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NEX**T** universe:

simplicity?

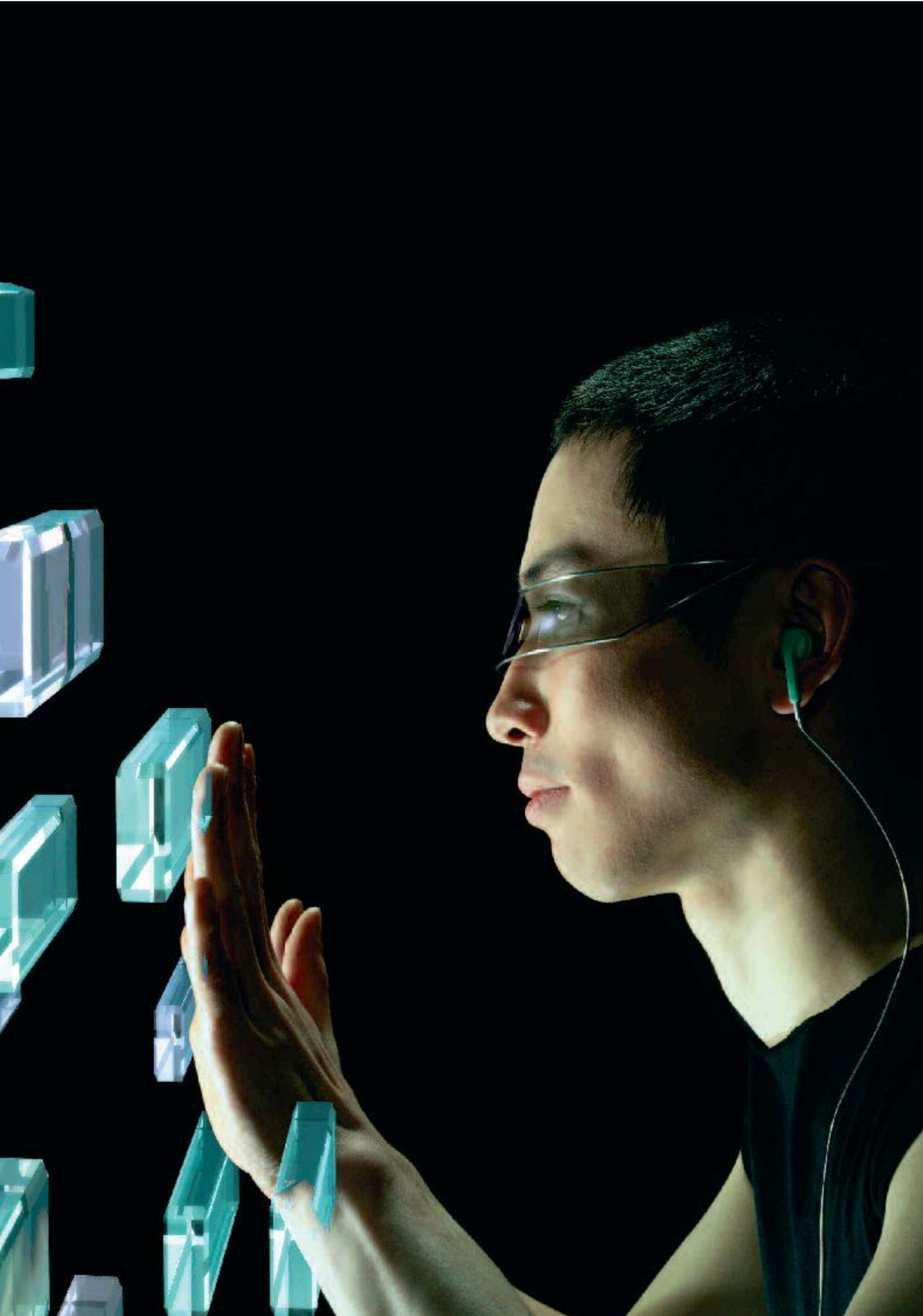


Enabling access to a universe of enhanced and **simplified** services, to discover the pleasure of communicating everywhere without restrictions or constraints.

Imagining new **services** for communications, information, entertainment and everyday life. Offering each one of our customers a new way of day-to-day living. That is how we are helping the world move forwards.

inventing the new generation of telecoms services





innovation?



Exploring, testing, experimenting,
being at the leading edge
of technological innovation.
Anticipating expectations
in order to offer **innovative**,
reliable, user-friendly and
personalized services more
speedily, in line with the way
in which telecoms are used.
Promoting **convergence**
between fixed-line, mobile and
Internet networks. There are
many more new experiences
awaiting our customers.





proximity?



Innovation is not always technological. Being able to call from anywhere and **get an answer** to any question about any service. Feeling supported in order to be able to understand telecoms services. Being free to try out and then change your mind. That is also what NExT is about. Putting ourselves in the customer's position in order to make their **life easier**.

reinventing customer relations



"WE ARE STEPPING UP THE
TRANSFORMATION OF THE GROUP
AND HOLDING OUR COURSE"

Didier Lombard, Chairman and Chief Executive Officer

Stepping up our transformation

What is your assessment for 2005?

2005 was a year marked by a number of key events, clearly reflecting the transformation underway in our sector and our business as we move towards new digital technologies. Competition is growing. New players such as Skype and Google, from the Internet world, are turning their attention to our communications services business. Our more traditional rivals are also highly active looking to increase their market shares, notably by becoming "virtual" operators in some cases. Against this backdrop, France Telecom has still managed to achieve excellent levels of commercial performance, and has, within the NExT framework, laid sound foundations for pursuing its development. I will mention a few of the most revealing success stories from 2005: strong growth in the mobile customer base, with 84.3 million customers at the end of 2005, the dynamic performance on wireless broadband, with over 1.5 million customers, widespread interest in

broadband Internet, with more than 7.4 million ADSL customers and 1.8 million Livebox sold by the Group, the continued deployment of MaLigne TV, with 200,000 customers in France, and lastly, the market share built up by France Telecom in the rapidly growing voice-over-IP market.

What are the main challenges in the new NExT strategic plan?

Simplicity, innovation, convergence and performance represent the keywords for NExT, our new three-year development plan. Launched in June, it will open up a world of enhanced and simplified services for our customers, while enabling the Group to continue its transformation into an integrated operator, supported by a profitable growth model. Its implementation calls for an in-depth transformation of our business. Our priorities in this respect have been clearly defined: integrating our networks and information systems, making our innovation and marketing more dynamic by focusing them on convergent

solutions, simplifying the brand architecture, and lastly, improving the quality and simplicity of our customer relations. And we have not had to wait long to see NExT's first successes. Indeed, we have now launched our first convergent offers in France, with Family Talk for retail customers and Business Talk for companies, as well as a Wireless and Talk service in the UK. However, we would not be able to consider NExT without the mobilization of our skills in key areas for the Group. This is the aim of the "act:" program. We need to strengthen our businesses, such as Internet-based sales, to serve our customers more effectively. We need new commercial and IT skills and specialized profiles. In addition, our training investments will be ramped up between now and 2008 in order to facilitate business gateways.

“THANKS TO THE TRANSFORMATION
THAT WE HAVE UNDERTAKEN WITH
ALL OF OUR STAFF, FRANCE TELECOM
– NOW EVEN MORE RESPONSIVE
AND EFFICIENT – IS READY TO
EXTEND ITS LEAD”

“The relationship with our customers must become a visible **asset**”

At the beginning of 2006, you decided to step up the implementation of NExT. How is this accelerated transformation going to work in concrete terms?

Our environment is changing. We need to change even faster. A new France Telecom is taking shape at the beginning of 2006, organized around three priorities. The first is greater responsiveness, thanks to a streamlined, nine-strong management team, focused on performance and growth objectives for each country. The second is to step up the pace of the Group's transformation, which was initially scheduled over three years, but must now be carried out twice as fast in practice. To mention but two examples, the network integration and country integration approaches will be up and running by the end of the year. The third priority is more effective marketing, in order to be able to deliver products quicker and better, in line with our customers' expectations, notably convergent offers. On January 1, 2006, France Telecom became the first operator to have an integrated Technocentre for preparing its new products. It is thanks to this greater responsiveness, accelerated transformation and more effective marketing that France Telecom is going to be able to extend its lead.

Customer relations represent one of your priorities. Which points are your efforts going to focus on?

As an integrated operator, we must be able to sell the entire range of our services while offering a very high quality relationship. We have identified five key areas around which we are going to be strengthening our customer relations: proximity with a personalized relationship, support over time, by helping our customers to understand our offerings, reliability, trust and the freedom to try out offerings and change opinions. A customer loyalty program will be rolled out in 2006, alongside a unified customer service system with one dedicated portal for all of the Group's products and services. The aim is to make life even easier for customers using our services.

While you have published good results for 2005, the stock market is taking some time to recognize the company's performance. What factors could have a positive impact?

We are not the only company concerned by this lack of interest from the stock market. Indeed, it is the entire telecommunications industry that has been affected by a very dramatic transformation, a source of uncertainty, which is being reflected in pressure on stock prices. In this transformation, France is leading the way. And France Telecom, driven by its rapid adaptation

to these new conditions, is ahead of all of its rivals. Furthermore, our strategic vision has been praised by observers and copied by our competitors. In this way, I firmly believe that we hold all the aces needed to be one of the first to capitalize on the reversal of this trend. As such, the figures for 2005 are encouraging. In 2005, our net income, some 5.7 billion euros, represents the best level that the Group has ever achieved since France Telecom SA was created. And this is despite the increase in the rate of technological changes, heightened competitive pressure and the regulatory environment, which have weighed over our revenues. At 18.42 billion euros, the Group's gross operating margin has increased as forecast. The level of investments, representing 12.3% of revenues, reflects our sustained effort to deploy major fixed and mobile networks. The Group generated 7.5 billion euros in organic cash flow, some way ahead of our targets. At the same time, our debt has continued to fall, with a net debt to gross operating margin ratio of 2.48, which is better than the target we had set ourselves. The share's performance is admittedly disappointing in relation to these results, but the financial markets do not like uncertainty. The quicker we see concrete successes on NExT, the more the markets will appreciate it.

What are your objectives for 2006?

The priority is to generate 7 billion euros in organic cash flow. We have also confirmed our objective to reduce debt, with a net debt to gross operating margin ratio of less than 2 by the end of 2008. This represents a core objective. As far as our shareholder compensation policy is concerned, the dividend for the 2005 financial year put forward for approval at the general shareholders' meeting will be 1 euro. The aim is then to pay out between 40% and 45% of organic cash flow as of 2007. This would enable us to submit a proposal for our shareholders to approve a dividend at least 20% higher for 2006, at 1.20 euro per share.

What can you tell us about your external growth strategy?

In 2005, the acquisition of an interest of nearly 80% in the Spanish mobile operator Amena represented a key stage in NExT. It has enabled France Telecom to ramp up the implementation of its integrated operator strategy in Europe, with the creation of a leading player in Spain, Europe's fifth biggest market. After this acquisition, we do not need to carry out any more major operations in Europe. In line with the strategic and financial criteria defined in connection with NExT, the Group will however continue to look into opportunities in countries offering strong potential for growth, based on

a selective and cautious approach. Recent events have shown that we know when not to go through with operations that do not meet our criteria.

In a telecommunications world that is constantly changing, what are France Telecom's competitive strengths that will enable it to remain one of the leaders on this market?

We are going to continue with our transformation, drawing on our major competitive strengths, which are going to start bearing fruit as of now. Our position as number one for ADSL Internet access in Europe and number two worldwide, after China, represents the result of the investments carried out over the last few years. The growing success of Livebox, the booming market for wireless broadband, our strategy to deliver increasingly rich content for fixed, mobile and the Internet are, with ADSL, the four pillars on which we are going to be developing all of our new services. Many of them will be launched in 2006 under one dedicated global brand: Orange. Among our competitive strengths, we could also mention our focus on innovation, our Technocentre, which will ensure the rapid and coherent development of convergent offerings, an ultramodern and excellent quality integrated network, and a strong international presence, notably on many high-growth markets. In 2006, now more

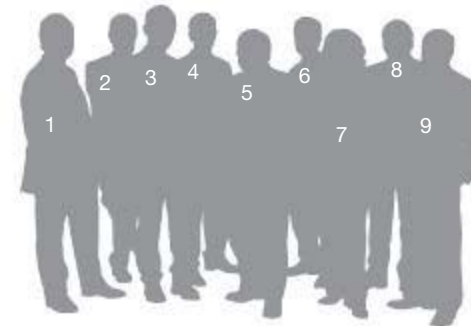
responsive and more efficient, France Telecom is determined to extend its lead and, with all of its staff, effectively capitalize on all of these competitive strengths for our customers and for our shareholders.

“OUR MAIN ASSET IS OUR
INTEGRATED OPERATOR
STRATEGY. WE ARE GOING
TO KEEP OUR COMPLEXITY
AT FRANCE TELECOM WHILE
OFFERING OUR CUSTOMERS
SIMPLICITY”

governance serving performance

France Telecom's transformation also involves effective internal control and **operational** impact on all levels throughout the business, integrated approach.

compliance with good governance rules, **performance**. These principles have an rallying all members of staff around an



General Management Committee

Didier Lombard (5)
Chairman and Chief Executive Officer

Sanjiv Ahuja (9)
Chief Executive Officer of Orange, UK and International

Olivier Barberot (6)
Human Resources

Barbara Dalibard (7)
Enterprise Solutions

Jean-Yves Larrouturou (2)
General Secretary

Gervais Pellissier (3)
Finance, Spain

Georges Penalver (4)
Strategic Marketing Technocentre

Jean-Philippe Vanot (8)
Networks, Operators and Information Systems

Louis-Pierre Wenès (1)
NEXT Transformation, France

France Telecom complies with the corporate governance principles for listed companies. More specifically, the Group is committed to ensuring the responsibility and integrity of its executives and directors, the independence of the members of its Board of Directors, transparency of information and disclosure, and respect for shareholders' rights.

Ethical commitment

The values and principles guiding France Telecom's actions, expressed in the Code of Ethics, reflect its commitment to contributing to sustainable development through its present and future activities. They express its corporate responsibility, looking beyond the Group's legal and regulatory obligations, based on respect for all stakeholders.

The General Management Committee

In parallel to the implementation of the NEXT plan announced in June 2005,

the Group has rolled out various changes in its organization in order to more effectively accompany the transformation that is underway. In January 2006, a streamlined General Management Committee, made up of nine members including the Chairman, was put in place, with clearly identified responsibilities. It is notably responsible for implementing the Group's transformation programs and strategy and supervising its operational and financial performance. This is the Group's executive body for management decisions.

The Board of Directors

The Board of Directors gives its opinion on all decisions relating to the Company's main strategic, economic, social, financial and technological policies, and ensures that they are implemented by the senior management team. The Chairman of the Board of Directors must obtain the Board's authorization before launching any external growth operations or disposals for over 200 million euros (20 million euros

In 2005, some 10,000 managers were made aware of the principles governing action and behavior within the Group in line with the Code of Ethics. They are responsible for passing on this ethical approach to their teams.

when the operation is not in line with the Company's strategic goals). At December 31, 2005, the Board of Directors comprised:

- **seven members appointed at the general shareholders' meeting.** Alongside the Chairman, Didier Lombard, and Jean Simonin, former Head of the Residential Agency in Toulouse, there are five independent directors. The latter do not hold any positions within France Telecom outside of their directorships and do not have any relations of any kind with the Group or its management team that might compromise their free judgment;
- **four French government representatives,** appointed pursuant to a decree issued by the French Economy, Finance and Industry Minister, dated September 7, 2004;
- **three directors representing employees,** elected in November 2004. They took up their functions for the first time at the Board of Directors' meeting on December 3, 2004;
- **one director representing employee shareholders** was appointed at the Ordinary General Shareholders' Meeting on April 22, 2005;

In 2005, the Board of Directors met 17 times, with an average of 13 directors out of a total of 15 members attending each session. In accordance with the recommendations of the Bouton report, the Board carried out a first evaluation of its work and its committees in 2005.

Work of the Board of Directors' various committees
The Audit Committee met 14 times in 2005. It is principally responsible for reviewing the annual and half-year financial statements, and regularly interviewing the Company's leaders as well as the Group's main finance managers, the Head of Internal Audit and Risk Control, and the statutory auditors, in order to review their respective action plans and the follow-up that has been carried out.

The Compensation, Selection and Organization Committee met nine times in 2005, notably reviewing the Company's new organization and the makeup of its Executive Committee with a view to ensuring the success of the NExT plan. The Committee defined the targets and method for calculating the Chairman's variable compensation package for each half-year period. In addition, it reviewed the compensation system for all of the Group's members of staff and proposed the structure for a stock option scheme, which was approved and then put in place by the Board. In addition, the Committee has led moves to implement a system for assessing the operations of the Board of Directors and its various committees.

The Strategy Committee met four times in 2005. It is consulted on projects linked to the development of the Group, strategic agreements and the monitoring of industrial partnerships. It is notably called upon for industrial and technological cooperation and alliance operations, as well as projects to acquire or dispose

of significant assets. For instance, the Committee reviewed the operation to buy out the minority interests in Equant, the acquisition of Amena and the NExT strategic plan for 2006-2008.

A continuous improvement process

The various specialized committees such as the Investment Committee, the Internal Audit and Risk Committee, the Cash and Financing Committee, the Disclosure Committee, the Fiscal Committee and the Commitments Committee are tasked to check and apply the Group's directives primarily aimed at meeting its global economic objectives. They also manage risks relating to financial commitments, limiting the exposure of the Group as a whole.

Strengthening internal control
In 2005, France Telecom continued rolling out its Group-wide program to strengthen internal control for the production of accounting and financial data, which was launched in 2003. This involved getting the operational managers concerned for each activity and business to identify and improve all the financial internal control processes in order to enable France Telecom to comply with the provisions of the Sarbanes-Oxley and Financial Security laws in time.
2005 was marked by three key projects: the creation of an Internal Control Department, continued moves to set up the tools needed to effectively manage the internal control system, and further development of the evaluation system.

Indeed, the Group is getting ready to carry out an evaluation procedure that will be completed by the beginning of 2007, in connection with the annual close of accounts for 2006. Its findings will be presented in the report drawn up in accordance with the provisions of the Sarbanes-Oxley law.

Information security
Security of information represents a key strategic issue for the Group, its customers and the countries in which it operates. This involves making employees aware of the importance of the effective management of information and preventative reflexes, network governance, strengthened through the consolidation of transversal operational structures, and information system governance.

Insurance
France Telecom has ramped up its risk audit missions at the Group's key sites in France and abroad (UK, Poland). This insurance policy, which enables our insurers to build up a better understanding of our risks, has made it possible to capitalize on the prevention policy and check suitability in relation to the assessments carried out further to inspections.
The expansion of the Group's insurance programs has generated significant savings.
Furthermore, the Insurance Department was reorganized in 2005 with a view to refocusing on its core activities and tailoring its approach to the Group's international dimension more effectively.

Board of Directors

Directors elected by the General Shareholders' Meeting

- Didier Lombard***
Bernard Dufau, Director of Dassault Systèmes and KESA Electricals
Arnaud Lagardère, Manager and General Partner of Lagardère SCA
Henri Martre, Director of Renault SA, Sogepa and On-X
Vice-Chairman of KLM's Supervisory Board
Stéphane Richard, Chief Executive Officer of Veolia Transport
Marcel Roulet, Honorary Chairman of France Telecom
Jean Simonin, Mayor and Vice-President of a district community

Directors representing the French State

- Pierre-Mathieu Duhamel**
Budget Director at the French Ministry of the Economy, Finance and Industry
Jacques de Larosière
Adviser to the Chairman of BNP Paribas
Denis Samuel-Lajeunesse
Managing Director of the State Holdings Agency (*Agence des participations de l'État*)
Henri Serres
Vice-Chairman of the General Council for Information Technologies for the French Ministry of the Economy, Finance and Industry

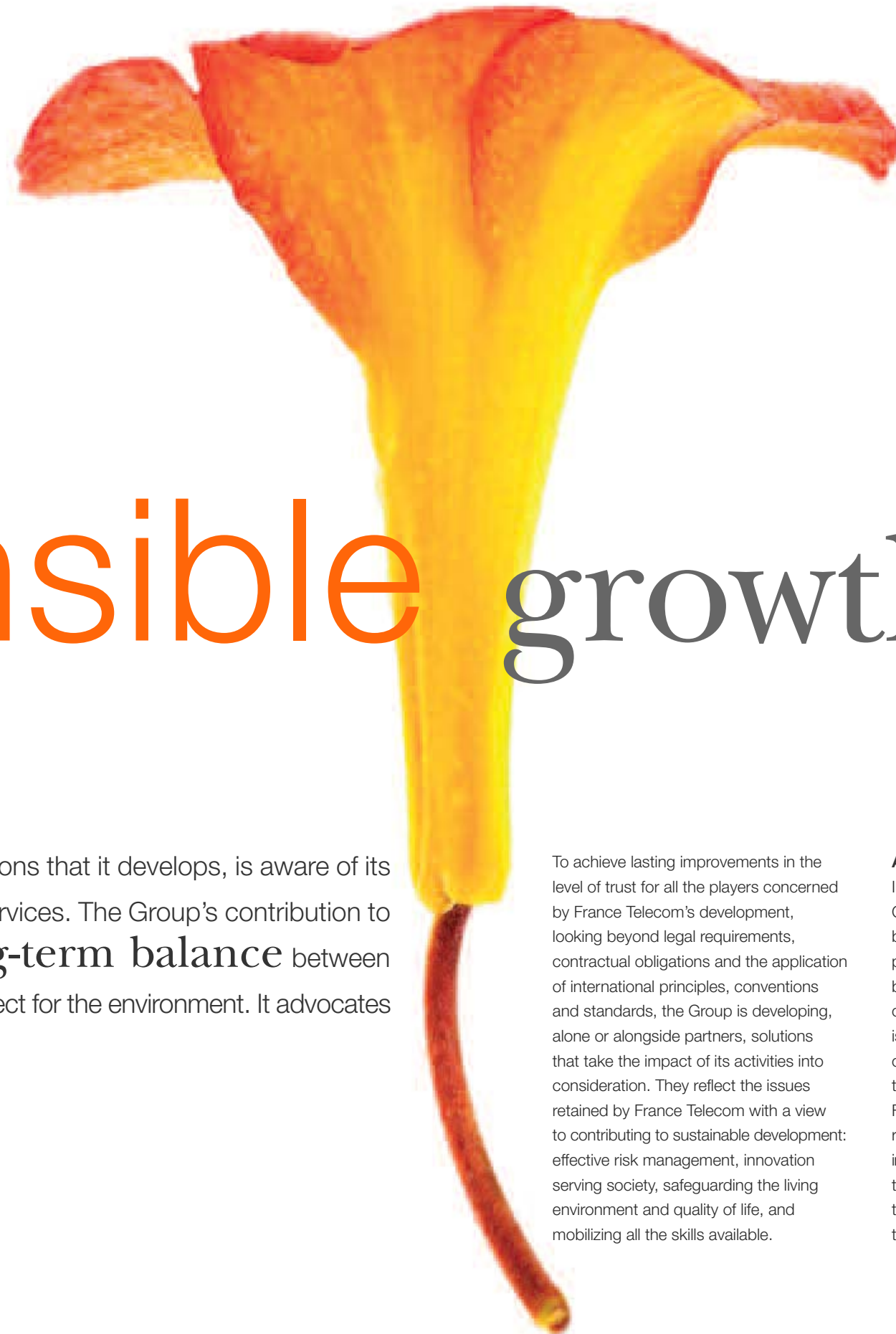
Directors elected by employees

- Hélène Adam**
René Bernardi
Jean-Michel Gaveau

Director representing employee shareholders
Stéphane Tierce

Over the year, the aggregate gross amount (excluding employer social security payments) of all compensation, benefits and attendance fees paid by France Telecom and the companies it controls to the 35 people who were members of France Telecom's Board of Directors or Executive Committee, came to 12,341,601 euros in 2005 (12,436,448 euros in 2004).

* Didier Lombard was appointed by the Board of Directors on February 27, 2005 to replace Thierry Breton. This appointment was ratified at the General Shareholders' Meeting on April 22, 2005.



responsible growth

France Telecom, through its activities and the solutions that it develops, is aware of its social role in all the countries in which it offers its services. The Group's contribution to sustainable development aims to strike **a long-term balance** between economic competitiveness, social progress and respect for the environment. It advocates an increasingly developed dialog with stakeholders.

To achieve lasting improvements in the level of trust for all the players concerned by France Telecom's development, looking beyond legal requirements, contractual obligations and the application of international principles, conventions and standards, the Group is developing, alone or alongside partners, solutions that take the impact of its activities into consideration. They reflect the issues retained by France Telecom with a view to contributing to sustainable development: effective risk management, innovation serving society, safeguarding the living environment and quality of life, and mobilizing all the skills available.

A stronger corporate spirit

In light of the breakdown of the Group's Code of Ethics for each activity and business line and its governance processes, all of France Telecom's business units are able to share a common and global vision of strategic issues. On a day-to-day basis, the sense of belonging to the Group and the buy-in to its objectives have been strengthened. For all stakeholders, this results in the recognition of professional ethics serving innovation and competitiveness, a willingness to listen to customers which is beneficial to the quality of service, and a commitment to taking local interests into account.

Priority to development skills

To accompany the Group's rapid changes and the implementation of new practices, France Telecom has a management policy designed to enable the development of individual and collective skills. It aims to guarantee improved performance levels for the business and individual employability, while ensuring equal opportunities and diversity. It also aims to facilitate mobility and the transfer of skills with a view to opening up new markets and offering employees high-quality positions within or outside the Company.

Managing corporate responsibility

The objectives of the NExT program integrate corporate responsibility at all levels throughout the Group. Overall performance – economic, social and environmental – is assessed in line with a network-based organization in order to enable management and reporting processes to be set up in all of France Telecom's business units. In this way, various measurement methodologies have been introduced, such as a frame of reference incorporating NRE, GRI, and specific Group indicators, a set of quality of service standards, as well as awareness-building and training tools aimed at factoring in sustainable development issues.

“IT IS COMMITMENTS, WHETHER INTERNAL OR EXTERNAL, THAT CONTRIBUTE TO THE RESPONSIBILITY AND PERFORMANCE OF THE BUSINESS TODAY AND TOMORROW. INNOVATION SERVING OUR STAKEHOLDERS LIES AT THE HEART OF FRANCE TELECOM'S AMBITION FOR 'RESPONSIBLE GROWTH'”

Security, a key issue

Network and information system security, data protection, safety (working conditions, employee and subcontractor health and safety, etc.), the quality of life for communities (correct use of services made available, warnings in the face of crisis situations or even monitoring the biological effects of waves on the human body) are the priority objectives for the Group. Through ongoing dialog on the control, monitoring and supervisory measures implemented, as well as on actions taken for research and development, France Telecom is able to provide its stakeholders with various guarantees in terms of risk prevention.

More “responsible” purchases

Founded on a performance commitment, France Telecom's procurement policy is contributing to improving quality, innovation and respect for sustainable development criteria. More than a simple contractual approach, France Telecom's relationship with its suppliers is built around an economic, social and environmental performance assessment system. This makes it possible to regularly analyze the services at stake and consider any joint corrective or continuous improvement actions required.

The environment, a daily commitment

France Telecom has chosen to adopt a global environmental management framework in order to measure its impacts and the performance of its program of actions. Various management methodologies have been deployed in line with ISO 14000 international standards, contributing to effectively controlling risks, limiting energy consumption levels and managing products at the end of their life. They also pave the way for the implementation of innovative actions, which have often been devised in connection with local partnerships: sites operating on solar energy in order to limit CO₂ emissions, e-billing processes to reduce paper consumption, recycling of used mobile handsets, implementation of Company Transport Plan (*Plan de Déplacement Entreprise*, PDE) with a view to proposing an alternative option to cars with just the driver, and participating in efforts to improve the living environment and quality of life in urban settings, such as the landscaped integration of networks to reduce the visual impacts of infrastructures, etc.

Innovation serving stakeholders

Innovation lies at the heart of the France Telecom Group's strategy to create a transversal multi-technology and multi-use approach and build the services of

tomorrow. To achieve this, by 2008, Research and Development spending is expected to rise from 1.5% of revenues to 2%.

Regional development

At the end of 2005, France Telecom represented the world's second biggest player for ADSL. This position has been achieved thanks to a dedicated investment policy – both on networks and on the deployment of new services – combined with the Group's extensive European coverage. In parallel to this performance, a far-reaching project has been launched for the development of uses in order to meet the requirements of the various countries, local authorities and populations concerned. The aim is to provide citizens with services (education, healthcare, e-government, information, transport, etc.) in order to make their lives easier on a day-to-day basis and strengthen the appeal of each region.

Healthcare

Working closely with the healthcare world, France Telecom is able to provide telemedicine solutions designed to prevent the need for patients to travel for checkups, facilitate home-based care for the elderly, enable hospitalized children to keep in touch with their friends, relatives and the school world, as well as to allow specialists to check and share diagnoses remotely, to operate remotely, etc. Medical data transmission is of interest to all healthcare professionals. In addition to benefits for patients, this offers various advantages in terms of sharing information, handling emergencies and mutualizing costs.

France Telecom is working alongside Unicef for the education of girls in emerging countries. This partnership is designed to dovetail with actions carried out locally by the Group's subsidiaries in these countries – Sonatel in Senegal, Ikatel in Mali, Jordan Telecom – as well as by other subsidiaries such as Orange Switzerland, Orange UK, etc.

Disability

In order to meet the specific requirements of people faced with dependent situations (elderly, sick or disabled), France Telecom is developing, together with all the stakeholders concerned, a range of products and services adapted for greater independence and accessibility. The various expectations are taken into account: for visual disabilities, braille electronic invoices, large buttons for easy dialing, voice recognition, voice-box to announce callers; for hearing impairments, an amplifier, a call light signal, written messages, video-interpreting with sign language; for speaking-related disabilities, Internet or written message solutions; for difficulties linked to mobility, hands-free functions and voice messages. Since 2005, wherever the Company has been operating, a listening and information system has started to be deployed in the field (Handicap stores, Solutions Handicap catalog, Handicap Web).

Education

In line with partnership-based approaches for better access to information, France Telecom is ramping up its initiatives in the education world, with distance learning, broadband access in schools, etc. A socially responsible player, the Group is working to encourage the correct use of its services: campaign to fight against the nuisance of mobile ringtones, protection of sensitive populations, prevention of fraud and Internet misuse, confidentiality of information, etc. It is also committed to promoting appropriate technologies (e.g. WiFi in isolated areas), safeguarding

natural resources (effective management of consumption levels and purification of water in Jordan) and limiting greenhouse gas emissions (communication solutions as an alternative to trips).

Corporate philanthropy

To strengthen the expression of common values by all of the Group's components, a global and integrated corporate philanthropy policy was put in place in 2005. Coordinated by the Group's Foundation, six areas for intervention are now being targeted in three fields: healthcare (autism, visual and hearing deficiencies), education (fight against illiteracy and education of young girls in developing countries) and culture (vocal music). This commitment is being rolled out through concrete actions such as the assistance provided for the launch of the “Daisy” program (access to digital audio-format books) for the visually impaired, the support provided for training focusing on sign language and cued speech for the hearing impaired, or even, in the fight against illiteracy, accompanying adults in difficulty through training of volunteers, the distribution of adapted manuals, etc. Lastly, thanks to the launch of a sponsoring program, employees may now get involved in the various corporate philanthropy areas retained by the Group.



trust commitment transparency

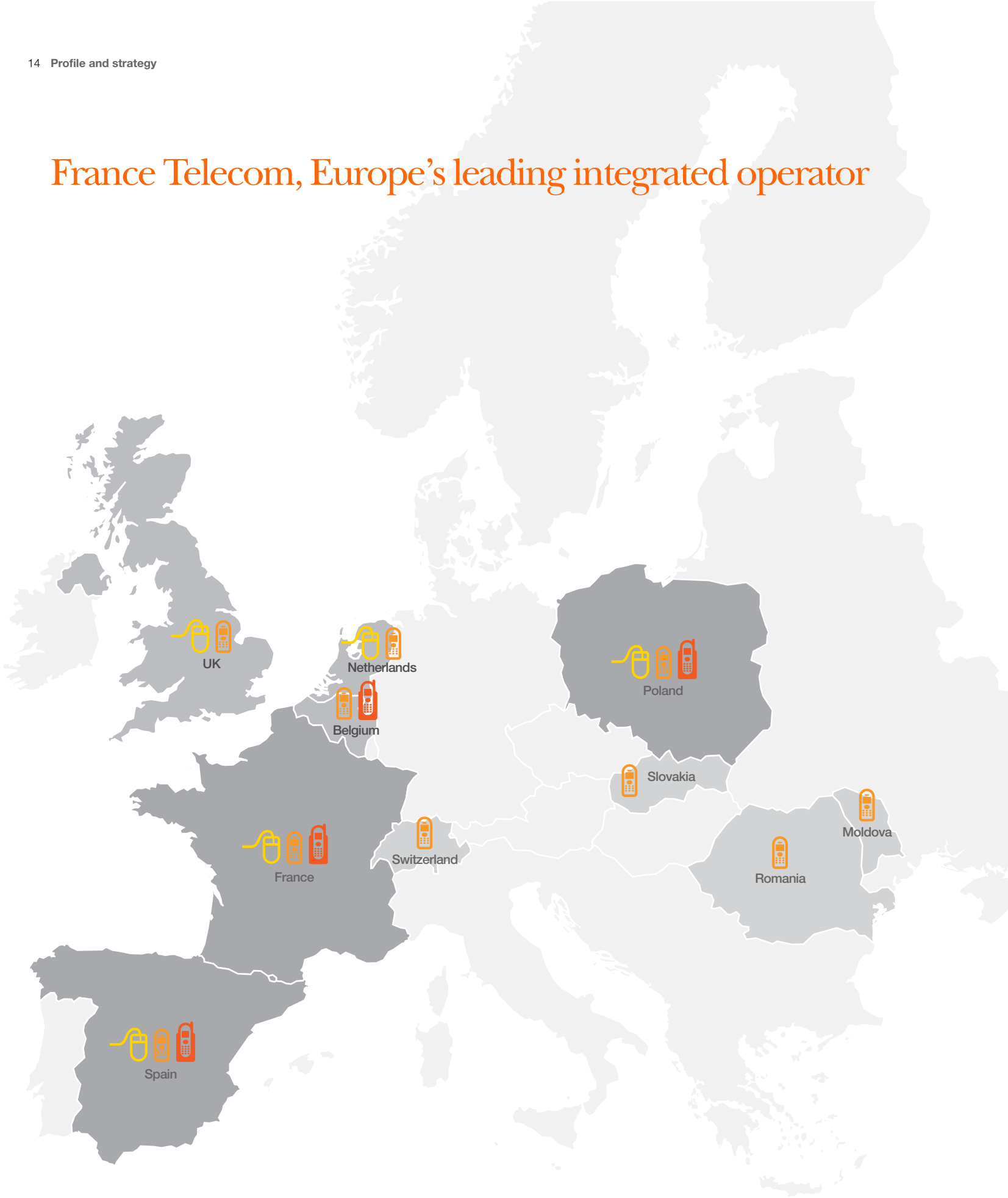
France Telecom is one of the world's leading telecommunications operators, with **145 million customers** in 220 countries or territories. With the NExT – New Experience in Telecommunications – program launched in June 2005, the Group is stepping up its transformation into an integrated operator in order to become Europe's benchmark provider of new telecoms services.

becoming **Europe's** benchmark telecoms service provider wherever the Group is present



The second biggest mobile operator and Internet access provider in Europe and the number one ADSL operator, France Telecom is also one of the world leaders for business telecommunications services.

France Telecom, Europe’s leading integrated operator



Combining marketing and innovation

In connection with NExT, the Group’s Strategic Marketing Department is making all the functions more dynamic: emerging technology watch and strategic forecasting, innovation, design, production, development, deployment, etc. It is heading the Group’s center for developing products and services – the Technocentre – which is already up and running, aiming to ensure the deployment of key offerings and notably bring convergent services on to the market more quickly in all countries.

From the Ambition FT 2005 plan to the NExT program

Objectives achieved for Ambition FT 2005 (2003-2005)

At the end of 2002, France Telecom announced its Ambition FT 2005 plan in order to transform the Group in depth and strengthen its financial position. This plan, which was successfully implemented, achieved its targets some six months ahead of schedule.

Looking beyond financial aspects, the actions taken in connection with Ambition FT 2005 focused on two key areas.

- Innovation, which is vital in order to enable the Group to develop its revenues and profitability. The resources deployed on innovation have been significantly increased and realigned, focusing on customer needs.
- The integration of the Group, with work carried out laying the foundations for a genuine integrated operator strategy on the information system, network and service offering, as well as customer relations and support functions.

Sector undergoing far-reaching changes

The Group’s strategy aims to anticipate and capitalize on the in-depth transformations seen in the telecoms sector, reflecting the impact of technological breakthroughs and service innovations:

- The widespread deployment of Internet protocol (IP) across all networks, paving the way for greater interoperability between the various networks and types of service (voice-over-IP, Full IP services for businesses).
- The extensive use of broadband, with the deployment of various technologies – ADSL, WiFi, Edge, UMTS, etc. – making it possible to offer very high speeds under very economical conditions across all networks, fixed-line or wireless, e.g. for image-based services (television, video).
- Mobility everywhere, in order to meet expectations for continuous personal communication, thanks to wireless network capacity (wireless broadband) and local wireless technologies (WiFi).

■ Innovative multi-access terminal equipment making services independent from the type of terminals and accessible whatever the network, notably for roaming business services.

■ Open systems facilitating network interoperability, with the implementation of open platforms (authentication, transaction, etc.).

Heightened competition

France Telecom is implementing its growth strategy in a market context characterized by greater competitive pressure: Internet access providers and low-cost operators focusing on the rapid deployment of unbundling and access resales, MVNOs, players from the Internet world aiming to develop their business on a non-regulated basis in the communications services market. Despite this, the Group has managed to maintain its financial and operational performance levels.



Adapted and simplified brand architecture

In order to support the NExT ambitions for convergent offerings, and in line with the international integrated operator strategy, France Telecom is going to optimize its brand portfolio. Over the next few months, and in all countries, Orange will become the Group's only international commercial brand for mobile, broadband and multi-service offerings, as well as for business services. In countries in which the Group is the historical operator (France, Poland, etc.), a pragmatic approach is being implemented based on both the historical brands and Orange.

NExT, New Experience in Telecommunications (2006-2008)

With healthier fundamentals, and in a rapidly changing competitive and technological environment, the Group is stepping up its integrated operator strategy through the NExT transformation program launched in June 2005. Drawing on a comprehensive portfolio of products and services, combined with its expertise on all networks and its capacity for innovation, France Telecom aims to develop a new world of services in the fields of communication, content and leisure, day-to-day life and business services. The aim is to meet the expectations of all customers (individuals, professionals, businesses, regional authorities), in all situations (at home, in the office, when out and about) whatever network or terminal is used.

This strategy has four key goals for the period from 2006 to 2008:

- to move from a network access logic to a service access logic;
- to innovate on telecoms services, customer services and network services;
- to strengthen integration in order to offer widespread access to all services;
- to adapt the expertise of our teams.

Offering a new telecommunications experience through the integrated operator model

France Telecom's strategy is resolutely built around the integrated operator model for telecommunications services. In light of the increasing pace of technological changes combined with the tougher competitive context, this strategy is paving the way for a genuine differentiation on the market through the convergence services offered to customers, creating more value than that of an operator present on only one segment. The NExT program aims to make the France Telecom Group the benchmark for innovation, quality of service and economic performance.

Inventing the new generation of telecoms services

France Telecom is both a telecommunications services provider and a telecoms network operator, making the best technologies available to the entire market as soon as they become available: the Group is shaping a world in which all people are increasingly connected, opening up access to a new generation of services that are changing the way we live each day (home, content and personal services).

Serving customers in all their communications universes

France Telecom's ambition is to be able to provide integrated solutions to meet the needs of customers in their three communications universes: at home, at work, and when out and about. It is in this way that France Telecom will be able to stand out from its rivals and open up new fields for growth.

International strategy driven by profitable growth

The market leader in France and Poland, a complete operator in Spain, a pivotal player on mobiles in the UK and the number one broadband Internet access provider in Europe, France Telecom has placed Europe at the heart of its international strategy, while enjoying strong positions in various high-growth regions such as the Middle East and Africa. France Telecom, through Equant, also represents one of the world leaders for telecommunications services for multinational businesses.

Coherent strategy

In line with the operations carried out in 2005, the Group has continued to realign its businesses, focusing on its most strategic and profitable assets. They follow on from France Telecom's international development strategy defined in connection with the NExT plan:

- Selection of targeted external growth opportunities, when they improve growth

The success of TOP and operational excellence

In line with its objectives, the TOP program to improve operational performance levels enabled the Group to generate over 16.6 billion euros in free cash flow between 2003 and 2005, while stepping up moves to reduce debt. Indeed, net debt and off-balance sheet commitments have been reduced by some 30 billion euros in less than three years. The constant focus on achieving excellence on all of the Company's processes, founded on integration, will continue under NExT.

and have a positive impact on organic cash flow per share, without calling into question the Group's objectives to reduce its debt levels or having any negative impact on its dividend payment policy.

- Strengthening of integration in each country, with a view to implementing convergence as quickly as possible, adjusting the cost structure and focusing the organization on the customer. To this end, a manager will be appointed to oversee each region.

Main operations in 2005

In Spain, the Group acquired nearly 80% of the shares in Auna, which in turn held a 97.9% stake in Retevisión Movil SA, the mobile operator that trades as Amena. France Telecom then merged Auna, Retevisión Movil SA and France Telecom España (the Group's fixed-line and Internet activities in Spain). Further to these operations, the France Telecom Group owns 75% to 80% of the new structure. France Telecom sold its 34% interest

in Centertel to Telekomunikacja Polska (TP). TP now owns 100% of its mobile telephony subsidiary Centertel. This operation has enabled TP to implement its integrated operator strategy, while strengthening its capital structure. It is creating value both for the shareholders of France Telecom and TP. On the enterprise services market, France Telecom has completed the integration of Equant. This operation, followed by Equant's delisting, has made it possible to finalize the restructuring of the Company as well as the total integration of corporate services. Lastly, France Telecom has concluded an agreement with the minority shareholders in Orange Slovakia for the acquisition of their interests, with this operation enabling France Telecom and Orange to consolidate their position in Europe in a company offering strong potential for growth in a strategic region for the Group.

Amena: in the NExT tradition

The acquisition of Amena in Spain has made it possible for the Group to strengthen its integrated operator strategy in Europe. France Telecom is now in a position to launch convergent offers, based on fixed-line and wireless broadband in a key market, one of the most promising in Europe offering a potential for growth in value on mobile activities that is higher than the European average. At the end of 2005, France Telecom had 10.3 million mobile customers, 2.7 million fixed-line customers and 1.3 million Internet customers in Spain.

Gervais Pellissier, Head of Finance and Operations in Spain

The NExT program aims to offer our customers a New Experience in Telecommunications, with **convergent and innovative services**, while consolidating the Group's operational performance, its financial position and its commitments to create value. To guarantee the generation of 7 billion euros in organic cash flow in 2006, France Telecom is strengthening its management tools.

What does your mission involve within the framework of NExT?

With my teams, we are implementing the budgetary, medium-term planning and operational follow-up processes needed to enable the General Management Committee to steer the business effectively, with a view to meeting the NExT objectives. We are not limiting our work to simply producing a series of figures – we are identifying and analyzing the main challenges, new opportunities and major risks, and making ongoing adjustments.

In a period of strong acceleration for the business, with a need for permanent responsiveness, the management tools available to the operational teams must be perfectly in line with their requirements and ensure total reliability.

What are your priority projects?

In an industry that is changing, with traditional revenue streams trending down, we need to rapidly adapt our cost structure. This is necessary to both guarantee the level of organic cash flow that we are generating, and give us sufficient resources to invest in growth. We also need to be extremely selective with our investments. That is why we have strengthened our analysis tools for these investments.

With the financial targets met, how will the cash flow generated be allocated?

As indicated, we will continue rolling out our program to reduce debt in order to achieve a **net debt to gross operating margin ratio of less than 2 by the end of 2008**. We will also be coming back to a more generous dividend policy for shareholders. Indeed, for the years to come, we aim to continue improving compensation for our shareholders, in line with our commitment to pay out between 40% and 45% of organic cash flow, with a dividend of 1.2 euro per share proposed for 2006. Lastly, when the time is right, we will be able to capitalize on targeted external growth opportunities that are in line with the NExT strategy and meet our value creation targets.

How is NExT perceived in the financial world?

The NExT plan has been widely welcomed by the markets. France Telecom is the first operator to have presented a three-year project that is intended **to be adapted in order to keep pace with and anticipate changes** in the telecommunications environment. Since then, the transformation of our industry has gathered pace, putting France Telecom's share price under pressure. Nevertheless, the markets are not calling into question NExT's fundamentals. They are now waiting to see concrete proof. That is what we are working towards.

What are your objectives for 2006?

Against a backdrop of accelerating technological changes and competitive pressure, and in light of the regulatory environment, France Telecom estimates that its pro forma revenue growth will come out at around 2% like-for-like in 2006. Indeed, in order to maintain its leeway, the Group has decided to step up its transformation. The impact on the ratio of gross operating margin to revenues is expected to represent 1 to 2 points in 2006. While maintaining the level of investments, with a CAPEX to revenues ratio of around 13%, the priority will be to generate 7 billion euros in organic cash flow. These changes do not alter in any way France Telecom's dual commitment to continue reducing its debt while improving compensation for its shareholders.

NExT 2008

Maintain organic cash flow generation.

Generate revenues of over 400 million euros on direct content sales in 2008.

Generate more than 30% of Enterprise revenues on technology, information and communication services.

Financial data

Consolidated revenues in billions of euros

+2.5%*

2004 46.2

2005 49.0

Growth in revenues has been driven in part by the significant increase achieved in the number of both fixed-line and mobile customers and the development of value-added mobile services. The launch of the first convergent offers and the first concrete successes of the NExT plan have consolidated this growth. On a historical basis, revenue growth comes out at 6.2%.

+2.5%

Tangible and intangible investments

in billions of euros

2004 5.1

2005 6.0

The ratio of CAPEX to revenues, at 12.3%, represents the top end of the bracket announced. Fixed-line and mobile networks in Europe account for a significant percentage of the increase in investment seen in 2005. Similarly, this increase is also linked to the rapid development of multi-service offers (voice-over-IP, content, etc.).

Consolidated gross operating margin

in billions of euros

+0.8%*

2004 17.9

2005 18.4

On a historical basis, the gross operating margin is up 2.8%, in line with the initial target.

Operating income in billions of euros

+21.2%

2004 9.3

2005 11.3

Operating income reflects, in addition to the improvement in the gross operating margin, the reduction in depreciation and amortization and the increase in gains generated on asset disposals.

Net financial debt in billions of euros

2004 49.8

2005 47.8

Net financial debt fell by 2 billion euros over the year.

Net debt to gross operating margin

2004 2.78

2005 2.48

The ratio of net debt to gross operating margin is back down below 2.5, in line with the target, factoring in Amena's gross operating margin over twelve months. For 2008, the objective for a ratio of less than 2 has been confirmed.

2.48

Net income attributable to shareholders in billions of euros

+89.2%

2004 3.0

2005 5.7

The increase in net income primarily reflects the increase in operating income, consolidated through the reductions recorded on net interest expenses and tax charges.

5.7 billion euros

Organic cash flow: **7.48** billion euros

Net earnings (undiluted): **2.28 euros**/share

Dividend proposed: **1 euro**/share

Workforce

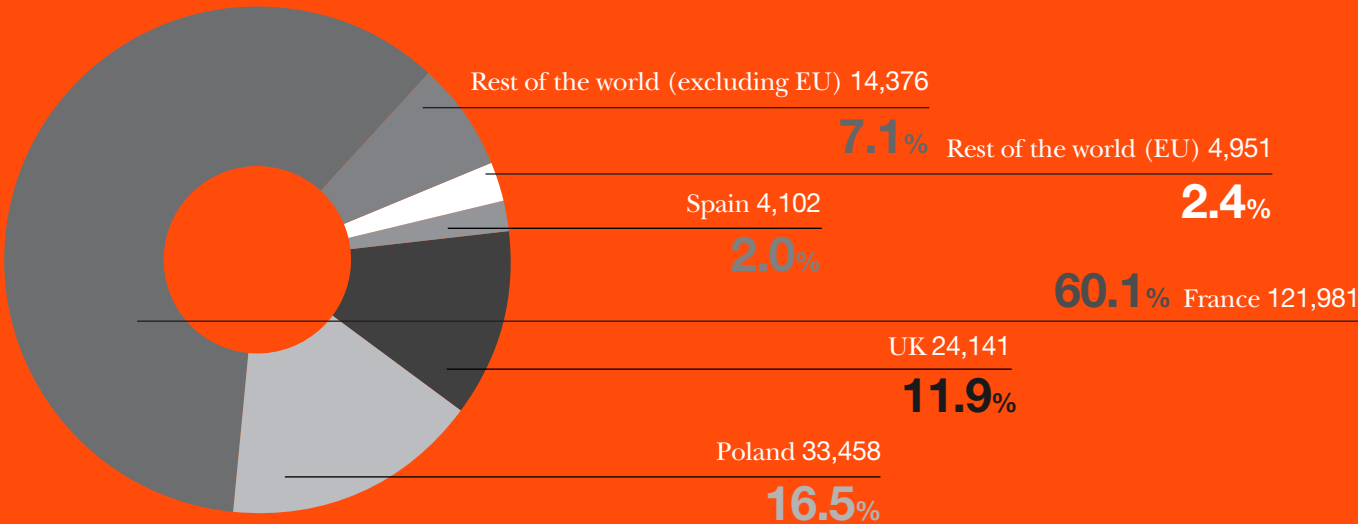


Active headcount trends at December 31

Group breakdown of headcount by sector* at December 31, 2005

	France	International	Total
Personal communication services	7,240	32,426	39,666
Home communication services	102,763	38,646	141,409
Enterprise communication services	7,012	10,098	17,110
Directories	3,959	864	4,823
Total	120,974	82,034	203,008

40% of staff work outside France



Regional breakdown of active headcount at December 31, 2005

Customer data

“First-rate positions”

Mobile

84.3

million customers around the world

2005 was marked by the rapid uptake of wireless broadband services (EDGE and UMTS networks). The number of subscribers for these services rose from 24,000 at the end of 2004 to 1.5 million by the end of 2005.

Number of customers of controlled companies at December 31, 2005

in thousands	2005	2004	2003	in %
France	22,430	21,241	20,329	+6
Europe*	51,155	35,103	30,629	+46
Worldwide**	10,730	6,972	5,209	+54
Total	84,315	63,316	56,167	+33

Fixed-line

49.2

million customers around the world

The very rapid growth generated on multi-service ADSL broadband and the accelerated development of voice-over-IP solutions, serving some 830,000 customers in France at the end of December, have to a certain extent offset the downturn seen on conventional telephony services in France and Poland.

in thousands	2005	2004	2003	in %
France	33,727	33,784	33,857	0
Europe*	14,568	15,050	14,459	-3
Worldwide**	906	867	949	+4
Total	49,200	49,701	49,265	-1

Internet

11.7

million customers around the world

Today, France Telecom is number one for the Internet in France and the European market leader for broadband Internet. The Group's ADSL customer base has grown very rapidly both in France and Poland. The number of Livebox gateways sold in Europe has risen very rapidly, climbing from 253,000 at the end of 2004 to 1.8 million.

in thousands	2005	2004	2003	in %
France	5,914	5,038	4,520	+17
Europe*	5,693	5,983	6,191	-5
Worldwide**	63	54	58	+17
Total	11,671	11,075	10,769	+5

* Excluding France. ** Excluding Europe.

145.2

million customers around the world

highlights

February

Didier Lombard is appointed Chairman of France Telecom.

March

France Telecom, universal service operator: the Group is selected to put in place the universal service intended for the most impoverished categories, enabling them to benefit from telephone network and service performance levels at **lower costs**.

July

France Telecom announces the acquisition of an interest of close to 80% in the Spanish mobile operator **Amena**. Amena's takeover makes the Group, already present on fixed-line telephony and the Internet, one of the leading integrated players in Spain, **Europe's 5th biggest market**, with strong potential for growth.

May

France Telecom concludes a partnership with **Warner Music** for the development and distribution of multi-access music services in France and abroad.

July

At the end of June, France Telecom and Microsoft announce a strategic partnership for the joint development of **multimedia services** for businesses and retail customers.

June

France Telecom launches **NExT**. This **three-year** transformation program aims to make France Telecom the benchmark operator for new telecoms services in Europe.

May

Equant: shareholders approve the acquisition by France Telecom. Equant will continue its activities within the Group, with this acquisition confirming France Telecom's interest in the business market.

September

In Poland, the **Orange brand is adopted** by the TP Group's mobile telephony subsidiary.

November

118 712

Directory enquiries has a new number, available both from fixed-lines and mobiles, offering an entire range of innovative geo-positioning-based services.

April

Orange, the leading national wireless broadband operator, launches its **EDGE** offering. In this way, the Group becomes the only operator to offer a complete wireless broadband service nationwide, **covering nearly 90% of the population and businesses**.

October

Madonna **premieres** on France Telecom's mobile, Internet and fixed-line networks, marking the release of her new album.

December

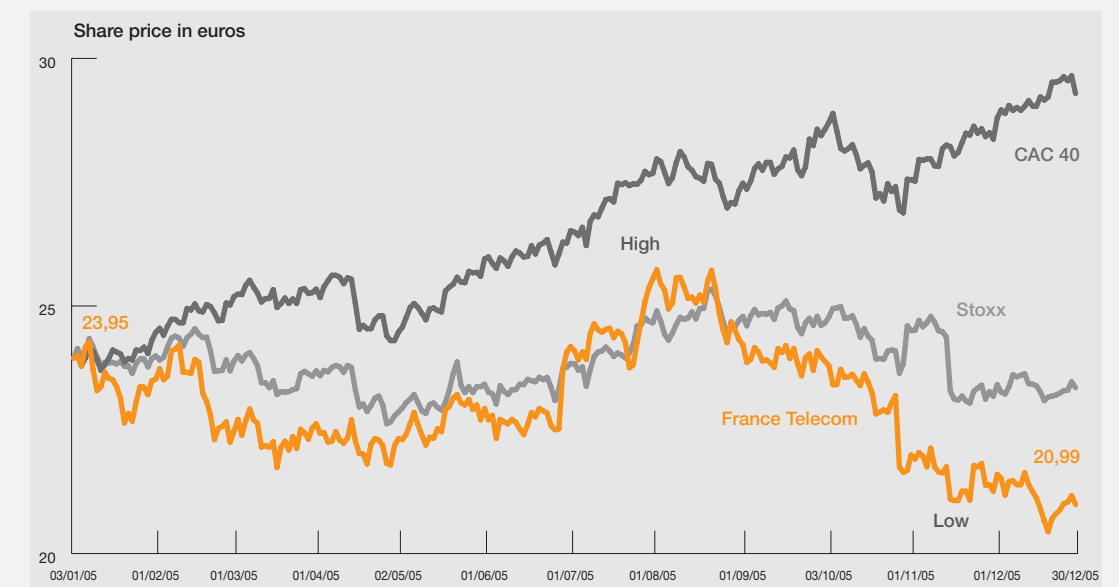
France Telecom introduces **free** queuing time for customer services on Wanadoo and MaLigne TV.

markets to be convinced

The stock market year was split into **two contrasting periods** for France Telecom. While the announcement of the NExT strategic program was welcomed by the stock market, the increasing pace of changes in the telecoms environment and their impacts on growth prospects have weighed on the share price over the second half of 2005.

Contact us

- Call us on 10 10 or 0 800 05 10 10 (only available in France) or +33 1 60 95 87 24 (from outside France), from 9 am to 7 pm Monday to Friday (toll-free from landlines)
- E-mail us at: conseiller.actionnaire@francetelecom.com
- Write to us at: France Telecom – Shareholder Relations – BP 1010 – 75721 Paris Cedex 15 – France
- Send us a fax at: 0 800 06 10 10



Stock price trends

from January 3, 2005 to December 31, 2005 (closing prices)

Annual General Meetings everywhere, for all
Committed to enabling as many of its shareholders to take part in its Annual General Meetings as possible, France Telecom further strengthened its retransmission system on several media in 2005: live or deferred over the Internet, live or deferred in some 15 French cities, and lastly, a 52-minute summary available with video-on-demand on MaLigne TV. For 2006, a new option will be rolled out to supplement this unique system, with short extracts available on the Orange World mobile portal. France Telecom is also one of the very few businesses in the CAC 40 to offer its shareholders the option of voting over the Internet.

The telecommunications environment in Europe, and above all in France, has seen a number of technological, competitive and regulatory changes, with developments picking up pace over the second half of 2005. These elements have had an impact on our stock price, in the same way that they have affected those of all the sector's leading operators in Europe. France, one of our main markets, has seen this change earlier than other countries. However, the strategic NExT program has been welcomed as a relevant and pioneering response to these challenges, and the Group's results for 2005 are good, even historical, in terms of our net profit.

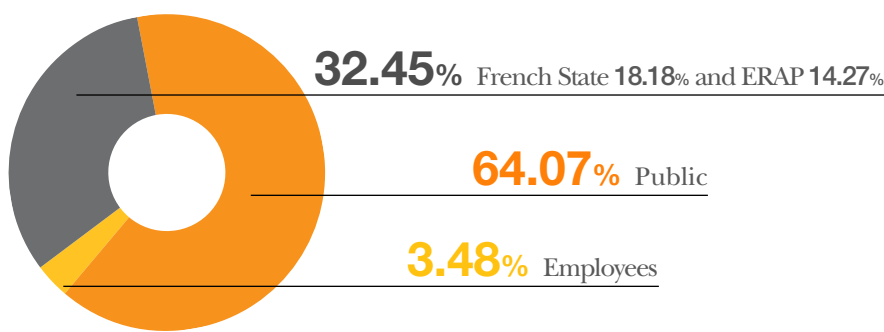
Consolidating the industrial project, stepping up implementation
Looking beyond this economic performance, the commercial and operational indicators already showed the first concrete results of the NExT program in 2005. The four pillars for the development of new services (fixed-line

and wireless broadband, Livebox, partnerships and content policy on all media) have laid strong foundations while proving customer interest in increasingly developed uses. Similarly, a major strategic step forwards was taken, thanks in part to investor backing, with the acquisition of Amena, Spain's third biggest mobile operator. Earlier in the year, the international subsidiary Equant, dedicated to business services, was incorporated into the Enterprise Division. Communicating the annual results for 2005 represented an opportunity to inform shareholders about a clear change of pace with the implementation of the Group's transformation. The NExT program, initially intended to be rolled out over three years, now aims to achieve certain priority projects in half the time.

Confident Board of Directors
The strategy has therefore been reaffirmed, with this acceleration driven by the Chairman and a streamlined

general management team focused on one priority objective: generating at least 7 billion euros of cash flow in 2006. In addition, the Board of Directors has confirmed the proposal to pay out a dividend of one euro per share for 2005. The Board has also announced strong growth in shareholder compensation for the following financial years, with a target to pay out 40% to 45% of the organic cash flow. The Board has therefore recommended a dividend of 1.20 euro per share for financial year 2006.

New services for shareholders
True to its tradition of innovation and using the Group's products to improve relations with its shareholders, this year France Telecom launched two new services for its shareholders. The first, idClub, was inaugurated in April. It represents an exclusive service offering subscribers **text message** or e-mail alerts on key events for the Group. In this way, shareholders are able to receive the most important items of news directly on their mobile or e-mail. In December, Inter@ction, the digital shareholders' circle, opened its doors. This circle is currently made up of around 50 individual shareholders, who give a little of their time to reviewing and airing their opinions on France Telecom's corporate and financial communications. These exchanges are based on an innovative tool: the first dedicated company **blog** for shareholders in France. This direct and original approach for exchanges between a company and its shareholders is set to be developed and Inter@ction, the digital circle, is ready to welcome new members on board.



Shareholding structure
at December 31, 2005

Investors: dialog, information and transparency
Throughout the year, France Telecom has pursued the efforts being made to improve the quality of information published for the financial community. As in 2004, a number of telephone conferences were organized at the time of each publication of results or other specific announcements (takeover of Amena, etc.). They were supplemented with a number of individual meetings with financial analysts and institutional investors. Various roadshows were also arranged throughout the year in Europe, the US and Asia, in addition to the Company's participation in numerous conferences sponsored by leading financial institutions. In June, an Investor Day made it possible to present the NExT plan to the entire financial community. Over the second half of 2005 and at the beginning of 2006, the Group organized various meetings focusing on specific issues for financial analysts and investors. The topics covered included the "content" strategy in December and the network and IT system strategy in January. These meetings represent a unique opportunity for institutional investors to talk directly with division managers and build up a clearer picture of various aspects of the Company that are more operational than financial.

Growing percentage of employees
After the French state sold 6.2% of its stake in France Telecom's capital on June 9, 2005, a share offer was proposed, reserved for the Group's current and former employees in France, Europe and the US. Further to this operation, which was a great success, the percentage of France Telecom's capital held by employees stood at 3.48% at the end of December 2005.

Contact us, find out information

- Visit the Internet site – www.francetelecom.com/en – for all the Group's news and information
- Receive the En @ctions newsletter (register online on the website) by e-mail with all the latest news
- Register for the idClub service on www.francetelecom.com/actionnaires/idclub
- Participate in the digital shareholders' circle: www.francetelecom.com/actionnaires/interaction

- Share details:**
- **Stock markets:** **Eurolist – Euronext; New York Stock Exchange**
 - **ISIN:** **FR0000133308**
 - **Par value:** **4 euros**
 - **Indexes:** **CAC 40, Euronext 100, FTSEurofirst 100, FTSEurofirst 80, IT.CAC, S&P 100**
 - **Eligible for the deferred settlement system and share-based savings schemes**
 - **Stock code:** **FTE**
 - **Number of shares at December 31, 2005:** **2,603,059,797**

rallying around capabilities

In light of the telecoms environment, which is undergoing major changes, and the building of the integrated operator model, our skills need to be **constantly upgraded**. The Human Resources policy is accompanying these changes through a dynamic management of capabilities and social dialog combined with a new corporate culture. The “act:” program – (*“anticipation et compétences pour la transformation”* – anticipation and capabilities for the transformation), launched in July 2005 in connection with NExT – aims to provide fresh impetus.

First private law professional elections

On January 18, 2005, France Telecom's 130,000 employees in France were given the opportunity to elect their staff representatives: members of works councils (establishment committees in 2004 AR) and personnel representatives. Alongside a central works council, there are 38 company-level works councils, 590 staff representative offices and 270 health, safety and working conditions committees. These were the first such elections to be held for France Telecom, following which it now has new staff representative bodies identical to those of all private businesses. They will contribute to building stronger and more in-depth internal social dialog, and all employees will be represented, whatever their status.

Employment and integration of disabled workers

In line with the agreement signed on July 4, 2003, designed to promote the employment and integration of disabled people at France Telecom SA for the period from 2004 to 2006, the mobilization of all the players involved (the disability integration mission “*Mission Insertion Handicap*”, managers, HR team members, works’ doctors, social workers, preventers) was stepped up over the course of 2005.

■ With regard to the hiring plan, the minimum recruitment target planned for the period covered by the agreement (150) was reached by the end of 2005 for sales, customer relations, IT and network positions. These results were achieved thanks to an active external communications approach (advertisements in both general

and specialized press), participation in recruitment fairs, and partnerships forged with various associations.

■ More than 200 HR managers, managers, social workers and preventers have been made aware of disability issues thanks to the monthly “Let’s demystify disability!” sessions organized by the disability integration mission.

■ Lastly, in November 2005, the Chairman of France Telecom, together with representatives from other leading businesses, signed the manifesto for the successful employment of people with disabilities (*Pour réussir l’emploi des personnes handicapées*), published on the initiative of the French agency responsible for facilitating the employment and retention of workers with disabilities (Agefiph).



Developing and managing skills

Based on a forward-looking vision to anticipate requirements and a common methodology for analyzing skills, the France Telecom Group has implemented a policy designed to promote mobility and improve the management of professions and skills worldwide. A pivotal tool for this approach – a benchmark coding system for each business line – has been extended to include all subsidiaries in France and abroad. It is being used as a common language for all Group companies to describe generic jobs calling for the same skills around the world. At the end of 2005, 99% of the workforce in France and 96% at international level had been coded based on Group jobs. To ensure that this frame of reference ties in as closely as possible with the Group’s developments, a further update is planned for the first half of 2006. Launched at the end of 2004, various dedicated transversal Group-wide structures, known as “job channels”, cover the different areas of activity: sales, customer relations, IT, technical networks, multimedia, research and development, and support. They aim to give a dynamic vision of the development of skills and jobs, while promoting sustainable solutions for adapting resources to meet the Company’s needs. These channels are being led and coordinated by “channel bearers”, acting on a transversal basis for the entire Group.

Training

The “act:” program increased the rate of investment on training in 2005, supporting the new goals for 2006. Training represents the “sinews of war” with regard to accompanying changes in managerial practices and skills. The France Telecom FT Group University has already welcomed more than 1,000 business leaders as part of its management programs. It will shortly be supported by a management school for all managers. In addition, 17 business schools, with a strong focus on key business issues, are contributing to the professional development of employees and the transformation challenges facing the Group. Certain training courses, led jointly with university bodies or other structures recognized by the French national education system, will be validated shortly by an “FT certificate” that will be recognized outside of the Company. Moreover, the program to validate skills built up through experience in the job (*Validation des acquis de l’expérience*, VAE) is being extended. This involves awarding certificates to give official recognition to skills built up in the field over time, facilitating possibilities for internal or external mobility.

“OUR BUSINESSES ARE CHANGING, BEING REINVENTED AND RENEWED, GIVING EACH MEMBER OF THE COMPANY THE OPPORTUNITY TO DEVELOP THEIR SKILLS AND PLAY A PART IN THEIR CAREER DEVELOPMENT”

Transfers to the public sector

In 2005, the policy for transferring France Telecom’s civil servant employees to the public sector in national, regional and hospital structures was actively pursued. In this way, the number of staff departures passed the 1,000 mark, thanks notably to ongoing efforts to improve the quality of support offered to staff and the benefits of applying the decrees resulting from the law of December 31, 2003. This dynamic program will be continued over 2006.

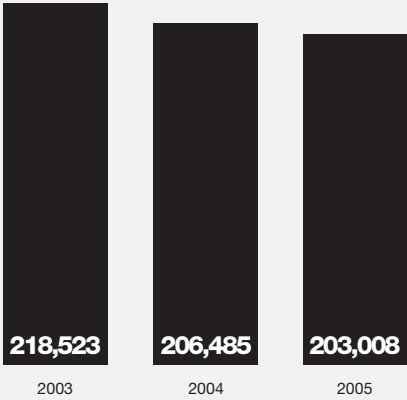
Personalized support for external personal projects

In 2005, the Company reaffirmed its commitment to supporting spin-off programs, notably with a view to helping employees to leave the Company and set up their own businesses or take over other companies. The number of employees interested in taking up this option was up 40% and the number of projects completed up 30% compared to 2004. In addition, France Telecom is accompanying employees’ efforts to implement personal projects outside of the Company.

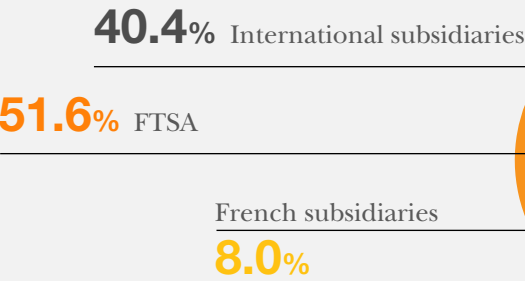
Worldwide mobility

In order to strengthen international mobility, a job exchange is now available online on the Group *Intranet*. It has already presented over 200 job offers. Furthermore, a skills exchange program, covering a period from six to eighteen months, has enabled 50 people to work within a new team, without changing professions. Objective: exchange cultural practices and international know-how.

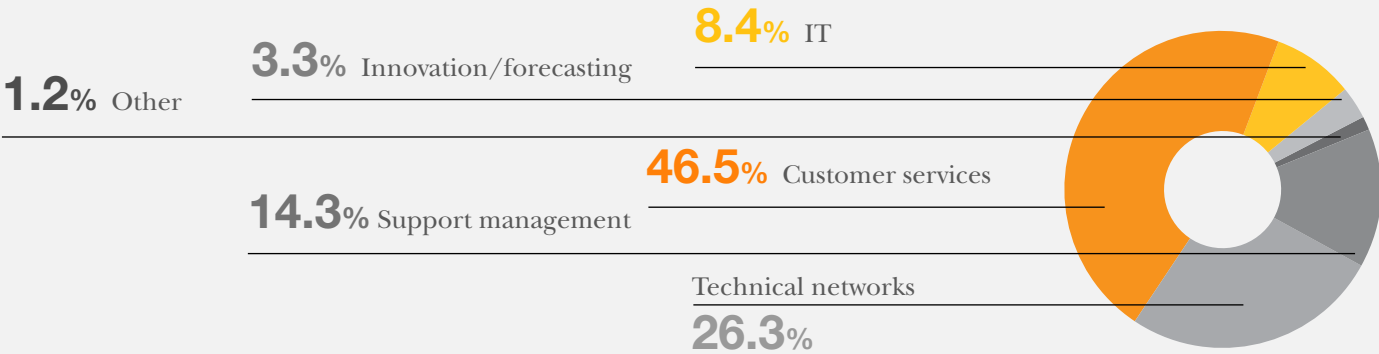
our group



Active Group headcount at December 31



Breakdown of workforce at December 31, 2005



Breakdown of workforce in France at December 31, 2005

Olivier Barberot, Head of Human Resources

With NExT, **our activity is becoming increasingly focused on services and content.** The new challenges on our markets, the emergence of new businesses, changes in practices and a cross-business approach, are progressively changing our businesses... To ensure that this transformation is a success, each member of staff must be positioned within a change perspective, in order **to anticipate developments** and seize opportunities as they arise. The aim of “act:” – anticipation and capabilities for the transformation – the human resources section of the NExT plan, which is backed by substantial resources, is to accompany this approach.

One of the main challenges for NExT is to accompany changes in each person’s skills. How is this a priority?

We want to become the benchmark telecommunications operator in Europe. To achieve this, we need to adapt in light of a complex and unstable environment. It is therefore vital for both employees and managers to acquire the skills needed to deliver on this ambition.

As such, we need to encourage a sense of **initiative** and **foreword-planning**, while giving each member of our company the means to complete their professional projects.

What type of changes should we expect to see?

We need to strengthen our expertise in certain technical fields, such as voice-over-IP, and the development of our commercial approach has a direct impact in terms of business. For example: our telephone-based advisers in Paris are now able to talk about mobile, fixed-line or Internet services. This type of multi-skills approach must be rolled out throughout the Group. And then there are new businesses. Six months ago, France Telecom did not have a Head of Music surrounded by a team of specialists for negotiating rights for the acquisition of content, which lies at the heart of NExT.

What principles is “act:” based on?

“act:” is based on a mutual commitment between the business and the employee: members of staff become a player in their own professional development and commit to a project to develop their skills, in-house changes towards a priority business, or even external mobility opportunities. In return, the Group gives them the means to make these projects happen, notably in terms of support and training.

What exactly does “act:” encompass?

The “act:” program has four sections. It must ensure visibility on career development prospects in the various businesses, the pathways open to employees within the company, and new businesses. Once employees have this information, “act:” gives

them the means to build their pathway themselves, helped by their manager and the human resources teams. For its part, the company makes every effort to ensure that employees are able to make their project a reality: stronger focus on training, revision of rules governing mobility – notably in France – and improvement in individual support. Lastly, “act:” also concerns managers, who have to get more involved in the professional development of their teams.

NExT was launched last July. Since then, what are the first achievements of “act:”?

Four business schools have been set up, focusing on distribution, remote customer relations, business services and technical professions. With the Management School, which will open its doors very shortly, a total of 17 schools will be working to develop the skills and expertise of our employees. In France, we have deployed a number of development centers (Espaces Développement), which are designed to welcome employees and managers in order to help them develop their professional projects. We have also bolstered our program of certified training courses and forged new partnerships with recognized organizations. Lastly, “act:” is now being taken up in other countries, since we have not forgotten that nearly 80,000 members of staff are working outside of France.

act: in figures

- 40,000 managers mobilized.**
- +50 career paths defined within the Group.**
- 2006-2008: +25% increase in the average number of hours of training for each employee.**
- 11 development centers (Espaces Développement) opened in 2006, each with several branches and offices close to employees.**
- Skills exchanges between transnational teams x 4.**

The image shows a woman on the left and a man on the right, both sitting on windowsills. The woman is wearing a white shirt and blue jeans, looking at a laptop. The man is wearing a dark blue jacket and blue jeans, talking on a mobile phone. The background is a light-colored wall with vertical wood paneling.

The promise of Home Networking fulfilled

In an extremely competitive market, France Telecom aims to **differentiate** itself from its rivals by offering all its customers access to a new universe of **wireless broadband** services as well as simplified and modular offerings tailored to their requirements. As the cornerstone for home networking, the **Livebox** is becoming the point of convergence for equipment and technologies in the home.

While the market is evolving towards **multiplay** offerings (image – voice – data), France Telecom, thanks to its capacity for innovation combined with its expertise on networks, is going even further by enabling its users to access a range of wireless broadband services. With Livebox, digital equipment in the home can now be easily connected up, allowing customers to enjoy communication, information and entertainment and even practical day-to-day services adapted to their individual needs.

Fixed-line, still driving innovation

A new telephony range

2005 was a year of marketing, innovation and simplification on fixed-line telephony, as shown by the launch of Atout Téléphone: a new range for all with unlimited or *à la carte* call-time packages making it possible to call, in line with customer requirements, all fixed-lines and mobiles in France and abroad (Europe and North America) in addition to sending SMS in Metropolitan France. This offer has proved to be a resounding success, with nearly 1.8 million subscribers by the end of 2005, less than five months after it was launched.

One year after innovating with unlimited services on fixed-lines, France Telecom is also the first operator to have offered unlimited calls from fixed-lines to landlines and mobiles in France, Europe and North America with its 100% unlimited offer.

Innovative services

France Telecom is pursuing its service development policy. In this way, the Group has been offering a range of value-added services for retail customers for several years now, such as voicemail, call waiting services, automatic last number redial, call transfer, three-way calling, caller name and number identification, as well as

“moving home” services such as keeping the same number.

The range has continued to be enhanced with increasingly innovative services: following fixed-line SMS, the voice-activated My Contacts directory, combined with Internet or Minitel access, France Telecom has now launched Fun Tones, a fun service for personalizing ringtones on both Orange mobiles and landlines.

Access to digital information and entertainment content

On fixed-line services, the increase in throughputs and progress made on image coding mean that it is now possible to offer television and an entire range of new associated services. Thanks to MaLigne TV, through their fixed-lines, customers are able to access the range of digital television services available with TPS or Canal+ Group packages as well as **digital terrestrial television** channels and a catalog of over 1,000 hours of video programs available on demand.

The success of Livebox

In 2005, further progress was made on access technologies. The progressive deployment of the ADSL 2+ technology is opening up the benefits of broadband, with speeds of up to 18 Mbps. This strategy to increase speeds is also being rolled out at international level in the countries in which the Group is the fixed-line network operator (Poland), as well as in countries in which France Telecom is a newcomer on the market. This is the case for Spain, the UK and the Netherlands, where the Group is building its offering with the deployment of its unbundling program, capitalizing on the services already launched in France.

Livebox for the smart home

Livebox represents the Group's first Pan-European integrated product, around which digital home services are being developed. It enables broadband connections for all home communications services, making it possible to surf the Web, watch digital television, call over IP, communicate using videophones or play in a network, in addition to opening up access to the range of Liveservices. In this way, Livebox represents the cornerstone for home networking, the point of convergence for equipment and technologies, and the key for access to broadband services in the home. Following its launch in July 2004, the success of Livebox has been confirmed, with 1.6 million units sold in France by the end of 2005.

New broadband multimedia range

Wanadoo's broadband multimedia solution represents a new range of services based on modularity and simplicity. Customers first of all select the Internet package that best suits their needs. Then, by equipping themselves with a Livebox, they can draw up their own *à la carte* package of multimedia services: digital television with MaLigne TV, unlimited telephony with ADSL, making it possible to have a second telephone line for voice-over-IP and make unlimited calls to local or national landline numbers, and lastly, unlimited videophony services so they can call and see their contacts using a videophone connected up to the Livebox.

To make life easier for our customers, home installation services are also available. These are included as part of the package for business customers. A technical **hotline** is available 24 hours a day, 7 days a week, now with free queuing time for calls to multimedia support centers.

Liveservices and Livecom at the heart of communications services

France Telecom is creating a new universe of communications services with Liveservices: a range of innovative wireless solutions making it possible to connect multimedia equipment in the home (fixed-line or mobile telephone, videophone, camera, television, stereo system, etc.) to the broadband network thanks to Livebox, giving users access to a new range of practical, simple and secure services. For example, Livezoom makes it possible to find out what is happening at home thanks to a wireless camera connected to the Livebox. With Livemusic, it is possible to listen to radio stations or MP3 files from your computer linked to your stereo. New Liveservices will be rolled out over the coming months to add to this first range, as provided for under the NEXt plan.

In 2005, France Telecom also launched Livecom, the first PC-based communications software solution integrating **videophony**, unlimited calls via ADSL and instant messaging. Livecom makes it possible to call friends and relatives at any time, on their PC, their landline, their 2G or **3G** mobile, or their videophone. It offers Internet users all the possibilities for two- or three-way real-time multimedia communications, thanks to three options: audio, video and text (instant messaging, SMS or e-mail).

Fixed-line telephony

26.9 million consumer fixed lines in France

11.1 million access lines in Poland

1.8 million customers have chosen the Atout Téléphone range since it was launched in August 2005

Multiplay

Unlimited telephony on ADSL (VoIP): over **1** million customers in five countries in Europe at December 31, 2005, with **830,000** customers in France

MaLigne TV: **200,000** subscribers in France

8.5 million homes able to access MaLigne TV by the end of 2005

Livebox

1.6 million Livebox sold in France

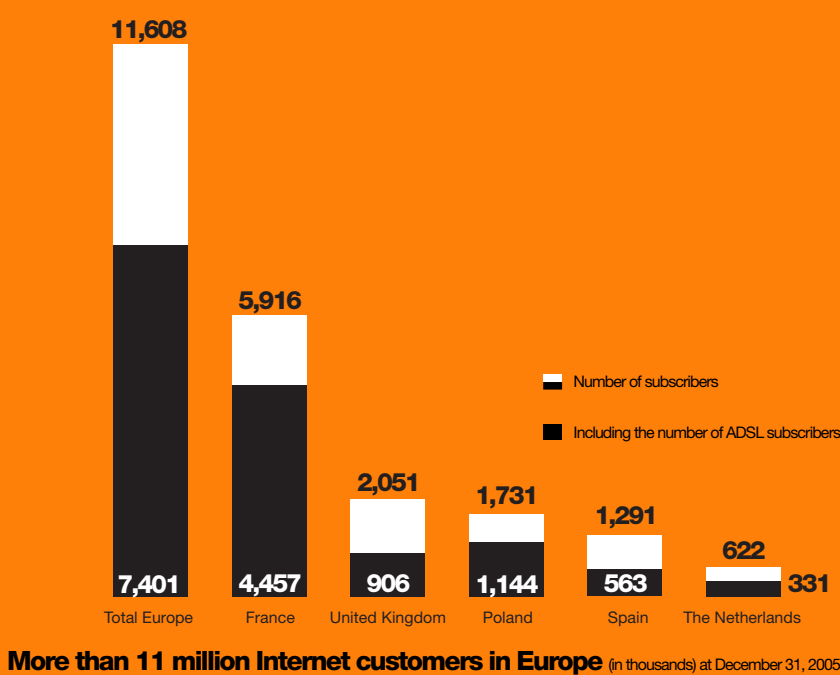
221,000 Livebox in other European countries (UK, Spain, the Netherlands, Poland)

Broadband

France Telecom is **No. 1** in the European ADSL access market, with more than **7.4** million customers at December 31, 2005

No. 2 in the global ADSL market*

* Source: DATAxis at September 30, 2005.



The rollout of fixed/mobile convergence packages

In 2005, France Telecom also launched its first converged offerings of fixed and mobile telephony, a decisive step in its integrated operator strategy.

Family Talk: economical and friendly

Family Talk is a package offering unlimited communication (24/7) between a fixed line and three Orange mobiles in the same household. This includes, for 39 euros (taxes included) per month, all calls from the fixed line to the mobiles, between the Orange mobiles and from the Orange mobiles to the fixed line. This package was offered in a series limited to the first 50,000 subscribers.

Mes services perso: multimedia at your fingertips

A new innovative package, *Mes services perso* allows customers to access their personal multimedia services from either their Orange mobile or on the Internet from the wanadoo.fr portal. Thus, they can easily access Wanadoo e-mail, send SMS messages from wanadoo.fr or orange.fr portals, or even from their mobile, communicate directly using instant messaging, synchronize the directory of their mobile with their online address book on wanadoo.fr (*Mes Contacts*) or orange.fr (*Mon Répertoire*).

A leader in Europe and in the world

The France Telecom Group is one of the main telecommunications services operators in the world providing ADSL. Ranked 9th just two years ago, on September 30, 2005 it ranked 2nd worldwide (behind China Telecom) in terms of the number of ADSL customers (source: DATAxis). With a total of 7.4 million ADSL clients, the Group greatly increased its customer base in France, the United Kingdom, Poland, Spain and the Netherlands, with annual growth exceeding 50%.

Also, in fixed-line telephony, France Telecom has nearly 50 million customers throughout the world. Finally, in all countries where the Group is present, priority is given to **unbundling**, development of packages providing broadband on ADSL and convergence packages made possible by the positions of France Telecom as integrated operator in each of these countries. A total of 11.6 million customers use an Internet package from the Group in Europe.

Poland

TP Group is the historical operator on the Polish market. As an integrated operator, it offers an entire range of fixed-line telephony, narrowband and broadband Internet access, and business services under its own brands, while mobile services are now covered by the Orange brand. At the end of 2005, it had more than 11 million access lines. For residential services, a new fixed-line package with 60 minutes free local and national call-time has contributed to the success of this service: at December 31, 2005, some 3.5 million customers had already signed up for this package, confirming the successful launch of the new rates introduced.

At the same time, efforts over the last three years have focused on stepping up the development of ADSL broadband, with 93% of the TP Group's lines eligible for connection to ADSL services at the end of December 2005. While the TP Group had 14,000 subscribers at the end of 2002, this figure had risen to 1,144,000 broadband customers at the end of 2005, driven by growth of nearly 81.3% over one year.

In 2005, the Group focused on offering faster speeds (256 and 512 kbits/s), supplementing the most widespread offering on the market of 128 kbits/s. Lastly, in December 2005, the TP Group launched Livebox tp based on the French model, with a WiFi connection. The services offered will shortly be supplemented with voice-over-IP and television.

United Kingdom

In the United Kingdom, Wanadoo UK launched unbundling in 2005. In November, it launched, for clients in unbundled zones, a package providing Internet connection at speeds up to 8 Mbits/s for £17.99. For customers in non-unbundled zones, Wanadoo UK offers a broadband Internet package with speeds up to 2 Mbits/s. Wireless and Talk, the second line VoIP with Livebox offer, launched on September 1, 2005 has been very successful. With 80,000 customers activated at the end of 2005, Wanadoo UK is ranked first among VoIP operators in the United Kingdom. Starting in the third quarter, a broadband Internet access package, coupled with Orange UK, has been offered exclusively to Orange customers.

Spain

Pursuing the unbundling strategy, France Telecom España has already moved 29% of its ADSL customers to unbundled lines. In Spain it is Telefonica's main competitor for Internet access. Taking advantage of its position as fixed-line operator and Internet access provider, France Telecom España offers *Naveghable* packages that couple ADSL broadband Internet access, as a prepaid package or as pay as you go, and a standard telephone service.

The Netherlands

Wanadoo Netherlands introduced unbundling in 2005 and in September launched a package coupling ADSL Internet access up to 20 Mbits/s (ADSL 2+) and unlimited VoIP, with Livebox rental included.

Georges Penalver, Head of Strategic Marketing and the Technocentre

A new experience in telecommunications, that is what Next aims to offer. France Telecom is opening up a new universe of simple, innovative, advanced and personalized services for its customers in telecommunications, information, entertainment and everyday life. To achieve this, it is creating a Group Strategic Marketing structure based on a forecasting centre and a joint product development centre in order to ensure the rapid and consistent deployment of key offerings.

What is the Strategic Marketing Department's main mission?

The widespread development of broadband and information technologies has led to a genuine shift in the telecommunications world, considerably increasing the scope for various possibilities. Strategic Marketing aims to capitalize on the opportunities opened up by this shift, in order to create new innovative services for our customers. On the one hand, we are going to enhance and improve the telephony services that we use on a daily basis: with "wideband" telephony for instance, and hi-fi quality sound, or with videophony, which looks to have a wonderful future in front of it with the development of 3G. On the other hand, we are going to create services that will meet the new requirements of our customers. For example, I am thinking of mobile television, mobile payments, or video on demand, with which it will be possible to watch the program you want, at the time you want, on the terminal you want (PC, television, mobile).

Inventing, designing, developing and marketing these new services: that is the main mission of the Strategic Marketing team.

Why create a Group-level Strategic Marketing function?

Today, in France, we are the only company to have four lines of action, namely **fixed-line telephony, mobile, the Internet and content distribution**. The "gateways" between these various sectors mean that we are able to implement convergent services, independent from the networks used. In this way, customers with a Livebox can now keep an eye on their homes when they are out via a mobile or computer, and Livezoom, the remote surveillance service based on a wireless camera connected to a Livebox. They will also be able to use the same telephone when they are at home and when they are out and about thanks to Homezone, the first smartphone that automatically transforms into a fixed or mobile telephone, depending on where the user is.

To stand out from its rivals, France Telecom is going to draw on Strategic Marketing in order to ramp up this type of convergent service, independent from the access networks.

What is the Technocentre?

This **product development centre** groups together all the skills required for developing solutions, and notably convergent offers, in one place. In the design phase for a new project, a team with marketing, R&D, network and information system expertise works together, led by strategic marketing, to finalize all "production" aspects of the offering. These multidisciplinary teams are housed in the Technocentre, on the same site, for the duration of the project. This will enable us to step up the pace of developments for convergent offers.

We estimate that "project" teams will rapidly pass the 600-person mark, and that more than 1,500 people throughout the Group will be directly involved in these projects.

What will be the first projects?

Between 2006 and 2007, the Technocentre will be handling the development of various key products for the Group: the integrated portal, Homezone solutions and the Group loyalty program. We are also going to be working on the new ADSL and mobile television services, which have already proved to be a hit with our customers. We are also preparing for the next Business Everywhere Multimedia developments, incorporating voice and image components, or even the Business Pack offering, a multi-service gateway, like Livebox, designed for businesses.

NEXT 2008

Generate 5% to 10% of consolidated revenues from convergent offers.

On the Enterprise market, more than one million Business Everywhere customers.



new horizons for mobile broadband

2005 marks a new year of innovation for Orange and **broadband**. In all simplicity, customers can take full advantage of their mobile telephones with an easy-to-use package offering more services, multimedia content and many uses. NExT paves the way for fixed-line, mobile and Internet convergence with even more benefits to consumers.

France Telecom, through Orange, aims to become the benchmark brand for tomorrow's world of mobile telephony. Orange is one of the world leaders for mobile telephony. Driven by the adoption of the Orange brand in Poland, the buyout of Amena in Spain, as well as the performance of the numerous subsidiaries, the mobile business now accounts for 50% of France Telecom's sales.

Extensive geographic presence

In France, Orange is the number one mobile telecommunications operator with more than 22.4 million customers in 2005.

In the United Kingdom, Orange UK is one of the leading operators with 14.9 million customers. In Poland, Orange has some 9.9 million customers (+33% over one year). In other markets, Orange has seen strong growth in its customer base (up 31% to 26.8 million customers by the end of 2005). Thus, in Romania and Slovakia, Orange is number one in the market with respectively 6.8 and 2.5 million customers. Orange is also present on other continents. The Group is the market leader in Côte d'Ivoire and Madagascar, and number two in Cameroon, the Dominican Republic and Botswana.

Looking beyond Orange, France Telecom's presence in mobiles, both within and outside Europe, has been strengthened by mobile activities operating under other brands. In Spain, with the acquisition of Amena, the Group now has 10.3 million customers, with strong growth in its subscriber base over 4th quarter. In Belgium, Mobistar, in which France Telecom has a controlling interest, is number two under its brand, with a 33%-market share and 2.9 million customers.

Outside Europe, the Group has controlling interests in a number of key subsidiaries with leading positions in their regions. For instance, in Egypt, Mobinil, through its

Since April, Orange customers in Romania have been able to communicate in emergency situations even if their prepaid time had run out, using the Reserve Recharge service, a first on the market.

Orange Slovakia includes international calls to EU countries in its monthly packages.

Orange Switzerland launched *Orangeclick*, the first Swiss package sold over the Internet.

Madonna sings in a premiere performance on Orange mobiles
Thanks to a partnership with Warner Music, exclusive content for Orange, Wanadoo and France Telecom customers preceded the release of her album *Confessions on a Dance Floor*. The celebrity's answers to questions from Orange customers were also filmed and placed online on the Madonna mini-site of the Orange World portal. In the last three months of 2005, customers of the France Telecom Group downloaded 500,000 Madonna content items, including exclusive ring tones, background screens and song clips, of which 150,000 content items were directly downloaded by Orange customers.

subsidiary ECMS operating under the Mobinil brand, is the mobile market leader (55.1% market share at December 31), with a total of 6.7 million active customers, representing an increase of more than 67% in relation to 2004.

Ask more of your mobile

The sweeping arrival of television
Thanks to its mobile broadband network, Orange is the first operator to offer a multitude of television services and content. In addition to live television, customers may view recorded programs on their mobiles: shows, series, news, video clips, sports, etc. The success of Orange video and TV offers demonstrates that mobile telephony has very quickly produced viewing habits for a 4th screen, after movies, television and the computer. In France, Orange is the uncontested leader in live mobile television with 52 stations available. Orange France is now using DVB-H television technology to offer its customers an even more satisfying image quality. In the United Kingdom, the first

Delighted cinema fans
In the first quarter of 2005, *Star Wars III* appeared on the Orange World portal, cases and accessory products of several Orange subsidiaries in Europe. In December 2005, it was *King Kong's* turn to grace the Orange portal, when the new film by Peter Jackson was released in France.

television service for mobile devices was launched in May by Orange UK, with nine stations. At the end of 2005, its customers could already enjoy 16 stations.

Multimedia with Orange World
Orange World offers simplified access to multimedia services such as TV, music, video or videophony. In France, it is the leading multimedia portal with 5 million visitors and 2.2 million TV and video viewings every month. Orange World Video offers a selection of 3,000 videos on numerous themes 24/7: news, sports, music, cinema, comedy, people/TV, adult, cartoons, etc. In 2005, television and video viewing frequency increased ten-fold. In the United Kingdom, customers can watch videos from Sky News, exclusive film extracts, preview trailers and video clips, download music or ring tones, play video games, especially Splinter Cell, Tetris or Pac-Man. It offers exclusive behind-the-scenes access to Chelsea, Manchester City and Liverpool football clubs, as well as practical applications such as Traffic TV. In Poland, Orange World offers eight live broadcast television stations as well as downloading of news programs. As in France, the United Kingdom and Poland, Orange World is now available in Belgium, the Dominican Republic, the Netherlands, Romania, Slovakia and Switzerland. In multimedia, Orange has shown its ability to work in numerous partnerships (Orange Gallery service, SMS+, M6 partnerships, etc.). This policy promotes the development of innovative services and even the emergence of new

sectors like the creation of specific channels (e.g. LCI Mobile in France) or programs intended only for mobiles (e.g. *Mobisodes* or 100 seconds, the leading daily general information source).

Always more music via mobile
In June, Orange UK unveiled a range of handsets labeled Great for music, pre-equipped with the Orange Music Player software, for customers who wish to download and listen to music on their mobiles. At the same time, Orange France opened its Orange World Musique portal with 11 live radio stations and a catalog of titles, video clips and ring tones. Finally, thanks to the opening of its Music Store in November, Orange Switzerland outpaced all its competitors in the Swiss market.

Mobile broadband everywhere and for everyone
Mobile broadband allows great downloading speed, excellent image quality and new visual comfort. Launched in 2005, EDGE now complements the WiFi and 3G networks. The Orange strategy for broadband is based on a double vision: mobile broadband everywhere and for everyone, and flexibility through technology adapted to each environment.

3G kicks off

Launched in 2004, Orange UK and Orange France 3G services took off during the year 2005. By December 31, 2005, the two subsidiaries respectively accounted for more than **306 000** 3G customers in the United Kingdom and more than **1 million** broadband customers in France (EDGE and 3G). In September, Orange Switzerland opened its 3G network in 14 cities.

84.3
million mobile customers at December 31, 2005

56% of mobile broadband owners in France use television and video services.

EDGE: a new broadband technology

With the European launch of its EDGE offer, Orange expands easy access to mobile broadband multimedia services to more people than ever before. The very great majority of its customers can now receive live television services, video and music on their mobiles. EDGE has been successively launched in Belgium (with the first compatible telephone), in Slovakia (with the best national coverage and the first EDGE USB modem), in France (Orange France is the only operator already offering coverage to 90% of the population and businesses) and in Romania (with coverage in 33 cities).

With Orange Intense, Orange France is the only operator to offer more than **50 stations** directly broadcasting to **85%** of the French population. The package is continuously being enriched with seven new stations to choose from in mobile television.

Orange France won the MEF **(Mobile Entertainment Forum)** prize for the best mobile service for its Orange World Video portal and live television.

10,300 ring tones, 2,000 fun tones – musical tones – and 8,600 logos can now be downloaded on the Orange World portal.

Handsets adapted to customer needs

Orange remains at the cutting edge of the evolving wireless telecommunications market by pursuing a policy of systematic innovation. In partnership with a number of mobile phone manufacturers, Orange has co-developed an exclusive product range under the Orange brand name: Devices Signature. Orange-brand telephones are designed to meet the needs of the Group's customers and, at the same time, improve the uses of such telephones and increase revenues. Thanks to their ergonomic design, access to data transfer services, photo messages and multimedia services has been improved. This program has now been extended to all types of handheld devices, including 3G, EDGE and WiFi. The Group's ambition for Devices Signature mobile telephones is to reach 30% of the world base in 2008.

For businesses, Orange launched the SPV M5000 3G **PDA** telephone in its subsidiaries in the United Kingdom, France and Switzerland. An alternative to the laptop computer, it offers an AZERTY keyboard and one-click access to company applications. The Signature product line has also been enriched by the SPV C600 Smartphone and the SPV M3000 PDA, both EDGE compatible and loaded with Windows Mobile 5.0. For computers, the first **HSDPA**-compatible 3G/EDGE cards were sold in France by Orange.

Best solutions for customer needs

Through its simple, generous and broad range of packages, unlimited-use plans, and services based on mass supply or customization, Orange has a solution for every user. Customers are thus offered a large increase in potential uses for a small increase in the monthly bill, which stimulates their customer loyalty.

Innovative packages and services

Orange France offers a large variety of plans: from limited – for total budget control – to unlimited packages. *Orange Intense* is now the reference package for multimedia for everyone, regardless of device. Its new packages include a voice and video communication credit, and a multimedia offer including a usage credit for SMS or **MMS** transmission or data transfer.

In the United Kingdom, the pay as you go package has been significantly updated. A new and simple Same Rates 24/7 tariff, combined with a bonus mechanism has been implemented. This package offers customers free calling times. Orange UK launched instant voice messaging services such as Pay 3G.

These packages are completed by Orange Extras that offer the customer the possibility of purchasing text, voice, or accessing Orange World for a reduced price.

In France, the 3 KDO numbers offer unlimited calling 24/7 to three Orange numbers.

With Orange Family, Orange UK launched a package that meets the needs of the whole family: better control of uses, single invoicing as well as free minutes and free texts for all members of the family.

Customers watch an average of 33 minutes of TV programs per month in France. Orange customers logged 22 million video on-demand and live television sessions in 2005.

In Switzerland, Orange is the first mobile telephony operator to launch unlimited communications for individuals and businesses. With Optima, Orange offers a package that automatically adjusts to the best-size and most advantageous plan. Orange Premier, a Premium service offered to the largest users, has also been a firm success in the United Kingdom and the Netherlands. In Slovakia, Orange is the first operator in the market to launch monthly prepaid credits: customers credit their accounts as they wish, based on their use.

In Romania, customers find flexibility and freedom with the Value Bundle package: a unique concept on the Romanian market. Users benefit from a monthly credit that they use as needed: national and international calls, SMS and MMS transmission, access to **Wap** or Internet services.

Virtual operators “powered by Orange”

2005 marked the extension of the presence of mobile virtual network operators (MVNO) in Europe in all market segments. Their aim is to capitalize on their brand to reach targeted communities and thus diversify the outlets for their own content and services. Orange entered several partnerships with this new kind of operator. Thus, Orange France and the television station M6 launched M6 Mobile by Orange, the first fixed-rate package on the French market to include unlimited, for 19.90 euros. In Switzerland, Orange launched a partnership with the food distribution chain Coop to launch CoopMobile – powered by Orange, a mobile prepay offer, distributed in Coop stores. In November, Mobilezone, a Swiss mobile telephone distributor, signed an agreement for prepay and postpay packages with the brand Mobilezone.net, powered by Orange.

Chosen as Best International Mobile Operator in 2005 by World Communication Awards, Orange also won awards for customer service in many countries.

In May 2005, Orange was again ranked 1st among best networks for customer satisfaction, among the mobile telephone users under contract in the United Kingdom.

The Group seeks to serve more than **12** million mobile broadband customers in 2008, including more than **6** million in France and more than **5** million in the United Kingdom.

Agreement between France Telecom and Microsoft

On June 29, France Telecom signed a partnership agreement with Microsoft for the development of multimedia products and services for fixed-mobile convergence. Among the first projects was a voice-video-data multimedia platform and a VoIP telephony range.

Advent of convergence services

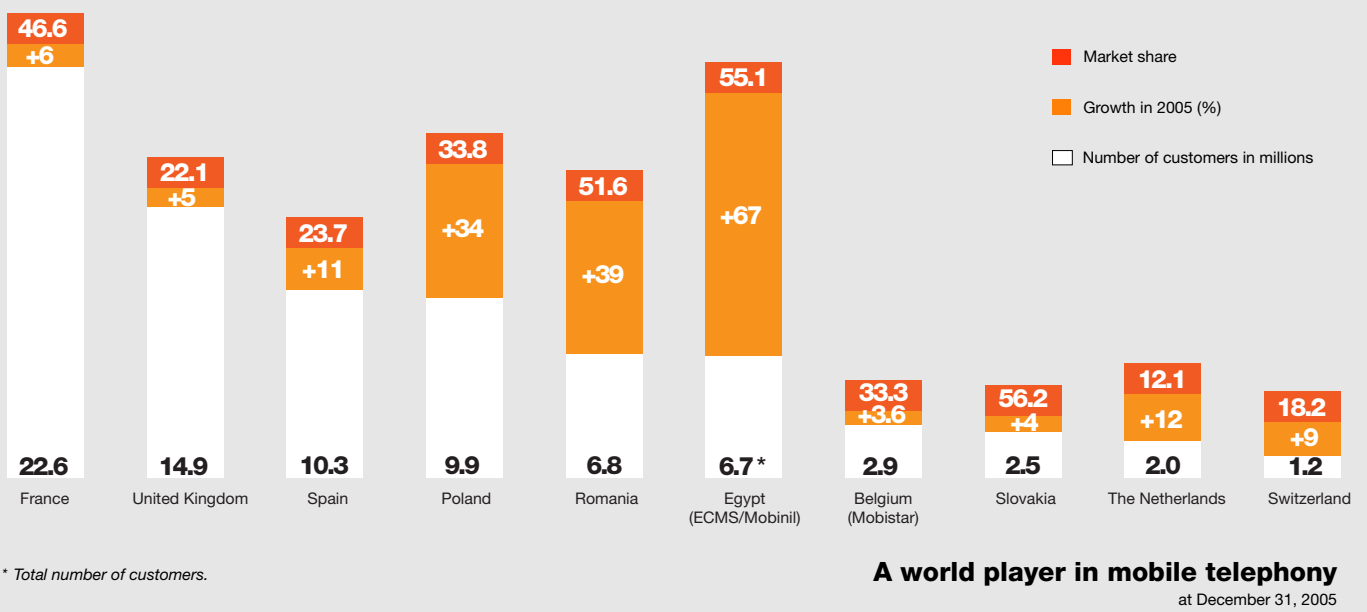
In anticipation of the NExT program, starting in 2005 Orange contributed to launching packages of fixed, mobile and Internet multi-access solutions. The strategy is to deliver services that are meaningful to customers, with true use value in their daily personal and professional life. Thus, *Mes services perso* offers access to Wanadoo services via an Orange telephone and inversely; Mobile & Connected is an ADSL package for mobile customers.

New convergence packages for voice (Family Talk) and for businesses with Business Everywhere and Business Talk have been implemented with concerted marketing actions (*Madonna, King Kong*), as has a unique and integrated customer relationship for fixed and mobile customers (single contract and bill). In the United Kingdom, Orange and Wanadoo have allied their competencies to offer new Orange customers broadband Internet access at home at speeds up to 2 Mbits/s.

The Polish mobile operator **Centertel** became Orange in September. For the year 2005, Orange Poland recorded a **strong increase** in the number of customers (+33.3%) with a very clear acceleration during the last quarter (market share of 41.3%).

In July, France Telecom acquired nearly 80% of Amena, the **3rd** ranked mobile operator in Spain holding **24%** of the market, for 6.4 billion euros. This buyout enabled **10.3** million Amena customers to join the Group by the end of 2005.

More than **1.5** million broadband service subscribers at December 31, 2005





communication services at the heart of performance

Building on its integrated group strategy and following the momentum of the NExT program, France Telecom is better placed than ever as the preferred partner **to accompany** businesses of all sizes, in France and internationally, on the road to IP convergence and their integration in the information system.

Communications services bring increasingly innovative solutions. Making it easier for associates to work together, it especially enables productivity gains for corporations, optimization of processes and improvement of relations with customers and partners.

Helping businesses in their “IP transformation”

Internet Protocol has become the foundation toward which all communications solutions converge.

The combined strengths of Equant and France Telecom have enabled the creation of a global powerhouse of telecommunications solutions for

businesses unrivalled in the market. France Telecom has thus imposed itself as a leading-edge player in the “IP transformation” of the business world and the benchmark communications services operator in Europe.

France Telecom – world leader for IP VPN solutions

Businesses have an increasing need for high value-added services such as virtual private networks based on Internet Protocol. With more than 1,300 international corporations using its IP VPN solutions, France Telecom is the leader for this type of service.

These companies benefit from a geographic coverage in 220 countries and territories

and rely on the procedural knowledge of teams present in 146 countries. Nearly 4,000 people in the Group are either dedicated to production, operation or maintenance of networks, or to advising, engineering and auditing services to support customers in implementing and migrating their networks.

According to the latest Telemark report, Equant occupies first place in the ranking of IP services suppliers worldwide, based on general customer satisfaction criteria.

Airbus flies toward IP telephony

France Telecom was retained by Airbus to implement a total IP telephony solution. This is a progressive migration that includes 30,000 workstations in France and 10,000 workstations in the United Kingdom, for which the Group provides integration and assistance services. France Telecom, acting as project manager, was assigned full responsibility for the service contract. While reducing its costs, this “total IP” solution allows Airbus to implement new solutions for collaborative work and provide consistent voice services when teams are moved to new sites.

Satellite communications services: GlobeCast awarded

The Group’s leadership in the network market is also apparent in satellite communication services. In September 2005, Globecast’s Wing Content Exchange was thus chosen as product of the year in the category “best audiovisual technology or service contribution” by the Cable & Satellite International Awards. This system of broadcasting, based on an IP-mode video exchange platform, is designed for journalists on assignment. Its special feature is providing Internet transmission of video files to several recipients simultaneously, sent in the same way as e-mails, as well as live video file **streaming**.

IP Telephony: modular solutions to meet all needs

After announcing its commitment in the IP communications market in 2004, in 2005 France Telecom launched new modular communications solutions to meet the needs and constraints of all sizes

of businesses – from SMEs to multinationals. With Business Pack Internet, SMEs as well as municipal authorities can have easy-to-implement, high-performance services that integrate their existing operations. For large corporations, France Telecom offers solutions such as Business Talk IP PBX, used to migrate to VoIP at their own pace. These solutions not only bring new services to users but also promote cost reductions, for example by routing telephone calls on the data network while retaining the existing telephone environment. To best support customers in this “IP transformation”, France Telecom offers a complete range of services from auditing to outsourcing, including project management. Large corporations like Airbus and Nouvelles Frontières have entrusted France Telecom with their migration to VoIP.

Take advantage of fixed-mobile-Internet convergence with integrated packages

Business Everywhere: higher performance roaming services

Launched in 2004, Business Everywhere offers all sizes of companies an innovative solution that gives roaming associates remote access to applications from their computers (e-mail, business applications, etc.), using any network, via a single user interface. Extended to wireless PDA users in 2005, Business Everywhere has become the most complete integrated roaming solution in the market. With 408,000 user customers in France (representing 27% growth in one year), Business Everywhere has been able to meet corporate needs for roaming. This success was confirmed by the Best New Service prize awarded in October 2005 by an independent jury of the World Communication Awards organized by the international publication *Total Telecom*.

Business Talk Pack: a “two in one” fixed-mobile convergence package

France Telecom’s integrated group strategy was perfectly illustrated in September 2005 by the launch of its Business Talk Pack package: this is the first package on the French market offering integrated fixed-mobile convergence services for SMEs. In addition to optimizing costs and simplifying telecommunications management for businesses, Business Talk Pack facilitates the daily life of its users, for example with single voice messaging.

Growing integration within the information system

The convergence of telecommunications and computers is at the heart of corporate strategies. To support them in these new challenges, France Telecom offers an increasing array of added-value services such as advising, auditing, on-site equipment and local communication network integration, hosting and application infrastructure management, customer relations management, general IT system security, and critical application management. This is a high level of services

that even includes **outsourcing** of communication infrastructures and integration of complex networks. France Telecom integrates equipment from all manufacturers in the market with whom it maintains close relations. Certified Cisco Gold Partner, Astra Matra Gold, Alcatel Business Partner Premium and Nortel Gold Partner, the expertise of France Telecom’s engineers is recognized by the main players in the market who rely on its different laboratories for testing and improving their own technological solutions.

Security and management of critical applications

Information system applications are becoming more and more critical to companies’ processes and applications. Ensuring the operability of information systems 24/7 and their rapid return to operation in the event of problems has become indispensable. This is why France Telecom offers the integrated Business Continuity package that uses its network infrastructures, its hosting centers, and experts who can assist at any time during a project. Business Continuity thus helps limit expensive service interruption and data loss, productivity drops and risks

associated with ever more complex regulatory constraints. To ensure total security of information systems, France Telecom offers one of the broadest ranges of solutions on the market for network access security, protection of corporate resources, and detection and anticipation of attacks. Based on its dedicated skills and expertise, France Telecom is also positioned to provide specialized services for integration, management, applications and inter-mediation, especially in the financial, health and e-administration sectors.

Etrali for financial sector services
With its subsidiary Etrali, France Telecom provides services for the integration of trading systems and international network services for the financial community. Recognized worldwide for reliability and solutions and services rich in features, Etrali is the partner of choice for over 1,600 trading rooms in 45 countries.

STMicroelectronics: outsourcing for profitability
STMicroelectronics signed a contract with Equant for complete, multi-year outsourcing for IP VPN network data services, fixed-line and mobile voice services (IP telephony and VoIP), as well as management services, for more than 100 sites in 34 countries. A strategic partnership that should allow STMicroelectronics to reduce its TCO by 15% to 20% and remain on the cutting edge of technology.

Outsourcing communication services

For large companies and multinational corporations concerned about reducing the total cost of their TCO infrastructures and focusing on their core activities, France Telecom, and especially its subsidiary Equant, offer services for outsourcing their communication infrastructures. The advantages offered by an outsourcing contract are multiple: replacement of several tens of suppliers by a single one offering a very high level of security, optimization of the overall communication infrastructure, significant cost reductions, and facilitated support during mergers and acquisitions. This close collaboration, characterized by confidence and operational and innovative excellence, appeals to a growing number of major players in the industrial and services markets. In 2005, companies like Schneider Electric and STMicroelectronics have been added to the list of multinational corporations that rely on the France Telecom

group to manage their information and communications systems.

Machine To Machine at the center of corporate application processes
By enabling remote devices to communicate with each other, without human intervention, Machine To Machine, or M2M, is poised to impact a large number of application processes and business models. For a long time the domain of professionals in transportation and logistics, M2M is now closely studied by corporations, aware of its value for leveraging growth in development of new services, improving processes and increasing efficiency. M2M thus opens up all kinds of applications in all sectors of business: remote management of equipment, street furniture and vehicle fleets; anticipation of maintenance operations and procurement; telemonitoring; warning systems and environmental risk management (floods, pollution peaks, etc.); telemonitoring of medical patients.

Through its Machine To Machine business package, France Telecom is the first operator to launch a complete M2M package in Europe, including solutions and platforms for connectivity, and packaged and customized offers that meet complex integration needs.

Securitas Domen
An innovative telemonitoring package: thanks to Machine To Machine solutions from the France Telecom Group, the Securitas Domen company has implemented an innovative telemonitoring system for detection of intrusions and the presence of smoke. As soon as the device detects an intrusion, three photos are taken within a few seconds and automatically sent to the security computer in real time. The photos improve the quality of detection and analysis, and enable more efficient “doubt removal”, thus preventing unnecessary interventions.

more than 1,300 international businesses use France Telecom’s IP VPN MPLS service

IP VPN accesses* recorded growth of 81% in France in 2005

Business Everywhere:
408,000 customers in France at the end of 2005 (+27% in one year)
Service launched in Poland and the UK on a global basis for large businesses

DSL connections represent **67%** of business accesses in France

*Excluding the Oléane line.



directories, a leader in **local** communications resources

An outstanding audience!

The pagesjaunes.fr online directory is one of the most visited French Internet sites with an average of 6.7 million individual visitors per month in 2005*.

The pocket version of PagesJaunes is all the rage! To meet the needs of traveling users, the PagesJaunes directory is also available in pocket format for some large cities in France (Paris, Lille, Lyon and Marseille). Designed like a guide, it contains a selection of topics, such as restaurants and museums, that are useful for people on the move.

* Source: Panel Home & Work – Médiamétrie//NetRatings – January to December.

The “Directories” segment of the Group pursues its growth through products and services that are increasingly innovative. The variety of media, the extent of their audience and the reputation of the brands allow France Telecom to offer the **largest choice** of local communications services to its customers.

The largest French publisher of printed and online directories for consumers and professionals, PagesJaunes Group also offers complementary services, such as telephone information services, creation and hosting of Internet sites, geographic services with Mappy as well as selling databases for relational marketing campaigns.

The company also publishes directories internationally, primarily in Spain, via QDQ Media, which is the 2nd largest publisher in the market. The business model of the directories relies on advertising fees that account for 98% of its revenue. The audience generated by viewing the directories produces value for businesses through the sale of advertising space. These advertisements help enrich the informational content made available to users.

Printed directories: increasingly practical solutions

One of the main purposes of the directories is to connect “those who seek” with “those who offer products and services”. The PagesJaunes directory lists 4 million businesses throughout France, and more than 619,500 advertisers have chosen it for local communication (at the end of 2005). Continuously seeking innovation, in 2006 the *Annuaire* (formerly Pages Blanches) came out with a new publishing package, a new breakdown within high urban density *départements* and a new line of advertising products.

Increasingly rich content

With *Ville en Direct*, launched in the 1st quarter of 2005, pagesjaunes.fr has supplemented its range of local services. Weather, highway traffic and video images filmed by webcams are available in real time for a large number of cities.

Online directories: simple and intuitive services

Responding to changes in lifestyles and uses, PagesJaunes services are now available via several complementary avenues: Internet, mobile Internet and Minitel. Pagesjaunes.fr develops its appeal through an editorial process that combines all multimedia resources. Internet users can easily find contact details for businesses, plus maps and photos of buildings in large cities in France, aerial photos, practical information, as well as multimedia audio and image sequences. This richness of content, reinforced by the implementation of features and optimization of the connection, explains the excellent hit scores of pagesjaunes.fr and visitor returns. Perfectly suited to roaming users, PagesJaunes is also available on mobile Internet, thus providing service continuity to users and optimized visibility for advertisers. Moreover, PagesJaunes remains the leading creator of Internet sites in France with 37,500 sites at the end of 2005. The website creation package is part of a strategy, advising and supporting businesses in their local communications.

Directory service by telephone: a new number for PagesJaunes

To fulfill its promise of accessibility "Everywhere, by everyone, at any time", in November 2005, PagesJaunes decided to add to its access range by launching the number 118 008 for its added-value telephone information service. Available 24/7, from a fixed-line or mobile telephone, this service is designed to enable individuals and businesses to access its four flagship services: a business and individual subscriber search, local search and reverse lookup. Going beyond traditional telephone directory services, PagesJaunes remains committed to offering innovative packages for evolving lifestyles and has developed *Services Plus*: free and innovative added-value services for customers, such as sending contact information via e-mail, prioritized redial for unanswered calls, etc.

A turnkey solution for professionals, *En Savoir +* represents a one-page site that can be accessed directly from pagesjaunes.fr. This service enables professionals to maximize the value of their expertise, activities and specific features, to offer all corresponding practical information, and to be contacted directly by their customers or prospects.

Total number of PagesJaunes advertisers: **619,500** including **445,866** in online services**

Return rate of advertisers in PagesJaunes: **86.8%**

Average revenue per advertiser: **€1,528**

6% new advertisers (all media combined)

pagesjaunes.fr: total number of visits **538.4** million* (+23%)

81% of French people have used at least one PagesJaunes medium in 2005**

* Source: Mediamétrie – IseStat – January to December.

** Source: Baromètre ISL Credoc 2005.

To offer its entire range of services through a large number of distribution channels based on a **very high quality** relationship: that is one of the challenges of the integrated operator strategy. As part of the NExT program, France Telecom is implementing an ambitious Customer Relations program based on trust, reliability, speed and local availability.

Reinforcing **customer relations**

Two schools for customer service

Launched in October 2005, the *École de la Relation Client* (customer relations school) offers the Group's business associates special training courses designed around consumer needs. From now to 2008, approximately 10,000 people will take these new courses. By 2007, the *École de la Distribution* (distribution school) will train a third of the 6,000-strong sales team in sales and multimedia. In 2005, the entire sales management team had already been trained, representing more than 800 people.



France Telecom, hello, welcome to 3000, this call is free of charge

In all countries where the Group has operations, customer relations are of paramount importance. In France, as in Poland or Spain, with the unification of the distribution network, our customers benefit from all the advantages of an integrated operator. Today, nearly 50% of the Group's workers are in direct contact with customers.

Diversified sales channels

France Telecom has implemented a large set of points of contact to provide quicker information, advise, explain, install and help with packages, and especially to support our customers in the use of products and services.

France Telecom stores

The network of 700 sales agencies throughout France has become a

benchmark for telecommunications stores. The program to densify and relocate the sales point network, launched in 2004 to reinforce the sales presence in city centers and shopping malls, has had an impact. The Group thus aims to move closer to its customers. In addition to the agencies, the partner networks including Mobistores, complete this structure in a targeted way.

Sales and advising by telephone

Every day, customer call centers, specialized in sales and customer relations, provide customer account management, after-sales service, and assistance or support in the use of services, for mobile, fixed-line or Internet services.

Self-service

For individuals, self-service includes a voice server (the 3000 number), as well as Internet portals, the main one being

www.francetelecom.com. A single area for all products and services of the Group, it allows customers to find information on France Telecom, Orange and Wanadoo packages, and order directly online. Likewise, www.orange.fr and www.wanadoo.fr also allow self-service for a large range of products in more specific domains.

The indirect network

A network of local retailers (tobacco shops, newspaper stands) primarily sells fixed-line prepay products (phonecards, telephone tickets) and mobile (recharge) products.

Orange stores focus on user-friendliness and multimedia

In France and the United Kingdom, Orange has launched a completely new store concept. Designed as a lifestyle space, the Orange store is an inspirational area of discovery and initiation to the Group's new multimedia and mobile telephony uses. There is an innovations area, a purchasing area, as well as a relaxation area, the WiFi Café, for help and advice on how to get the most out of one's mobile telephone. Initially in France and in London, the stores will be progressively opened in numerous cities during 2006. Orange France received an Oscar for innovation, awarded by the LSA, for these new areas. In Romania, Orange is the first operator to launch Orange WebShops, providing quick and easy access to Orange products.

Poland: a new dynamic

Following the model of the integrated operator, TP has pursued its profound transformation by focusing on customer satisfaction, increased customer care and a broadened package that includes, from the end of 2005, Livebox as well as Business Everywhere in the business market. The TP mobile package adopted the Orange brand in October 2005. Due to the unification of fixed and mobile consumer distribution, approximately 15% of orders for key products now originate from cross-selling.

Chosen as Best International Mobile Operator in 2005 by World Communication Awards, Orange has also won awards for customer service in many countries.

Since 2005, self-service on the Internet not only allows customers to view their accounts but also place orders and check the progress of them. The new TP sales and services division was created in 2005 and includes nearly half of TP's employees. Direct and indirect distribution as well as customer relations management are now part of TP's competitive advantage.

Partner to businesses and local authorities

Specialized business sales offices

In France, through the 1,600 specialized sales representatives and 400 telephone advisers, the Group's 11 sales offices are able to offer a sales force dedicated to businesses for providing information about packages, order status and equipment maintenance. Using the France Telecom portal, companies can manage their contracts and place orders in real time. In Poland, five offices are responsible for offering TP products on the Polish market. In 2005, Business Everywhere, the Group's integrated fixed, mobile and Internet offering for mobile professionals was successfully launched.

Services for local authorities

In partnership with the French *départements*, in 2005 France Telecom launched the *Plan 3 fois 10* (three times ten plan) whose objective is to facilitate relations with citizens and local authorities, promote the development of electronic administration and support the implementation of an active social and health policy for the most vulnerable individuals. It will be implemented in 3 consecutive phases of 10 services per year (2005-2007). Thus, with *TéléNetCité*, citizens can receive information about local life and participate in city council meetings or listen to speeches of elected officials. With *Point Visio public*, citizens can conduct all administrative procedures remotely, have a discussion with an adviser and access information directly on the screen.

Tangible commitments to consumers

In 2005, France Telecom announced a series of initiatives to benefit its customers. Resulting from detailed surveys conducted by the Group over several years with the different players, including consumer groups, these commitments are part of a dynamic for improving Customer Relations:

- free on-hold time for calls made from a fixed line to Wanadoo help centers. Equivalent provisions will apply in spring 2006 to Orange customer service;
- after-sales service will be free of charge for operator-side problems;
- customer call-back by the France Telecom advisor when the call to after-sales service for Internet and Multimedia packages exceeds 30 minutes;

- certification by AFAQ* of the *Service National Consommateur* (national consumer service) of France Telecom and Orange;
- monthly publication of a technical service quality score card, developed in conjunction with consumer groups. This initiative is the first in Europe;
- simpler access to contracts and rate information texts. Consultation of general conditions, special conditions and rates for packages are available on the francetelecom.com portal;
- monitoring of use and alerts for fixed-line customers in the event of excess use.

* AFAQ: Association française d'assurance qualité (French association for quality assurance) is an independent agency.

In France

- more than **13,200** telephone sales agents.
- **30** million visits to the *Agence sur le Net* (sales agency on the Web) and *Espace Client* (customer area) of the francetelecom.com website.
- Nearly **30** million calls received on the 3000 line (interactive voice server).
- **11** business sales offices.

In Poland

- **1st** telephony distribution network: more than **1,000** owned or franchised stores.
- **1.1** million ADSL lines installed in 2005.
- **5** business sales offices.



The **IT & Network** program builds Networks and Information Systems (IS) solutions and lays the foundations of the integrated Group by enabling the development of new convergent solutions. The objective is to improve the services offered to customers and thus provide a competitive advantage to France Telecom.

integrated Networks and IS solutions for new **convergent services**



Networks and IS: the objectives of integration

- Implement a new generation all IP network.
- Emphasize fixed broadband (100% ADSL coverage by the end of 2006).
- Expand mobile broadband (EDGE and UMTS).
- Develop home gateways (Livebox).
- Design and implement integrated services platforms (VoIP, VoD TV, e-mail).

The integration strategy for the Group's networks, information systems and service platforms is part of a logic of cost rationalization and development of the whole potential for innovation offered by the new technologies.

By the end of 2005, an initiative was launched as part of the NExT program aiming to merge the Network and IS activities of each country to produce the announced convergence packages, while respecting the promises for reduction of time to market, quality and economic competitiveness.

Faster speed and broadband for everyone

France Telecom is continuously improving its fixed and mobile networks with the latest cutting-edge technologies to meet the increased speeds linked to the development of multimedia uses. The broadband plan is accompanied by a Very High Bandwidth option with the acceleration of the laying of fiber optics enabling Very High Bandwidth access packages for businesses, with prices benefiting from reductions of up to 50%. Thus, with the Very High Bandwidth plan in economic activity zones, the 120,000 large corporations and SMEs in the 2,000 identified zones may benefit from access at speeds from 100 Mbits/s to GigaEthernet speed. With a one-year advance on the initial deadline, the widespread availability of symmetrical 2 Mbits/s to all companies marks a new stage in France Telecom's expansion of broadband technologies throughout the country.

Integration of networks and information systems

To build convergence packages consistent with the integrated operator strategy, France Telecom is implementing a new multiservice broadband infrastructure (NGN) capable of carrying voice or data services for fixed or mobile uses. This new network is progressively replacing traditional networks. As information systems, the service platforms are designed to enable a convergent services package with streamlined customer services. Their development is based on application pooling (invoicing, content management) common to three segments of the Group (home, personal and business services) and to all countries. Finally, as part of the rationalization of information system infrastructures, the Group is proceeding to a significant reduction in the number of data processing centers in Europe and the reorganization of the use of information servers and office applications.

The networks at the core of the launch of the EDGE package

With speeds up to 200 kbits/s, EDGE is a technology that allows Very High Bandwidth on mobiles as a complement to WiFi and 3G networks. For its implementation, the France Telecom network units have built nearly 6,000 leased links for Orange to connect the mobile equipment of the EDGE project to the core of the France Telecom network. They have also supported Orange in extending and developing the network by hosting the new BSC (Base Station Controllers). These actions have helped facilitate the switching of Orange traffic to the EDGE network.

20,000 km of cable from Marseille to Singapore

The cable ship *René-Descartes*, one of the four ships in the France Telecom Marine fleet, took part in laying the undersea cable Sea-Me-We 4. This fiber optic cable connects Europe to Asia for the first time, over a distance of 20,000 kilometers, between Marseille and Singapore. The SMW4 thus completes the network of undersea broadband cables that encircle the globe. This trunk, with a speed of 2 Tbits/s, has a transmission capacity 32 times greater than its predecessor. Overall, France Telecom Marine will have laid nearly a fourth of the 123,000 kilometers of undersea cables that span our oceans.

A responsible approach

In 2005, France Telecom allocated nearly 33 million euros to mitigate the visual impacts of its networks. The Group thus demonstrates its will to provide a tangible response to the environmental and sustainable development concerns of local authorities. During the year, the Group conducted approximately 5,000 visibility improvement operations, by burying 1,800 km of lines and removing 65,000 support structures (when the telephone cables are installed on power utility poles).

“THROUGH THE INTEGRATION OF COMPUTER APPLICATIONS, NETWORKS ARE BECOMING MORE INTELLIGENT: THEY CAN COMMUNICATE WITH EACH OTHER. THIS CONVERGENCE IS AT THE CENTER OF FRANCE TELECOM'S STRATEGY TO INTEGRATE NEW SERVICES”

8,000 broadband lines created each day in France

Nearly 90% of the population and businesses in France covered by mobile broadband thanks to EDGE

7,500 WiFi access points in 600 cities

More than 97% of the French population covered by ADSL at the end of 2005

300,000 km of fiber optics laid to complete the existing 2.3 million km

Louis-Pierre Wenès, Head of NExT Transformation and Operations in France

With NExT, **the Group is pursuing its transformation** to become the benchmark telecoms service provider in Europe. This program is in line with a paradigm shift, a new culture. One function is overseeing the coherence and successful implementation of the various projects that are essential for the success of NExT. Decryption and challenges.

As the Executive Director overseeing the transformation, what is your exact role in the NExT plan?

I am responsible for ensuring that the operational objectives defined in NExT are met. In other words, I must ensure that all the means have been implemented to achieve these goals, in line with the schedules set. We need **to change the way we do things, the way we think**. The challenges with NExT represent not minor changes, but a genuine development guided by four fundamental principles: shift, speed, anticipation and quality. This new logic is going to radically change the working culture and processes within the Group.

How does this approach fit in relation to Ambition FT 2005?

In light of the success of Ambition FT 2005, we are confident about the Group's **capacities for transformation**. This plan laid essential foundations for the success of NExT, notably focusing on the two key areas of innovation and integration for the Group. Ambition FT 2005 aimed to improve and accelerate our performances. With NExT, we need to create something else, we need to act differently, because the market now requires us to change the principles guiding our actions. That is why I would say that NExT follows on at the same time as **it represents a shift**.

How will France Telecom be able to differentiate itself in relation to its rivals?

The key to our differentiation lies in our integrated-operator approach. As such, and unlike our competitors, through convergent offers, we are able to create gateways between each of our areas of expertise (fixed-line, mobile, Internet and content) in order to open up new possibilities. Our ambition is also to build up genuine leadership for innovation compared with other players.

When are you going to be able to offer customers global fixed + mobile + Internet offers?

With Livebox, the address book, or soon the single subscription option for fixed and mobile telephony services, our Family Talk solution, we are certainly moving towards greater convergence. However, our hobbyhorse concerns moving consumers over from a rate-based logic to a service-based one. I am not talking about quality of service here, but the possibilities offered. A single voicemail service, automatically retransmitting a message on your landline,

your mobile, or even on your PC, represents a real service: you can be contactable anywhere. France Telecom's ambition in 2006 is to ensure that this changeover goes ahead successfully.

How is the transformation being implemented at international level?

The Group's global plan has been broken down into **objectives** for the various business units. Each country has drawn up its roadmap for the next three years, defining which indicators it aims to achieve (e.g. how many new customers a given business unit aims to win over year by year, etc.). Supporting these objectives, each one has drawn up a list of the action plans and projects it intends to implement to achieve them. At corporate level, we are checking the coherence of the overall operation.

In January 2006, you announced your intention of stepping up the NExT plan. How is this acceleration going to be reflected?

In June 2005, we set a certain number of guidelines for the plan as a whole, with deadlines for 2006, 2007 and 2008. Today, we would like to step up the integration process, in order to benefit from savings on marketing, communications and other costs, starting in 2006. This does not represent a change of concept or targets, but a change of schedule and speed.

NExT 2008

2 million IP telephones and over 30% of signature mobile handsets.

More than 12 million fixed-line broadband customers, including over 8 million for Livebox.

More than 1 million MaLigne TV subscribers in France.

More than 12 million wireless broadband customers, with over 6 million in France and over 5 million in the UK.

NExT

Develop new sources of growth, anticipate technological revolutions and new uses, imagine **future solutions** now: such is the mission of the Group's Research and Development division. Its laboratories, top-ranked worldwide in their sectors, are the origin of 70% of France Telecom's products and services. More than ever, Research and Development plays a primary role in the growth and integrated operator strategy of the Group.

The fabric of **growth**

Inventing the new services of tomorrow, accelerating the introduction of new products

In relation to the launch of the NEXt plan, the Group has reinforced its capacity for innovation through three main initiatives:

- identification of critical technologies, analysis of their impacts and definition of action plans for optimizing these technologies;
- the creation, in September 2005, of a Center for Exploration dedicated to the research and maturing of highly innovative products and services concepts that bring value to the Group;
- and acceleration of the time to market for products and services thanks to the creation of a group process for design and launch of new products.

In 2005, AT Kearney awarded France Telecom the title of Best Innovator in the Innovation and Technology category from among companies in ten European countries.

An integration accelerator

Research and Development is a key player in the NExT program. It designs services accessible everywhere, via the most appropriate network, by voice, text and/or image, in formats adapted to the terminals it chooses. The objective is to develop all-consumer products that are simple to use and rich in features. This strategy is translated into reality by the launch of consumer packages such as WanadooPhone, Livecom, *Mes Services Perso* or Livezoom, an environment service of Livebox. Emblematic in this regard, MaLigne TV is also equipped with video-on-demand and digital music. The Group's breakthrough in the world of television driven by a technological advance was illustrated by a world first: the transmission of the French Tennis Open in high definition TV over a single telephone line. For businesses, integration of communication services using Internet protocol remains a major objective. Thus, voice transport on the Equant virtual private network and Internet-telephone

network connectivity are now offered. This advance has total security thanks to tools developed using France Telecom's strengths. Thus, its Applatoo certification software, providing electronic signature, encoding and time stamping, was approved in 2005 by the DCSSI (*Direction centrale de la sécurité des systèmes d'information*) (central administration of information system security). At the same time, Research and Development is exploring new avenues for growth such as M2M (independent networked machines) capable of connecting 13 billion machines in Europe (electronic labels, environmental sensors or on-board vehicles, etc.). Convergence is, however, first built in the networks with the new **IMS** architecture now being prepared: IMS makes the numerous added-value functions independent from the network (presence management, instant messaging, localisation, etc.), to create all possible combinations of services both fixed and mobile. In 2005, Research and Development made progress in this direction, while optimizing the quality

of its tools. It has also contributed to the increase in speed (a preliminary condition for the richness of the multimedia offer), both in the core network and in access, successfully testing transmission speeds up to 100 Mbits/s downstream in pre-VDSL 2. However, home fiber optics referred to as FTTH (Fiber To The Home) may provide almost unlimited speeds for home applications. The technology is mature and the entire strategy now is to reduce the engineering costs and produce a viable business model. Such is the goal of experiments conducted in 2005 with business customers, as a prelude to tests that will be conducted in homes in the Paris region in 2006. A promising direction lies in the new G-PON (Gigabit capable Passive Optical Network) systems. France Telecom is one of the two world leaders in this technique that allows the sharing of a fiber between several homes, a technology that is largely the product of the Group's laboratories. Finally, the platforms, gateways and terminals remain another precondition

for the Group's integrated services. The "single portal" under development (single access to all France Telecom services) or single identity management on Wanadoo are concrete applications of this.

International Research and Development

Integration is also geographical. In 2005, the laboratories of subsidiaries TP SA (Poland) and Orange UK fully joined those of the Group, bringing their expertise in domains such as fixed-mobile convergence or optical access. Everywhere, Research and Development has reinforced its presence in the "most innovative" locations on the planet. Thus, its workforce in Beijing (a leading area for terminals and software) was increased to 100. Likewise, consolidation of the Seoul laboratory shows the will to stay on the cutting-edge of broadband access. The San Francisco site has made major progress in the Web routing techniques of the future. The London site had a world first with an uninterrupted communication

transfer between three mobile networks of different technologies (**WiMax**, **WLAN** and UMTS). One more step toward convergence...

More efficient processes through partnerships

To make the process of innovation more efficient, Research and Development has put in place methodologies to promote the emergence of new ideas while helping meet customer expectations and reducing time to market. To move more quickly in producing services, it may rely on partnerships:

- in upstream research, concerned about maintaining its technological advance and about shaping an "ecosystem" of first-class laboratories around it, France Telecom is participating in collaborative programs on all the major themes (network convergence, services for the environment, the future of mobile communications, etc.), both in France (RNRT, RNTL, RNTS) and internationally in Europe (IST, Eureka, Eurescom), China

and the United States. Moreover, a framework agreement with the CNRS, signed in 2005, now complements existing agreements with INRIA (the French national institute for research in computer science and control), *Supélec* (French *grande école* of electrical engineering) and ENS (*École normale supérieure*). The Group has also added seven new "centers of competitiveness" in France, including five with an international focus (on nanotechnology, security, software, images and multimedia technologies);

- in co-development, France Telecom has strategic partnerships (Ericsson, Intel, Motorola, Nokia, Nortel, Siemens, Thomson, etc.) and conducts experimental communication services with client companies. In 2005, new Research and Development partnerships were signed with Microsoft and the Chinese manufacturer ZTE.

1.5% of the annual sales of the Group (+19.9% compared to 2004).

17 sites, including 9 established abroad: Boston, London, Beijing, San Francisco, Tokyo, Warsaw, New Delhi, Seoul, Guangzhou (Canton).

3,900 engineers, scientists and researchers in the Research and Development division.

More than **300** PhD and post-doctoral students.

A portfolio of nearly **7,800** patents at the end of 2005.

530 new patents and

365 software applications filed during the year



content: a major asset for the **integrated operator**

With fixed and mobile broadband, **audiovisual content** publishers have found a new distribution channel. Aware of the stakes that these represent for differentiation from the competition and for generating new revenues, France Telecom has set up an Entertainment Everywhere strategy to play a major role in the development of this market. With the help of Research and Development as well as the networks, the Group innovates with rich and differentiating digital content services.

Sports Everywhere: “From the French Tennis Open to the Winter Olympics in Turin... Sports where, when, and how I want.”
Following the successful experience of Tennis Everywhere with the French Open, in which the Group demonstrated with France Televisions the world premiere broadcasting of high definition TV on the ADSL 2+ network, France Telecom customers were able to follow 24/24 all the events of the Winter Olympics in Turin on Orange, Wanadoo and MaLigne TV. In addition to the most summaries available on Video on Demand, 50 hours of programs were thus broadcast every day on five event TV stations to experience the competitions live or simultaneously.

Consumption of digital multimedia content has seen amazing growth, promoted by the development of fixed and mobile broadband. From any kind of terminal (home television screen, telephone and laptop computer, videophone, etc.), each person can instantaneously access their preferred audiovisual content, where they want and when they want. France Telecom offers a range of services for broadcasting and distribution of content on demand throughout its networks, whether for television stations, movies, music, sports, or games.

Audiovisual: the success of MaLigne TV
France Telecom’s premium digital television package via a telephone line is proving highly popular, with a tripling in the number of subscribers in 2005. Several factors contributed to this success:

- a distribution agreement with the *Groupe Canal+* for soccer allowed France Telecom customers exclusive access, via cable and ADSL, to all *Ligue 1* games for the *Championnat de France* in July;
- an agreement with the American movie studio Warner Bros contributed to enriching the already-available thousand hours of movies and audiovisual programs with Video on Demand with current prestigious titles;

- videos on demand are available 24 hours a day without any additional charges for customers;
- new services are offered, such as *Mon Magnéto*, offering customers a capacity of 40 hours of quality digital recording;
- the Liveplug service simplifies installation of digital television on the telephone line by connecting the TV decoder to Livebox, without cables, using the electrical network;
- finally, France Telecom is developing its own digital data security service through its subsidiary Viaccess, which is a major asset in negotiations with copyright holders for distribution rights to their programs.

A sales objective of more than **€400 million** in 2008.

200,000 subscribers paying for premium digital television at the end of 2005.

4.5 million videos on demand served in December 2005 in France on fixed and mobile broadband services.



Games: a complete package
France Telecom offers a large package of online games, both for individual players and massively multiplayer games:

- the largest game portal in France with 680,000 individual visitors, wanadoo.fr offers a large range of online general consumer games (downloading, games on demand, multiplayer games, community games, games with prizes, etc.);
- GOA, the business entity in charge of France Telecom games, which is also the publisher, distributor and operator of one of the first massively multiplayer games in Europe, the *Dark Age of Camelot*, has expanded its catalog. Through an agreement with Disney Interactive, it launched *Toontown*, the first massively multiplayer game for children aged 7 to 12.

Music: a partnership with Warner Music
As part of its strategy of partnerships with major players in the content industry, France Telecom signed an agreement with Warner Music in spring 2005. This partnership allows it to enlarge and boost its music offering by distributing the Warner Music catalog via music services both for its packages in France (including Orange, Wanadoo and fixed-line) and internationally in Belgium, Spain, the Netherlands, Poland, Portugal, Romania, the United Kingdom, Slovakia and Switzerland. As an example of this agreement, France Telecom customers were able to download the exclusive premiere of Madonna’s album *Confessions on a Dance Floor*, a short previously unreleased version of the single

Hung Up on Orange, fun tones on fixed-line, video clips on *MaLigne visio*, as well as specific ring tones on wanadoo.fr and Orange World.

The 240 legal online music sites in the world and “customization” services – for example ring tones for mobiles – generated sales of more than 1.1 billion dollars in 2005, compared to 380 million the previous year, according to the International Federation of Phonogram and Videogram Producers (IFPI).

Music Everywhere for everyone
In 2005, France Telecom finalized its tests on the technical modules for the Music Everywhere program to allow customers to download and listen to several hundred thousand titles of streaming music on their PCs and mobiles. These integrated and differentiating services, and others being developed, will be deployed in 2006 in all Orange and Wanadoo countries.



the financial statements

Consolidated statement of income

Year ended December 31, 2005 (Amounts in millions of euros, except share data)	2005	2004
Net revenues	49,038	46,158
External purchases	(20,149)	(17,870)
Other operating income	411	561
Other operating expense	(2,122)	(2,076)
Labour expenses: Wages and employee benefit expenses	(8,762)	(8,850)
Gross operating margin	18,416	17,923
– Employee profit-sharing	(382)	(280)
– Share-based compensation	(178)	(399)
Depreciation and amortization	(7,034)	(7,990)
Impairment of goodwill	(11)	(534)
Impairment of non-current assets	(568)	(179)
Gains (losses) on disposal of assets	1,475	922
Restructuring costs	(454)	(181)
Share of profits (losses) of associates	20	30
Operating income	11,284	9,312
Interest expense	(3,045)	(3,621)
Foreign exchange gains (losses)	(147)	144
Discounting expense	(164)	(148)
Finance costs, net	(3,356)	(3,625)
Income tax	(1,568)	(2,477)
Consolidated net income after tax	6,360	3,210
Minority interests	(651)	(193)
Net income attributable to equity holders of France Telecom SA	5,709	3,017
Earnings per share (in euros)		
Net income attributable to equity holders of France Telecom SA		
• Basic	2.28	1.23
• Diluted	2.20	1.22

The notes represent an integral part of the consolidated financial statements.
They may be consulted on the Internet site at www.francetelecom.com and are available on request from the Company.

Consolidated balance sheet

At December 31, 2005 (Amounts in millions of euros)	2005	2004
ASSETS		
Goodwill, net	33,726	27,589
Other intangible assets, net	18,865	15,632
Property, plant and equipment, net	28,570	26,502
Interests in associates	321	370
Assets available for sale	263	615
Other non-current financial assets and derivatives	1,506	4,285
Deferred tax assets	11,020	9,469
Total non-current assets	94,271	84,462
Inventories, net	854	644
Trade receivables, net	7,121	6,589
Other current assets	1,917	2,785
Current tax assets	313	88
Prepaid expenses	572	660
Other current financial assets and derivatives	205	312
Cash and cash equivalents	4,097	3,153
Total current assets	15,079	14,231
Total assets	109,350	98,693
EQUITY AND LIABILITIES		
Share capital	10,412	9,869
Additional paid-in capital	15,131	12,675
Retained earnings (deficit)	(8,325)	(11,673)
Net income for the year	5,709	3,017
Translation adjustment	1,933	563
Equity attributable to equity holders of France Telecom SA	24,860	14,451
Minority interests	3,578	3,232
Total equity	28,438	17,683
Exchangeable or convertible bonds (non-current)	34,218	34,222
Other non-current financial debt and derivatives	8,418	8,571
Non-current employee benefits	679	628
Other non-current provisions	2,645	3,249
Other non-current liabilities	1,231	1,339
Deferred tax liabilities	3,720	1,978
Total non-current liabilities	50,911	49,987
Exchangeable or convertible bonds, and other current financial debt and derivatives	9,193	11,480
Accrued interest payables	1,396	1,172
Current employee benefits	1,763	1,982
Current provisions	1,847	1,943
Trade payables	9,518	7,757
Other current liabilities	2,192	2,688
Current tax payables	337	431
Deferred income	3,755	3,570
Total current liabilities	30,001	31,023
Total equity and liabilities	109,350	98,693

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Consolidated statement of cash flows

Year ended December 31, 2005
(Amounts in millions of euros)

2005

2004

OPERATING ACTIVITIES		
Net income attributable to equity holders of France Telecom SA	5,709	3,017
<i>Adjustments to reconcile net income/(loss) to funds generated from operations</i>		
Depreciation and amortization	7,034	7,990
Impairment of non-current assets	568	179
Impairment of goodwill	11	534
Gain on diposals of assets	(1,475)	(922)
Change in other provisions	(1,265)	(1,296)
Share of profits (losses) of associates	(20)	(30)
Income tax	1,568	2,477
Interest income and expense	3,080	3,730
Minority interests	651	193
Foreign exchange gains and losses, net	1,059	(575)
Derivatives	(797)	329
Share-based compensation	139	342
<i>Change in working capital (trade)</i>		
Decrease/(increase) in inventories (net)	(143)	15
Decrease/(increase) in trade accounts receivable	212	544
Increase/(decrease) in trade accounts payable	714	237
<i>Change in working capital (non-trade)</i>		
Decrease/(increase) in other receivables	676	(579)
Increase/(decrease) in accrued expenses and other payables	(462)	352
Dividends and interest income received	284	184
Interests paid and interest rates effects on derivatives, net	(3,358)	(3,262)
Income tax paid	(811)	(762)
Net cash provided by operating activities	13,374	12,697

INVESTING ACTIVITIES		
<i>Purchases/sales of property, plant and equipment and intangible assets</i>		
Purchases of property, plant and equipment and intangible assets	(6,142)	(5,141)
Increase/(decrease) in amounts due to fixed asset suppliers	34	(67)
Proceeds from sales of property, plant and equipment and intangible assets	215	199
<i>Cash paid for investment securities, net of cash acquired</i>		
Purchase of Wanadoo shares (cash portion of exchange offer and tender offer followed by compulsory purchase procedure)	–	(2,373)
Payment of Equant CVRs	–	(2,015)
Purchase of Equant shares	(590)	–
Purchase of Orange shares (pursuant to tender offer followed by compulsory purchase procedure)	–	(469)
Purchase of Orange Romania shares	(404)	–
Acquisition of Amena	(6,038)	–
Purchase of Orange Slovensko shares	(502)	–
Cash paid for investment securities and acquired business, net of cash acquired	(69)	(66)
<i>Proceeds from sale of other investment securities, net of cash transferred</i>		
Proceeds from sale of PagesJaunes shares	440	1,443
Proceeds from sale of Orange Denmark shares	–	610
Proceeds from sale of STM shares	–	472
Proceeds from sale of Tower Participations	400	–
Proceeds from sale of cable activities	311	–
Proceeds from sale of Mobilcom shares	265	–
Proceeds from sale of other investment securities and businesses, net of cash transferred	179	190
Investments in associates	0	(14)
Decrease/(increase) in marketable securities and other long-term assets	224	1,640
Net cash used in investing activities	(11,677)	(5,591)
FINANCING ACTIVITIES		
<i>Issuances</i>		
Issuance of bonds convertible, exchangeable or redeemable into shares	2,485	3,922
Issuance of long-term debt	1,647	4,061
<i>Redemptions and repayments</i>		
Redemption of bonds convertible, exchangeable or redeemable into shares	(4,736)	(8,384)
Repayment of long-term debt	(2,281)	(4,692)
Repayment of equity portion of hybrid debt	(21)	(31)
Repayment of in-substance defeasance deposit	574	–
Repayment of Tele Invest debt	–	(1,902)
Repayment of Tele Invest II debt	(351)	–
Increase/(decrease) in bank overdrafts and short-term borrowings	(134)	607
Decrease/(increase) in deposits and other debt-linked financial assets (including cash collateral)	493	(219)
Exchange rates effects on derivatives, net	77	–
Capital increase	2,997	–
Minority shareholders' contributions	16	107
Dividends paid to minority shareholders	(442)	(105)
Dividends paid	(1,184)	(710)
Net cash used in financing activities	(860)	(7,346)
Net change in cash and cash equivalents	837	(240)
Effect of exchange rates changes on cash and cash equivalents	107	23
Cash and cash equivalents at beginning of year	3,153	3,370
Cash and cash equivalents at end of year	4,097	3,153

Other relevant information: see Note 31.
The notes represent an integral part of the consolidated financial statements. They may be consulted on the Internet site at www.francetelecom.com and are available on request from the Company.

Consolidated statement of changes in equity

Year ended December 31, 2005 (Amounts in millions of euros)	Number of share in issue	Share capital	Additional paid-in capital	Attributable to equity holders of France Telecom SA				Total	Minority interests	Total equity	
				Income (expense) recognized directly in equity			Retained earnings (deficit)				Translation adjustments
				Assets available for sale	Hedging instruments	Deferred taxes					
Balance at January 1, 2004	2,402,316,828	9,609	15,333	150	(148)	6	(15,311)	0	9,639	4,356	13,995
Unrealized foreign exchange gains (losses)								548	548	254	802
Gains (losses) on financial assets available for sale				(26)					(26)	(2)	(28)
Gains (losses) on cash flow hedges taken to equity					(13)				(13)	8	(5)
Deferred tax on items recognized directly in equity						15			15	(1)	14
Total income and expense recognized directly in equity (A)											
Net income for the year (B)				(26)	(13)	15		548	524	259	783
Total recognized income and expense for the year (A + B)							3,017		3,017	193	3,210
Appropriation of France Telecom SA profit			(3,116)	(26)	(13)	15	3,017	548	3,541	452	3,993
Share capital issued in connection with the public exchange offer for Wanadoo shares (attributable to equity holders of France Telecom SA)	64,796,795	259	1,085				3,116		0		0
Commitments to purchase minority interests									1,344	(1,220)	124
Dividends			(617)						308	197	505
Equity share options issued									(617)	(107)	(724)
Other movements	219,803	1	(10)				40		40	19	59
Balance at December 31, 2004	2,467,333,426	9,869	12,675				190	15	196	(465)	(269)
Unrealized foreign exchange gains (losses)				124	(161)	21	(8,640)	563	14,451	3,232	17,683
Gains (losses) on financial assets available for sale								1,380	1,380	193	1,573
Gains (losses) on cash flow hedges taken to equity				(1)					(1)	(1)	(2)
Deferred tax on items recognized directly in equity					(39)				(39)	(2)	(41)
Total income and expense recognized directly in equity (A)						47			47	1	48
Net income for the year (B)											
Total recognized income and expense for the year (A + B)				(1)	(39)	47		1,380	1,387	191	1,578
Share capital issued in connection with the acquisition of Amena	133,439,454	534	2,423				5,709		5,709	651	6,360
Impact of Amena acquisition				(1)	(39)	47	5,709	1,380	7,096	842	7,938
Capital increase (stock options exercised)	2,286,917	9	31						2,957		2,957
Equity share options issued: stock options										641	641
Equity share options issued: offer reserved for employees within the scope of the sale of shares owned by the French State									40		40
Equity share options issued: Orange liquidity contract: impact of the change to an equity-settled plan							46		46	3	49
Dividends							84		84	6	90
Impact of the purchase of minority interests in Orange Slovensko							284		284	1	285
Impact of the purchase of minority interests in Orange Romania							(1,184)		(1,184)	(409)	(1,593)
Impact of the acquisition of all of Equant's assets and liabilities							394		394	(19)	375
Impact of the change in consolidation method for Senegalese entities (proportional to full consolidation)							(11)		(11)	(120)	(131)
Transfer of PTK-Centertel shares to TP SA							7		7	(376)	(369)
Other movements			2				83		83	386	469
Balance at December 31, 2005	2,603,059,797	10,412	15,131				634	(10)	634	(634)	0
							(13)		(21)	25	4
				123	(200)	68	(2,607)	1,933	24,860	3,578	28,438

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glossary

3G 3rd Generation: mobile telephone network based on the UMTS standard.

ADSL (Asymmetric Digital Subscriber Line): the downstream bandwidth, i.e. to the customer, is higher than the upstream bandwidth, i.e. from the customer to the network. This asymmetric speed is ideally suited for Internet access.

Blog (abbreviation of Web log): a personal journal published on a website.

DTT (Digital Terrestrial Television): enables digital-quality sound and image broadcasting for television channels nationwide in areas covered, available free-of-charge or on subscription.

EDGE Wireless technology that upgrades existing GSM networks to accommodate Internet and multimedia services at four times the speed of GPRS.

GRI (Global Reporting Initiatives): an independent organization, set up in part by the United Nations, which has defined guidelines on the information to be contained in social and environmental responsibility reports, as well as the way in which such information should be measured.

Hotline: special telephone number for a service that is able to receive multiple calls simultaneously.

HSDPA (High Speed Downlink Packet Access): later-phase UMTS technique that significantly increases downlink packet data rates (network to customer).

IMS (IP Multimedia Subsystem): dedicated multimedia IP-based design, this network architecture aims to facilitate the deployment of numerous convergent multimedia systems such as videophony, network gaming or video-on-Demand.

Intranet: Closed internal communications system specific to an organization (business, government body, etc.) based on Internet standards. Unlike the Internet, an Intranet may only be accessed by people working for this organization.

IP (Internet Protocol): 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 virtual private network which provides the same benefits as a private network (security, etc.), but runs on public infrastructures, offering lower costs and eliminating network management needs for users.

MMS (Multimedia Messaging Services): service that allows wireless phone users to exchange messages containing text, images, audio and video content.

Multiplay: services enabling customers to receive data and images and make calls via their phone line.

MVNO (Mobile Virtual Network Operator): company without its own telecommunications network that offers public mobile telephony services by buying the right to use part of its infrastructures from an already established company.

NRE (*Nouvelles Régulations Économiques*): French law governing new market regulations, introducing among other things an annual report on social and environmental impacts for listed businesses as part of their management report to be presented at the General Shareholders' Meeting.

Outsourcing: enables companies to outsource or transfer the management of network functions or information systems to specialized service providers.

PDA (Personal Digital Assistant): electronic personal organizer used as a mobile pocket computer.

SMS (Short Message Service): makes it possible to receive written messages that are displayed on a mobile phone screen.

Streaming: real-time transmission and reading of animated images, without having to download the file in full beforehand.

UMTS (Universal Mobile Telecommunications Systems): 3rd 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 rival operator located inside the telephone exchange.

Videophony: technique that, thanks to a camera and screen linked to a telecommunications terminal, enables people to see one another while they talk.

VoD (Video-on-Demand): means of broadcasting video programs that allows individual viewers to receive the program they want when they want.

VoIP (Voice-over-IP): technique that makes it possible to integrate voice into data transmitted via packets based on Internet protocol.

WAP: protocol that enables access to information sites (including Internet sites) using personal wireless devices such as a mobile phone.

WiFi (Wireless Fidelity): local wireless network that may be used within a given area (public space, home, business) allowing users to connect to the Internet at broadband speeds.

WiMax (Worldwide interoperability for Microwave access): broadband wireless network standard primarily used for broadband access in sparsely populated areas.

WLAN (Wireless Local Area Network): links up IT machines within a geographically restricted area, generally within a company.



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