-term European outsourcing contract with Zurich Financial Services. The comprehensive solution covers management of a seamless IP VPN communications network (voice, fixed and wireless), [LAN](#) management and security.

To provide integrated services at customer sites, France Telecom takes charge of network administration and telemaintenance, coupled with proactive network supervision and onsite service.

Consulting services are an integral part of the Group’s offering for business customers, including special assignments. Since November 2003, Equant has proposed an exclusive application dubbed “Abacus” that lets corporate customers calculate their total cost of ownership (TCO). Using data supplied by Gartner Inc., Abacus allows customers to calculate current maintenance costs for their communications infrastructure and benchmark the results against industry best practices.

### Quality of service for everyone

France Telecom is committed to delivering superior quality of service for its customers, starting with advice from experts to help enterprises develop successful projects. Once the solution has been defined, a single contact acts as liaison with the company. Companies can take advantage of a full range of support services from France Telecom to meet their specific needs, including change management, training in new usage and technologies, or onsite assistance during the launch phase for new solutions.

Many solutions for both small and larger businesses are

# contacts right at my fingertips”

hosted by France Telecom. This eliminates equipment investments and allows efficient outsourcing of service administration. The Group makes concrete commitments to service quality based on key indicators like network availability and guaranteed service recovery times, coupled with metrics to confirm the performance of its solutions. Dedicated applications track and analyze these indicators, generally available via the Web. We are also working on advanced solutions that give users complete visibility of these indicators. Businesses can directly monitor the functioning of the company's communications system and take direct actions to optimize operation.



A unique personal identity will give us access to a complete array of efficiency-enhancing services wherever we are, with full security thanks to sophisticated authentication.

**I take my business  
with me wherever  
I go.**



I can start a conversation on a fixed line in my office and continue uninterrupted on my cellphone while I jump into a taxi. My customers can always reach me at the same number, as if my office stayed with me wherever I go. Networks will integrate their intelligence to deliver voice or data wherever I am, on any device I want to use, and in the right format.

# Consolidated financial statements

## Consolidated statements of income

Year ended December 31

(Amounts in million of euros, except per share data)

	2003	2002	2001
<b>Sales of services and products</b>	<b>46,121</b>	<b>46,630</b>	<b>43,026</b>
Cost of services and products sold (excluding items shown separately below)	(17,223)	(18,558)	(17,619)
Selling, general and administrative expenses	(11,117)	(12,579)	(12,520)
Research and development expenses	(478)	(576)	(567)
<b>Operating income before depreciation and amortization of actuarial adjustments in the early retirement plan</b>	<b>17,303</b>	<b>14,917</b>	<b>12,320</b>
Depreciation and amortization (excluding goodwill)	(7,538)	(7,910)	(6,910)
Amortization of actuarial adjustments in the early retirement plan	(211)	(199)	(210)
<b>Operating income</b>	<b>9,554</b>	<b>6,808</b>	<b>5,200</b>
Interest expenses, net (excluding perpetual bonds redeemable for shares - TDIRA)	(3,688)	(4,041)	(3,847)
Interest expense on TDIRA	(277)	–	–
Foreign exchange gain/(loss), net	(25)	136	(337)
Discounting of early retirement plan	(199)	(216)	(229)
<b>Current income from integrated companies</b>	<b>5,365</b>	<b>2,687</b>	<b>787</b>
Other non-operating income/(expense), net	(1,119)	(12,849)	(5,904)
Income taxes	2,591	(2,499)	2,932
Employee profit-sharing	(127)	(148)	(131)
<b>Net income/(loss) from integrated companies</b>	<b>6,710</b>	<b>(12,809)</b>	<b>(2,316)</b>
Equity in net income/(loss) of affiliates	(168)	(367)	(890)
Goodwill amortization	(1,677)	(2,352)	(2,531)
Exceptional goodwill amortization	(1,137)	(5,378)	(3,257)
<b>Net income/(loss) of the consolidated group</b>	<b>3,728</b>	<b>(20,906)</b>	<b>(8,994)</b>
Minority interest	(522)	170	714
<b>Net income/(loss)</b>	<b>3,206</b>	<b>(20,736)</b>	<b>(8,280)</b>

### Earnings per share (in euros)

<b>Earnings per share</b>			
• basic			
published comparable	1.64	(19.11) (16.75)	(7.51)
• diluted			
published comparable	1.60	(19.11) (16.75)	(7.51)

The accompanying notes are an integral part of the consolidated financial statements.  
They are available on request from France Telecom.

# Consolidated balance sheets

At December 31  
(Amounts in million of euros)

	2003	2002	2001
<b>ASSETS</b>			
Goodwill, net	25,838	27,675	34,963
Other intangible assets, net	16,554	18,411	18,189
Property, plant and equipment, net	30,635	36,268	31,728
Investments accounted for under the equity method	205	2,564	8,912
Non-consolidated investments, net	1,045	1,418	3,240
Other long-term assets, net	3,171	2,501	1,936
Deferred income taxes, net	7,927	3,903	5,369
<b>Total long-term assets</b>	<b>85,375</b>	<b>92,740</b>	<b>104,337</b>
Inventories, net	516	696	900
Trade accounts receivable, less provisions (1,325 at December 31, 2003, 1,625 at December 31, 2002)	3,819	5,474	7,596
Deferred income taxes, net	1,429	416	1,102
Prepaid expenses and other current assets	3,470	4,397	6,653
Receivable from divestment of real estate			2,689
Marketable securities	1,874	45	1,138
Cash and cash equivalents	3,350	2,819	2,943
<b>Total current assets</b>	<b>14,458</b>	<b>13,847</b>	<b>23,021</b>
<b>TOTAL ASSETS</b>	<b>99,833</b>	<b>106,587</b>	<b>127,358</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Share capital: 2,402,316,828 shares with a par value of €4	9,609	4,761	4,615
Additional paid-in capital	15,333	24,750	24,228
Retained earnings/(losses carried forward)	(9,239)	(5,434)	4,682
Net income/(loss) for the period	3,206	(20,736)	(8,280)
Foreign currency translation adjustment	(6,883)	(3,315)	844
Own shares		(9,977)	(5,002)
<b>Shareholders' equity</b>	<b>12,026</b>	<b>(9,951)</b>	<b>21,087</b>
<b>Minority interests</b>	<b>5,966</b>	<b>9,780</b>	<b>8,101</b>
<b>Non-refundable funds and equivalents</b>	<b>5,279</b>		
Bonds	36,356	42,489	48,554
Other long- and medium-term debt, less current portion	2,408	4,409	5,989
Other long-term liabilities	5,986	14,978	8,663
<b>Total long-term liabilities</b>	<b>44,750</b>	<b>61,876</b>	<b>63,206</b>
Current portion of long- and medium-term debt	9,057	13,495	1,596
Bank overdrafts and other short-term borrowings	1,570	10,490	11,365
Trade accounts payable	7,368	8,503	8,631
Accrued expenses and other payables	9,040	7,395	7,259
Other current liabilities	1,378	1,712	2,481
Deferred income taxes, net	234	87	374
Deferred income	3,165	3,200	3,258
<b>Total current liabilities</b>	<b>31,812</b>	<b>44,882</b>	<b>34,964</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>99,833</b>	<b>106,587</b>	<b>127,358</b>

The accompanying notes are an integral part of the consolidated financial statements.  
They are available on request from France Telecom.

# Consolidated statement of cash flows

Years ended December 31  
(Amounts in millions of euros)

	2003	2002	2001
<b>OPERATING ACTIVITIES</b>			
Net income/(loss)	3,206	(20,736)	(8,280)
<b>Adjustments to reconcile net income/(loss) to funds generated from operations</b>			
Depreciation and amortization of property, plant and equipment, intangible assets and goodwill	10,352	15,639	12,698
Net loss/(gain) on sales of real estate	(31)		(705)
Net loss/(gain) on sales of tangible and intangible assets	(46)	(37)	(92)
Net loss/(gain) on sales of other assets	(309)	(960)	(2,093)
Change in other provisions	(399)	13,119	7,860
Undistributed earnings of affiliates	169	369	841
Deferred income taxes	(2,941)	1,586	(2,090)
Interest expense on TDIRA	253	–	
Minority interests	522	(170)	(714)
Unrealized exchange rate gain <sup>(1)</sup>	(710)	–	–
Other non-monetary items	14	(232)	(19)
<b>Change in working capital (trade)</b>			
Decrease/(increase) in inventories (net)	131	193	341
Decrease/(increase) in trade accounts receivable	1,470	1,219	(628)
Increase/(decrease) in trade accounts payable	(323)	(420)	(588)
<b>Change in working capital (non-trade)</b>			
Net impact of sales of commercial receivables	(222)	797	914
Net impact of sales of future receivables		(82)	690
Net impact of sales of carry back receivables		1,111	(1,111)
Decrease/(increase) in other receivables	300	542	(1,974)
Increase/(decrease) in accrued expenses and other payables	(114)	(99)	2,026
<b>Net cash provided by operating activities</b>	<b>11,322</b>	<b>11,839</b>	<b>7,076</b>
<b>INVESTING ACTIVITIES</b>			
Purchases of property, plant and equipment and intangible assets, net of changes in fixed asset vendors <sup>(3)</sup>	(5,102)	(7,943)	(8,553)
Proceeds from sale of real estate	419	2,550	–
Proceeds from sales of property, plant and equipment and intangible assets	178	366	296
Purchase of own shares		(5,022)	(8,807)
Orange SA IPO proceeds			6,102
Purchase of Orange SA shares: exercise of E.On put option		(950)	–
Exercise of the call option on NTL preferred shares		(1,092)	–
Cash paid for investment securities and acquired businesses, net of cash acquired (of which (€161) million for Orange public buy out offer)		144	–
Change in net cash following the full consolidation of TP Group	(202)	(184)	(1,071)
Investments in affiliates	(35)	(146)	(3,284)
Sale of TDF sub-group and investment in Tower Participations		1,290	–
Net impact of the sale of Wind shares	1,537		
Net impact of the sale of Casema shares	498	–	–
Sale of Eutelsat and investment in BlueBirds	373	–	–
Proceeds on the sale of Sprint PCS shares	286	–	–
Proceeds from sales of investment securities and businesses, net of cash transferred	352	146	4,524
Decrease/(increase) in marketable securities and other long-term assets	(2,041)	(673)	(31)
<b>Net cash used in investing activities</b>	<b>(3,737)</b>	<b>(11,514)</b>	<b>(10,824)</b>

The accompanying notes are an integral part of the consolidated financial statements.  
They are available on request from France Telecom.

Year ended December 31  
(Amounts in millions of euros)

	2003	2002	2001
<b>FINANCING ACTIVITIES</b>			
Issuance of long-term debt	7,398	4,394	37,244
Repayment of long-term debt	(18,100)	(3,380)	(18,174)
Increase/(decrease) in bank overdrafts and short-term borrowings	(9,079)	(1,077)	(13,556)
Net change in cash collateral <sup>(2)</sup>	(551)	–	
Non-refundable funds and equivalents	(794)		
UMTS vendor financing	(531)	271	234
Capital increase	14,894	–	
Minority shareholders' contributions	14	70	181
Dividends paid to minority shareholders	(119)	(77)	(128)
Dividends paid	0	(395)	(1,075)
<b>Net cash provided by/(used in) financing activities</b>	<b>(6,868)</b>	<b>(194)</b>	<b>4,726</b>
Net increase in cash and cash equivalents	717	131	978
Effect of changes in exchange rates on cash and cash equivalents	(186)	(255)	(75)
Cash and cash equivalents at beginning of period	2,819	2,943	2,040
<b>Cash and cash equivalents at end of period</b>	<b>3,350</b>	<b>2,819</b>	<b>2,943</b>

(1) Changes were previously recorded under "Decrease/(increase) in other receivables" for €(434) million for the year ended December 31, 2002 and €(392) million for the year ended December 31, 2001.

(2) Changes were previously reported under "Decrease/(increase) in other receivables/Increase (decrease) in accrued expenses and other payables" for €(587) million for the year ended December 31, 2002 and €228 million for the year ended December 31, 2001.

#### SUPPLEMENTARY DISCLOSURES

(3) Increase/(decrease) in fixed assets vendors	(16)	(368)	410
Cash paid during the period for			
• Interest	(3,739)	(3,681)	(3,695)
• Income taxes	(325)	(959)	(610)
• Interest on perpetual bonds redeemable for shares (TDIRA)	(24)		

## Consolidated statement of changes in shareholders' equity

(Amounts in millions of euros, except per share data)	Number of shares issued	Share Capital	Additional paid-in capital	Retained earnings	Foreign curr. translation adjustment	Treasury shares	Total
<b>Balance at January 1, 2001</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 holdings of treasury shares				(1,271)		(2,849)	(4,120)
Appropriation of earnings				(1,075)			(1,075)
Translation adjustment					785		785
Other movements				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	36,326,781	146	522				668
Movements in holdings of treasury shares						(4,975)	(4,975)
Appropriation of earnings				(1,056)			(1,056)
Translation adjustment					(4,152)		(4,152)
Other movements				(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>
Net income for the year 2003				3,206			3,206
Capital increase (FT Ambition Plan)	1,037,205,725	4,149	10,691				14,840
Employee share issue	7,350,628	29	58				87
Capital reduction through cancellation of treasury shares held	(3,000,000)	(12)	(300)			312	0
Capital increase further to public tender offer for Orange shares	170,600,523	682	2,910				3,592
FT treasury shares transferred to Orange shareholders as payment for Orange shares						9,665	9,665
Impact of the loss on the exchange of shares on the Orange public tender offer				(7,638)			(7,638)
Tax impact on the loss on the exchange of shares on the Orange public tender offer				1,963			1,963
Capital increase on bond conversions	1 228	0	0				0
Allocation of France Telecom SA's statutory earnings			(22,776)	22,776			0
Translation adjustment					(3,614)		(3,614)
Other movements				(170)	46		(124)
<b>Balance at December 31, 2003</b>	<b>2,402,316,828</b>	<b>9,609</b>	<b>15,333</b>	<b>(6,033)</b>	<b>(6,883)</b>	<b>0</b>	<b>12,026</b>

The accompanying notes are an integral part of the consolidated financial statements.  
They are available on request from France Telecom.



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**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.

**Broadband**

Strictly speaking, a transmission medium able to transport more bandwidth than a standard telephone line (4KHz). Widely used as a synonym for high-speed.

**Central office switch**

The equipment in a local telephone exchange that connects subscriber lines to the network.

**Chat**

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

**Cyberbus**

A mobile Internet service designed primarily for "priority" areas, consisting of a bus equipped with workstations with a satellite Internet connection.

**DECT** (Digital European Cordless Telecommunications)

A wireless standard used primarily for local cordless telephony.

**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.

**e-commerce**

Electronic commerce using the Internet.

**email**

Electronic mail sent on the Internet.

**Extranet**

An Intranet-like network that a company makes available to employees, customers and suppliers.

**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 are currently considered "high-speed" for consumer Internet access; On a corporate local area network, high speed might mean 1,000 times as fast.

**Hosting**

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

**Hotspot**

A specifically defined public area with a large number of people (cafés, hotels, train stations, airports, libraries, etc.) that provides easy wireless access to people with wireless devices.

**ICT** (Information and Communications Technologies)

Technologies that are increasingly integrated across information systems, audio and video, and telecommunications, particularly for Internet and multimedia applications.

**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.

**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.

**MPEG** (Moving Picture Expert Group)

Standards group that defines international standards for compression/decompression, processing and coding of audio and video signals.

**MP3**

MPEG standard for compression of audio signals. Music coded in MP3 format can be downloaded from the Internet or created from an audio CD for playback on a computer or portable player.

**Multimedia**

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

**Outsourcing**

A contractual agreement with an outside provider to manage all or part of a company's information systems operations.

**PDA**

Personal Digital Assistant. A mobile handheld computer.

**PoP**

Point of Presence. An access point between a local network and a larger network (wireless or long distance).

**Portal**

An access page for the public Internet, a corporate Intranet or a call center. Once connected to the portal, users can select different pages to access services or content (news, search engine, list of websites, etc.).

**SIM** (Subscriber Identity Module)

A chip inserted in a GSM to identify the customer.

**SMS** (Short Message Service)

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

**Start-up**

A small innovative enterprise that is in its early stages and generally funded by venture capital.

**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.

**Videophone**

Use of a camera and a screen integrated with a telecommunications terminal to allow people to see one another while they talk.

**VoD** (Video on Demand)

Delivery of video programming that allows viewers to select and watch programs whenever they want.

**Wap** (Wireless Application Protocol)

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

**Webcam**

A small digital camera connected to a computer for broadcasting video on the Internet.

**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.



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